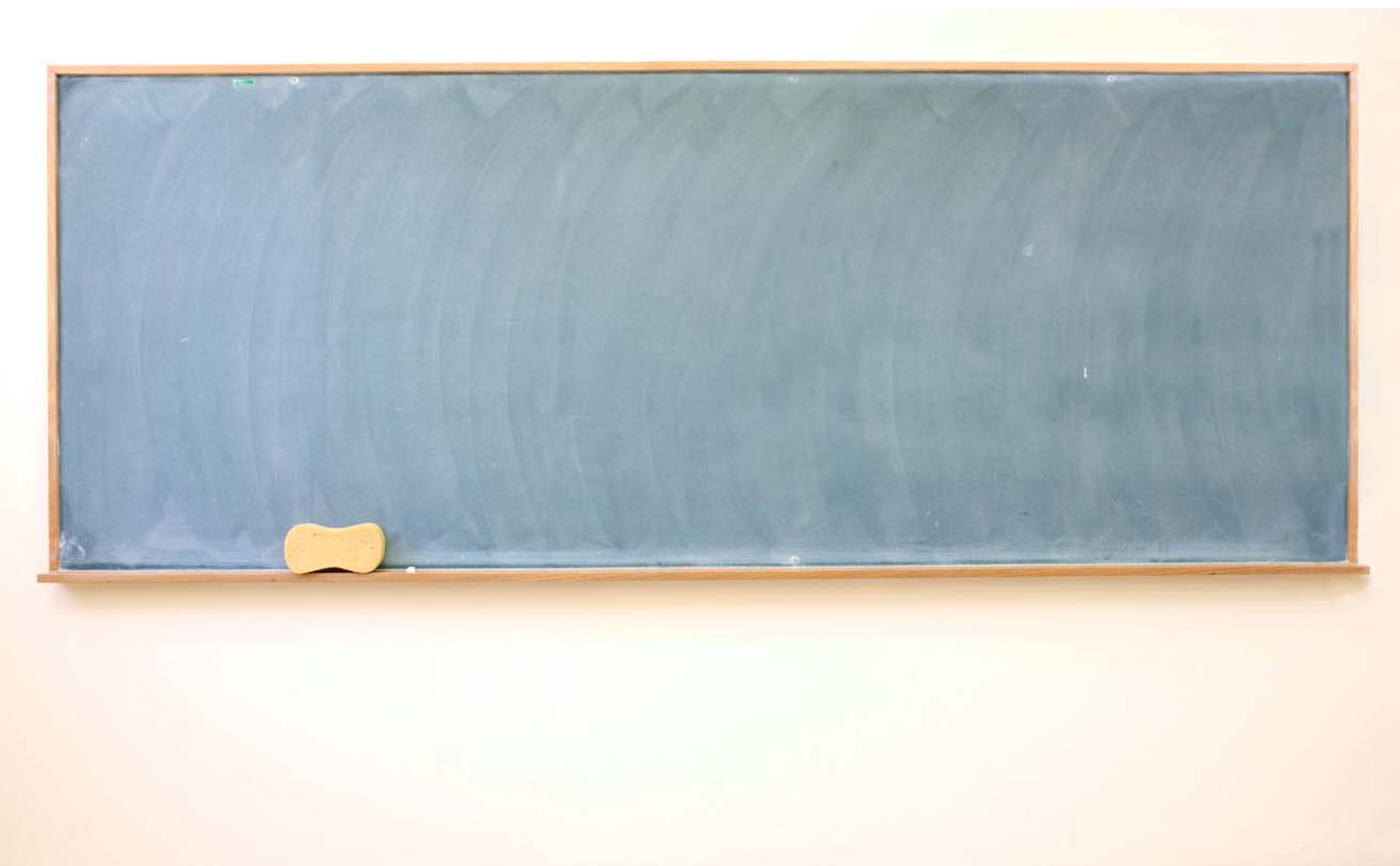
Human Resources Services
International Assignment Taxation Folio

International Assignment Services Taxation of International Assignees

Mexico



PRICEWATERHOUSECOOPERS

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Introduction: International assignees working in Mexico

This booklet was prepared by PricewaterhouseCoopers to provide foreign nationals planning to work in Mexico with a general background of Mexican tax law and other relevant issues. It reflects tax law and practice as of February 2010, including all tax tables, exemption amounts, etc., which are periodically adjusted for inflation.

This booklet traces a Mexican assignment through seven steps. These steps address the specifics of what to do before you arrive to Mexico, what to do when you are here, and what to do before you move out of Mexico. Familiarity with these issues will make your assignment easier and more enjoyable.

This booklet is not intended to be a comprehensive and exhaustive study of Mexican tax law, but should be used as a guide as you prepare for your assignment to Mexico. We should advise you against making any decisions without first seeking professional advice, as laws and interpretations in Mexico are subject to relatively frequent changes without much prior notice. This booklet will give you the preliminary information you can use to define the issues that are relevant for your situation.

This folio is part of a series of folios on international assignees working in various countries and provides an introductory guide to clients. Further advice can be sought from any of the IAS contacts listed at the end of the folio.

Step 1: Understanding basic principles

The scope of Mexican taxation

1 Foreign nationals may be taxed as residents or nonresidents. Resident individuals are subject to Mexican income tax on their worldwide income, regardless of their nationality. Nonresidents are taxed only on their Mexican source income. An additional flat tax (called IETU for its initials in Spanish) applies to income from professional services income, rental income, and business activities.

2 For purposes of this booklet, the terms "foreign national" and "expatriate" will be used interchangeably and will refer to an individual living, working, or engaging in business endeavors within Mexico. The term resident individual will refer to a person with residency for tax purposes under Mexican law. The term nonresident individual will refer to a person who does not meet the residency requirements. A resident has a different tax liability than a nonresident, and these differences will be discussed in more detail in this section. It should be noted that the terms “resident” and “nonresident” are for tax purposes only. An individual can be a resident for tax purposes and a nonresident for immigration purposes, and this is frequently the case.

3 Additionally, the Mexican tax system provides different treatment to individuals and corporations. This booklet will focus on individual residents and nonresidents in Mexico, and excludes from its coverage the tax treatment of corporations.

The tax year

4 For residents, the Mexican tax year corresponds to the calendar year (from January 1 through December 31). The tax year for nonresidents who pay income tax on Mexican source compensation is the 12-month period which starts with the first month the nonresident is subject to tax.

Income tax rates

5 The individual income tax for a resident is calculated at graduated progressive rates that vary from 1.92% to 30%. The 30% rate is applied to annual income in excess of Ps $392,842 or approximately US$30,218.61 (@fx13 pesos/1USD). A nonresident will be subject to individual income tax rates of up to 30% on salary income. See Appendix A and B for the individual income tax tables.

Flat tax rate

6 In the case of IETU, the tax rate in 2010 is 17.5%.

Individuals pay the higher of the regular income tax or the IETU tax.

Residence

7 For tax purposes, an individual is considered a resident when he establishes a home in Mexico. If the individual also has a home in another country, the individual is a resident in the country where he has his center of vital interests. Under Mexican law, a person is considered to have his center of vital interests in Mexico if either (a) more than 50% of the person’s income for the calendar year comes from Mexican sources or (b) Mexico is the primary place of the person’s professional activities. This is a complex issue that must be carefully considered, especially in the first year of an assignment. Furthermore, Mexican nationals must be able to prove that they are tax residents in

another country. However, Mexican nationals performing official government duties abroad (e.g., diplomats) remain Mexican tax residents.

8 When an individual qualifies as a resident of both Mexico, under this definition, as well as a resident of another country during the same time period, and Mexico has entered into a tax treaty with the other country, the “tie-breaker” provisions of the tax treaty may be applied to define the tax residency of the individual. See Appendix E for the list of countries with which Mexico has a current or proposed tax treaty.

Taxation of resident individuals in Mexico

9 An individual who is a resident for tax purposes is subject to taxation on worldwide income. The annual income tax for an individual is calculated by determining the taxable income and subtracting from this sum certain allowable personal deductions listed in Step 2.

10 The different categories of income are discussed in Step 2, provisional tax payments in Step 4, and the annual tax return in Step 5.

11 An individual who is a resident for tax purposes will also be subject to the flat tax (IETU) on their professional services income, rental income and business income. The flat tax on this type of income is calculated by adding all income subject to IETU and subtracting from this sum certain allowable deductions, listed in Step 2. Tax residents will be required to pay the higher of the income tax or the flat tax.

Taxation of nonresident individuals in Mexico

12 Nonresident individuals are subject to income tax only on income derived from Mexican sources.

13 A nonresident employee’s wages, salaries and other remuneration received for dependent personal services rendered in Mexico, are taxed on a graduated scale with a maximum rate of 30%. The tax rates can be found in Appendix B. The tax is paid on a monthly basis (see Step 4) and no annual tax return is filed.

14 Nonresidents are subject to withholding taxes on Mexican-source interest income at rates varying from 4.9% to 21%, depending on several factors. Other types of Mexican-source income (including rents and royalties) are also subject to withholding taxes when paid to a nonresident. In the case of dividends, no tax is withheld when the dividend is paid to a nonresident shareholder.

15 Tax treaties may reduce or eliminate tax withholding for nonresidents of Mexico, and the treaty provisions should be analyzed accordingly, depending on the country of residence of the individual receiving Mexican-source income. See the PricewaterhouseCoopers publication Corporate Taxes—A Worldwide Summary (2010) for details on treaty countries and rates.

Husband and wife

16 In Mexico, married individuals do not have the option to file a joint tax return. Each resident spouse must file a separate return if they both have taxable income. When property is held in the form of joint ownership, each owner is responsible for reporting his/her share of the income (e.g., dividends and interest). The couple's resident children must also report their taxable income separately.

Step 2: Understanding the Mexican tax system

Categories of income

17 The Mexican income tax law provides that individuals are taxed on income received in cash, kind, or credit, and in certain cases, in services. Most types of income, including salaries, are usually taxable at the time the income is received (whether in cash, kind, credit or services) not when earned. Deferred salaries are taxed when finally received.

18 There are 9 types of income established by the Mexican Income Tax Law:

- Salaries and remunerations similar to salaries;
- Professionals fees and income from business activities;
- Rental income;
- Income from sale of assets;
- Income from the acquisition of assets;
- Interest;
- Prizes;
- Dividends; and
- Other miscellaneous income.

Income from employment

19 Employment income is widely defined and includes cash, goods, credit, certain services and any other kind of benefits provided by the employer. Any income related to employment, including the mandatory annual profit sharing distributions made to employees, as well as income derived as a consequence of termination of employment, will be subject to taxation.

20 Fees to members of the Board of Directors are treated as salary income. Under some circumstances independent professionals can elect to have their fees treated as salary income, in which case it will be the payer's responsibility for withholding the income tax from the professional's income and remitting the withholdings on a monthly basis.

21 The employer must make a true-up calculation at the end of the year for each of its employees who will not file an annual tax return, in order to adjust the actual tax withholdings to equal the tax liability on salaries on an annual basis. The employer does not have to make this year-end true-up calculation if (1) the employee began his employment after January 1 or terminated his labor relationship with the employer before December 1 (2) the employee notifies the employer in writing that the employee will file an annual tax return or (3) the employee's compensation was more than Ps $400,000. In these cases, the employee will be required to file an annual tax

return. With respect to income not derived from employment, only the individual employee is obligated to calculate the tax and file the corresponding periodic and annual tax returns.

Professional fees

22 The fees of independent professionals and other resident individuals rendering personal services (i.e., independent contractors) are taxable at ordinary rates, and the individuals may deduct their normal business related expenses following rules similar to those for business enterprises, as described in the Information Guide for Doing Business in Mexico. However, a net loss is not currently deductible against other income, but the tax loss may be carried forward for 10 years against professional and business income only.

If a Mexican company contracts a professional or independent contractor it must withhold Mexican income tax in an amount equal to 10% of the gross amount paid.

The independent contractor must invoice a value-added tax (or "IVA" for its initials in Spanish) equal to 16% of the sum of the professional fees he billed to the company (the IVA tax rate was increased from 15% to 16% starting in 2010). At the same time, however, the company must withhold IVA in an amount equivalent to 10% of the professional fees billed by the independent contractor, with the net result that the company will actually pay to the independent contractor (in the case of IVA) an amount equal to 6% of the IVA invoiced. The invoice should disclose both the IVA due, as well as the amount of the professional fees charged.

The above income tax withholding and IVA considerations do not apply in the context of salaried employees, who are only subject to income tax withholding at the normal tax rates (i.e., up to 30% in 2010). As an administrative convenience, where an independent professional works predominantly for one employer/client, the professional may elect to have the employer treat his compensation as salary, in which case, the employer would withhold the same amount of income tax as salary income and no IVA would have to be paid or withheld.

23 Additionally, income from professional fees will be subject to IETU. Individuals may deduct their normal professional expenses effectively paid in the fiscal year as the IETU tax is based on a cash-flow method of accounting.

As mentioned before, individuals pay the higher of the regular income tax or the IETU tax, with respect to professional fees.

Business activities

24 All income received by individuals from business activities carried out by unincorporated enterprises (i.e., sole proprietorships) is subject to ordinary income tax rates, and the individuals may deduct their normal business expenses following rules similar to those for business enterprises, as described in the PwC publication Information Guide for Doing Business in Mexico.

25 Individual taxpayers with business or professional income are required to make monthly advance payments of income tax, computed on the actual profit year-to-date, less the income tax withheld or otherwise remitted year-to-date. In addition, these taxpayers must remit monthly the difference between the IVA collected and the IVA paid with their deductible expenses on a monthly basis.

26 Additionally, business income will be subject to IETU. Individuals may deduct their normal business expenses effectively paid in the fiscal year as IETU is based on a cash-flow method.

As mentioned before, individuals pay the higher of the regular income tax or the IETU tax, with respect to their business income.

Capital gains from the sale of personal and real property

27 Residents of Mexico are taxed on their worldwide capital gains, with two common types of gains being exempt:

- The gain realized on the sale of a principal residence (which usually must be proven by providing receipts with the taxpayers' name and the address of the property, such as telephone, gas and electric bills); and
- Gains on the sale of Mexican securities through the Mexican stock exchange, provided the securities are classified as available to the general investing public, as well as shares of Mexican companies traded abroad on authorized exchanges (e.g., ADRs), when determined by the Mexican Ministry of Finance to be placed among the general investing public and certain foreign shares' sold on the Mexican stock exchange through the International System of Quotations ("SIC").

28 In contrast, the net capital gains realized on the sale of any other domestic or foreign stocks and other investment property are taxable to residents.

29 Taxable gains on the dispositions of real property or shares of capital stock (i.e., those not classified as exempt transactions) receive a slightly favorable income tax treatment, as compared to other ordinary income. In calculating the gain on the sale of an asset, the historical cost of the asset may be adjusted (increased) for inflation in Mexico (on the basis of the number of months the asset had been held). In the case of shares of capital stock of non-publicly traded Mexican companies, the adjustment also includes amounts intended to partially cover fluctuations in net retained earnings, whether capitalized or not.

30 A portion of the resulting gain may be subject to a lower tax rate, if the asset was held for at least 24 months. In addition, under a complex formula, capital losses may be used to partially or completely offset capital gains (or the tax thereon), and in some cases, other investment income (but not against compensation, business or professional income).

31 Income from capital gains on the disposition of non-business assets is exempt from the IETU tax.

Rental income

32 Resident individuals are taxed on their worldwide rental income. They may deduct actual expenses incurred with respect to the property rented, including depreciation at 5 percent on the building's cost, indexed for inflation, property taxes, insurance premiums, maintenance, interest on loans for the purchase or construction of the property (adjusted for inflation) and commissions paid up to 10% of the rental income for the period.

33 Alternatively, resident individuals may elect to deduct a standard deduction equal to 35 percent of the gross rental income (plus real estate taxes), in lieu of the deduction for actual expenses and depreciation mentioned above.

Rental losses can be deducted against other investment income in the same year. Any excess loss cannot be carried forward.

34 Additionally, rental income will be subject to the IETU tax. Individuals may deduct their normal rental expenses effectively paid in the fiscal year as IETU is based on a cash-flow method. Foreign assignees to Mexico frequently possess rental properties. The IETU tax must be calculated and reported, even when the IETU tax is less than the income tax corresponding to the same income.

As mentioned before, individuals pay the higher of the regular income tax or the IETU tax, with respect to the rental income.

Interest and dividends

35 Mexican and foreign source interest and dividends are taxable in Mexico. In general, interest from the Mexican banking system and Mexican government obligations is subject to a withholding tax at source. The interest income (net of an adjustment for inflation) must be reported in the annual tax return. Interest paid on a few Mexican government bonds and other similar obligations remain exempt, under transition rules.

36 With respect to interest income, Mexico taxes foreign interest income and recognizes the effects of inflation and exchange fluctuations on foreign cash deposits and investments that produce interest income. No cash needs to be converted to pesos, since the adjustments are recognized on the accrual basis. If a net loss is determined after making these adjustments, the loss may be subtracted from other investment income received in the same year (but not employment, professional, or business income). The remaining loss may be applied in the following five tax years.

37 The calculation of the inflation adjustments and exchange gains and losses with respect to investments held abroad is very complex. To alleviate the administrative burden of this calculation, there is an option for calculating the amount of taxable income for the foreign interest received. In this simplified calculation, a factor published by the Mexican tax authorities (SAT) is applied to the balance of cash and interest bearing investments held at the beginning of the tax year (e.g., the balance on January 1, 2010, for 2010 tax year returns).

38 Resident individuals should include dividends received from Mexican corporations (grossed up with a factor of 1.3889 for 2010 to include the corporate tax paid by the corporation at 30%) in their individual income tax returns and take a credit for the corporate tax paid. Dividends paid by foreign companies are fully taxable, and if subject to tax in another country, a limited foreign tax credit is available.

Investments in tax havens

39 Normally, investment income is not taxed until received. However, taxable investment income also includes income earned (even if not distributed) by investments of any kind located in countries considered to be “tax havens” in proportion to the ownership percentage of the resident taxpayers.

40 For example, normally a taxpayer does not report the income of a corporation in which he has invested, and would only be taxed on dividends paid to him. However, if the taxpayer is the sole shareholder of a corporation located in a tax haven, the taxpayer would be required to report as his income the income received by the corporation, even if the corporation does not pay any dividends.

41 This rule applies to investments located in jurisdictions where no tax is paid (or the tax paid is less than 75 percent of the Mexican income tax that would be payable in Mexico), These are known as Territories with a Preferential Tax Regime (TEREFIPREs, for the initials in Spanish) or what is informally referred to as tax havens.

42 If the taxpayer does not have effective control of the administration of the investment in the tax haven, the income will not be recognized until it is received. Likewise, when the total amount of the investments in tax havens is maintained at less than Ps $160,000, during the year, the income will not be subject to the tax haven investment rules.

43 Residents are also required to file a separate report with the tax authorities by February 28 of each year regarding their direct and indirect investments during the previous calendar year in countries considered to be tax havens. Failure to file the information report may subject the resident individual to severe penalties, including incarceration.

Categories of compensation related tax exempt income

44 The following types of salary income are completely tax-exempt, they must be properly documented and comply with any requirements established by law:

- Insurance benefits for sickness or work related injury;
- Reimbursement of medical and funeral expenses;
- Certain social security benefits;
- Social security contributions (both the employee and employer portions);
- Benefits received from the Workers' Housing Fund (INFONAVIT);
- Salary received by foreigners in the following cases (when there is a reciprocal law in the country of origin that applies to Mexican nationals):
  - Diplomatic agents;
  - Consular agents;
  - Embassy and consular employees;
  - Official delegation members;
  - Scientific and humanitarian delegation members;
  - Representatives, employees and officials of international organizations with their central office in Mexico;
  - Foreign technicians employed by the federal government;
- Reimbursement of travel costs incurred by an employee exclusively for business purposes, provided that they are properly documented to the employer and disclosed in the employee's annual tax return (see Step 7), when necessary.

45 The following types of salary income are partially tax-exempt, they must be properly documented and comply with all requirements established by law (in some cases the exempt amount is so low that it may produce only a negligible tax savings):

- Overtime pay required by law;
- Christmas bonus, annual profit sharing distributions, vacation premiums, and Sunday premiums;
- Qualifying social welfare benefits;
- Distributions from workers' savings funds ("Fondos de Ahorro");
- Pension and retirement benefits, including social security retirement benefits; and
- Severance payments.

Deductible personal expenses

46 The following expenses may be deducted, subject to varying limitations, provided that they are paid to Mexican residents and are properly documented with official receipts:

- Mandatory school transportation, provided that the school makes it an obligatory service, and the cost of the service is separately disclosed in the official invoice;
- Services rendered by a doctor or dentist, as well as clinical tests and hospital expenditures for the taxpayer and his immediate family;
- Medical insurance premiums paid by the individual with coverage for himself and his immediate family;
- Funeral expenses;
- Contributions to charitable organizations approved by the Tax Administration Service (Servicio de Administración Tributaria, "SAT"), including certain foreign charities if covered by a tax treaty;
- Qualified donations made to certain Mexican learning institutions;
- Home mortgage interest paid to a Mexican financial institution (adjusted for inflation);
- Contributions made to a qualifying private personal retirement plan or complementary contributions to the public retirement savings plan (SAR) of the social security system.

At this time, it is not clear as to whether payments made to non-Mexican institutions in some cases (such as home mortgage interest) might also be deductible.

Foreign tax credits

47 An individual resident may derive income from another country, which is subject to tax in that country. The individual may credit the foreign income tax paid against his Mexican income tax liability. However the credit is limited to the amount of foreign tax that would have been paid on income earned by a nonresident of that country, or the actual amount of foreign tax paid, whichever is less. Therefore, a US citizen cannot credit in Mexico more US tax than he would have paid had he not been a US citizen.

48 In addition, the credit may not exceed the Mexican tax calculated (on a stand-alone basis) on the foreign source income, net of deductions allowed by the Mexican law. Deductions not corresponding exclusively to foreign source receipts must be considered in the same ratio as that of foreign source receipts to total receipts of the period. In addition, no credit is allowed for foreign taxes imposed on income that is exempt from Mexican taxation. Excess foreign tax credits may be carried forward ten years. Carrybacks are not allowed.

49 If an individual receives income from a country in which Mexico has entered into a Convention for the Avoidance of Double Taxation (commonly known as a Tax Treaty), the amount of income tax payable in the other country will be governed by the terms set forth in the Treaty if the terms of the Treaty are more favorable than local law. Appendix E contains a list of the countries with which Mexico has concluded income tax treaties.

Social security contributions and benefits

50 Employees in Mexico are covered by the Social Security Law. The Mexican Institute of Social Security (IMSS) is responsible for the administration of mandatory social security insurance benefits and the collection of the contributions.

51 The most important risks covered by social security insurance benefits are:

- Occupational hazards (workers' compensation);
- Sickness and maternity (provided through medical clinics owned and administered by IMSS);

- Disability and life;
- Old age and retirement pension; and
- Day-care and social services.

52 Both the employer and the employee must pay social security contributions, but the employer pays a significantly higher portion than the employee. The employer is responsible for the withholding and remittance of the employee's portion of the contribution.

53 In addition, the employer is also required to contribute to a workers' housing fund (INFONAVIT), and the employee retirement savings fund (SAR).

54 All contributions are calculated based on the employee's salary, up to certain maximum levels. See Appendix C for a sample rate table which combines the various rates used to fund the different forms of mandatory social insurance, including the retirement savings fund (SAR) and the worker's housing fund (INFONAVIT), applicable to an employer in Mexico City with a low occupational hazard rating. Based on that table, the employer's maximum annual contributions are equal to approximately **Ps $85,129** including SAR and INFONAVIT. The employee's maximum participation is approximately **Ps $13,674**

55 It should be noted that Mexico has totalization agreements with Spain and Canada, whereby a national of those countries may be able to eliminate certain contributions to be made to the Mexican Social Security Institution, to the extent that he remains participating in his home country social security system. In June 2004 the Mexican social Security Administration signed a tentative agreement with the United States Social Security Administration, which as of January 2009 was still subject to approval by both countries' legislatures.

SAR and Afores

56 The retirement savings fund ("SAR") was created in 1992 and since July 1997 the funds have been managed by private Mexican financial institutions which are registered for such purposes known as "Afores". Afores are responsible for administrating the employee retirement deposit accounts and are also in charge of investing the retirement funds, subject to strict limitations on where to invest.

57 The main objective of establishing the Afores is to generate long-term internal savings for each employee in order to ensure an adequate pension at retirement.

58 The SAR account is fully vested, but funds cannot be withdrawn from there until the employee reaches age 65, except under very limited circumstances.

Flat tax on business income (IETU)

59 The Mexican flat tax law indicates that the following items are considered as taxable income for IETU purposes:

- Cash collected from the sale of assets, including inventory or any other asset;
- Cash collected from independent services; and
- Cash collected from rental of property.

60 Individuals may consider as deductions the expenses incurred for the acquisition of the property or other expenses that are effectively paid and strictly necessary for the carrying out of the activity, including the following expenses which can be netted from the income items listed above:

- Cash payments for the purchase of assets;

- Cash payments for services (but not salaries); and
- Cash payments for the rental of property.

61 The determination and calculation of the income and expenses from of a sale of an asset, providing independent services, and rental property will be determined in accordance with the existing standards contained in the Value Added Tax Law (Ley del Impuesto al Valor Agregado), which also is based on cash flows rather than accrual basis accounting.

Cash collected from rental of property

62 There are a significant number of assignees into Mexico who rent out their old homes or other properties while on assignment and this rental income is subject to the IETU.

Paying and reporting the IETU tax

63 The IETU tax is calculated on an annual basis and the final amount due will be paid with the annual income tax return, and the calculations will be reported with the individual's annual income tax return.

64 Individuals are also obligated to file monthly IETU tax returns.

65 Individuals may use the following credits to reduce the annual tax liability:

- A credit for prior year losses for IETU purposes. This credit may also be applied against the income tax for the year, under some circumstances;
- The income tax corresponding to the same income for the same tax year; and
- A credit corresponding to the taxable salaries of the employees who work in the business.

Step 3: What to do before you arrive in Mexico

66 It is highly recommended that immigration issues be considered before the assignee arrives to Mexico, in order to avoid delaying the start of the assignment or producing complications for tax purposes.

Immigration status

67 Foreigners have to enter Mexico with the proper immigration document and the appropriate Consular Visa if applicable. The necessity of a Consular Visa will depend on the nationality of each foreigner.

68 An individual may use one of the following immigration documents to enter Mexico, in accordance with the activities that will be performed in the country:

Tourist Immigration Form (FMT)

- This immigration form may be used if the individual will be performing non-business (tourist) activities or attending conferences. This document may allow a person to stay in Mexico for up to 6 months.

Short-term Business Activities Form / Counselor Immigration Form (FMT)

- This form allows you to perform business activities in Mexico and/or to attend meetings as a member of the Board of Directors of a Mexican Company. This form is valid for up to 30 days and it is not renewable while still in Mexico.

Process for obtaining an FMT

69 Authority to stay in Mexico under the FMT is obtained merely by completing the paper form and giving it to the immigration agent at the time of entering the country. Currently, both of the above options (tourist activities or short term business activities) are included in the same paper FMT Immigration Form, and the visitor only has to check the corresponding box. If the box marked as “Business Visitor / Counselor Visitor” is checked, the business visitor must also write the name of the Mexican Company that will be visited in Mexico. Please note that under no circumstances is it permissible to receive any payment in Mexico for an activity performed under the authorization of the FMT.

Non-immigrant status and immigrant status in Mexico

70 In order to stay in Mexico for business purposes for a period exceeding 30 days, an individual should apply for and obtain a long-term visa. A person who is not planning to reside permanently in the country would receive a non-immigrant FM3 visa for that permits long-term stays or for repeated visits. A foreigner who has the intention of living permanently in Mexico (an immigrant) would be issued an FM2. In both cases (FM3 and FM2), the same status and authorized period of stay in Mexico can be obtained for the assignees as well as his family members (economic dependents).

Work permit

71 Foreigners are not allowed to perform any type of paid services in Mexico without an FM3 or FM2 work permit. The work permit can be issued to authorize an individual to work either as an employee for a Mexican company or on behalf of a foreign company. A Mexican employer cannot employ foreigners if they do not have a work permit

that specifically authorizes them to work for that employer, except in the case of immigrants who have already passed the first 5 years of holding the FM2.

72 A work permit must be obtained even if the assignee will be performing Technical or Managerial activities in the facilities of a Mexican company or on behalf of it. This rule is applicable in all cases no matter who pays the salary.

73 If it is anticipated that the assignee will remain on a foreign payroll, but those costs will be charged back to a related Mexican entity and treated as a payroll expense of the Mexican entity for tax purposes, the employee must obtain authorization to work as an employee of the Mexican entity.

What document is better, an FM3 or an FM2

74 In fact, you can enter Mexico and perform your normal activities with any of these documents. The main differences between the non-immigrants and the immigrants are:

Non-immigrants

- Can obtain permission to stay in Mexico from 1 day to 1 year. The period of time will be granted by the Immigration Authorities in accordance with the type of document obtained and the activities to be performed in the country;
- Can stay in Mexico and obtain all the necessary renewals of their documentation, up to 5 years, without having to leave the country;
- Can enter and leave Mexico without restrictions during the period of validity of their immigration document;
- Cannot work and study at the same time;
- Can temporarily import an automobile for personal use. Permission from the Customs Authorities must be renewed at least every six months; and
- Cannot obtain a permanent resident status in Mexico, unless an immigrant status is first applied for.

Immigrants

- Will be initially granted permission for one year which is renewable up to 4 times. After the fourth annual renewal, the foreigner can obtain a new status as a Permanent Resident in Mexico (and will be issue a credit card sized FM2 Electronic Card as a Permanent Resident);
- Have a limited period of time that they are allowed to stay out of Mexico, in order to continue to hold the FM2, even after the permanent FM2 has been issued;
- Are more likely than non-immigrants to be able to obtain a permit from the Immigration Authorities to perform independent professional activities;
- Can perform any lucrative activity in Mexico, but only after the 5 year initial period has lapsed and the Permanent Resident status has been obtained. Prior to that, the Immigration Authorities must approve any new employment before the new job can be started. After the 5 year initial period, the Permanent Resident has only to inform the authorities of a change in employer;
- Can work and study in Mexico at the same time; and
- Can eventually become a Mexican citizen.

How to obtain a Mexican work permit

75 There are two methods for obtaining an FM3 or an FM2 Immigration Document:

- Through a request submitted to the National Immigration Institute (Instituto Nacional de Migración) in Mexico City, or
- Directly at the Mexican Consulate closest to the assignee's residence in the home country.

Please keep in mind that the authority of Mexican Consulates is restricted and they cannot authorize an FM3 or FM2 for certain nationalities or certain activities in Mexico.

76 The process to obtain an FM3 or FM2 work permit usually takes at least 30 work days, once all of the supporting documents are available. Typically an FM2 takes longer than an FM3, and permission to work as an employee of a Mexican company takes longer to be approved than authority to perform activities on behalf of a foreign entity.

Step 4: What to do when you arrive in Mexico

Taxpayer enrollment

77 Residents working in Mexico must obtain a tax ID number (RFC), CURP (Uniform Population Control Number). The Mexican employer is obligated to register all employees with the Mexican tax authorities. However, in the case that the individual does not have a Mexican employer, he needs to obtain the tax ID number and a CURP directly from the Mexican authorities. To do so, he is required to submit the following documents:

- Proof of tax domicile (which could be the following bills showing the same exact address as the official tax domicile, no more than two months old: telephone, , water and light bills or a bank account statement); and
- Certified copy of the individual's work permit visa (FM3 or FM2).

Mexico has implemented mandatory electronic filing of annual tax returns. As part of this process, taxpayers are also obligated to obtain an advanced electronic signature "Firma Electronica Avanzada" (FIEL) from the tax authorities. For some purposes, a simple electronic signature (CIECF) is sufficient. We recommend that both be obtained.

Opening a bank account

78 Individuals obligated to file tax returns in Mexico need to make their tax payments from a personal Mexican bank account. Therefore, we recommend that individuals open a peso denominated checking account in a Mexican bank as soon as possible after arriving to Mexico. The following documents are normally required to open a bank account:

- Passport;
- Proof of domicile (any bill that the individual's name and Mexican address on it); and
- Work permit visa (FM2 or FM3).

In addition, individuals will need to request advanced electronic banking services from the bank, in order to be able to make electronic tax payments through the bank's internet portal.

79 Usually a Mexican employer deposits the employee's salary payments directly into his bank account. To be able to withdraw the funds, the bank will also provide the employee with an automatic teller machine card.

Transfer of funds to or from Mexico

80 There are no limits regarding the transfer of funds to or from Mexico. The transfer must take place through a qualified bank or other financial institution, which must ascertain the legitimacy of the transfer. Any amount may be transferred, but the institution is required to report transfers in excess of US$10,000 to the Mexican Central Bank (Banco de Mexico).

81 As of January 2008, the IDE or "Tax on Cash Deposits" came into effect. All individuals in Mexico will be subject to this tax. The tax for 2010 is 3% of all "cash deposits" (in pesos or foreign currency) that exceeds $15,000

pesos during one month into checking or investment accounts. The tax will be collected at the end of each month by the respective bank, and will act as a credit against the annual income tax or IETU tax, under certain rules.

Registration with the Social Security Institute

82 A Mexican employer is obligated to register all its employees with the Mexican Social Security Institute (IMSS). Once registered, the employee will receive proof of registration from the employer, which should be submitted to the clinic that corresponds to the employee's domicile if it is anticipated that the employee will utilize the social security benefits such as medical care. In turn, the employee will receive a social security medical service card, which will give him the right to use all social security services provided by law. An employee can also register his dependent family members so that they will also qualify for medical treatment.

Income paid by a foreign employer/sponsor

83 Where an expatriate's salary is paid directly by a foreign company, the expatriate employee bears responsibility for making the monthly estimated tax payments (see below). In certain cases, when the foreign paid salary is charged to a Mexican company, the Mexican company is treated as sponsoring and employing the expatriate for immigration and tax purposes, and therefore, it must withhold and remit the income tax and social security corresponding to the employee's salary.

84 We recommend that the salary and benefits that make up an individual's remuneration be carefully analyzed to better understand which of these benefits will be considered to be taxable income in Mexico for the employee and which could be deducted by the Mexican employer as corporative expense, especially when salary is paid from abroad.

Estimated tax payments

85 Provisional tax payments on salary income tax must be remitted on a monthly basis. If the employer is a Mexican resident, the Mexican employer must withhold the required tax from the employee's salary. For this purpose, a resident of a foreign country who possesses a permanent establishment or fixed base in Mexico with which the employee services are related will be treated as a Mexican employer. If the employer is not a tax resident of Mexico, the employee must pay the corresponding income tax by filing a monthly tax return electronically through a Mexican bank, and the payment is due by the seventeenth day of the following month.

86 The estimated payments are calculated by using the corresponding tax and credit tables. These tables are updated for inflation once inflation has increased more than 10% since the last update.

87 When an individual obtains income other than compensation from abroad (interest, dividends, rental income, etc.), this investment income is taxable in Mexico. In many cases provisional tax payments are not required to be filed in Mexico with respect to this income, but the income must be reported on the annual tax return and the corresponding income tax is paid when the annual tax return is filed.

88 Nonresident employees who do not have a local employer (e.g., cross-border commuters) have several options for having their monthly tax payments remitted on their behalf, including, among others, having their tax remitted by the company on whose premises they are physically working.

Step 5: What to do at the end of the year

Annual tax return

89 For resident expatriates working in Mexico, an annual tax return must be filed, in which they must include worldwide investment and compensation income. Nonresidents do not file annual returns (since their monthly tax payments are final). Also, If a resident individual's only source of income is from a Mexican employer and the compensation received in the year is less than Ps $400,000, the employer is responsible for making an annual withholding tax adjustment for the employee, so that the annual withholding tax equals the income tax that would have been determined on an annual return, in which case the employee does not have to file an annual tax return.

90 Individual annual income tax returns must be filed in the month of April of the following year (no extensions are available and any late filing will cause additional late payment charges based on the tax balance due).

91 Annual tax returns are filed through internet website of the Tax Administration Service (known as SAT for its initials in Spanish). In case of a balance due, upon submission of the annual return through internet, the tax payment must be made by electronic transfer from the internet site of the taxpayer's Mexican bank on the same day that the tax return is filed.

92 Under certain very restricted circumstances; in accordance with current miscellaneous rules, the tax authorities may allow the filing in paper tax forms. In this case, returns may be filed at most Mexican banks in the area which corresponds to the individual's tax domicile. The individual presents a duplicate original of the return to the bank, and the employee then receives back one duplicate original stamped by the bank, which serves as proof of submission.

Information necessary for filing the annual income tax return

93 To be able to deduct expenses mentioned in Step 2, the expatriate should always request official receipts or invoices. Certain details from these official documents must be included in the annual tax return, otherwise the deductions will automatically be denied. He should also request that any Mexican employer issue an annual, Certificate of Compensation and Withholdings (currently form 37).

94 Most Mexican bank interest is taxable, and the banks must provide a statement of interest earned net of inflation and income tax withheld. Also, you should gather supporting documentation for other personal income in Mexico as well as all other countries.

All supporting documentation must be kept for at least 5 years.

Step 6: What to do when you leave Mexico

Tax return and final notice

95 If an employee permanently leaves Mexico before December 31, he will be considered to be a nonresident at the end of the tax year. As such, his income tax withholdings and provisional tax payments will be considered as final and the employee would not be allowed to file an annual tax return. In addition, all taxpayers who have been enrolled with the tax authorities are required to notify the Ministry of Finance of the suspension of their income producing activities in Mexico, and change of tax residence as applicable.

Transfer of funds to your home country

96 As mentioned in Step 4, there are no restrictions regarding the transfer of funds to or from Mexico.

Step 7: Other matters requiring consideration

Double taxation

97 Mexico has treaties with various countries to eliminate either income tax or social security double taxation (see Appendix E for a list of these countries). Double taxation can also be eliminated based on Mexican law. However, many provisions established by double taxation treaties signed by Mexico with other countries may provide for more preferential tax treatment and can be applied instead of Mexican local law.

Inheritance and gift tax

98 No specific estate, inheritance, or gift tax exists in Mexico. However, inheritances and gifts are treated as income under the income tax law, but may be tax exempt.

99 Income obtained by a Mexican resident through inheritance is exempt from income tax no matter what relationship the decedent has to the heir.

100 With respect to gifts, income obtained as a result of a gift from a spouse, lineal ancestors, or lineal descendants is also exempt from income tax. Gifts between siblings are not exempt, and gifts to parents are not exempt if the asset is later given or sold to a sibling.

101 Other gifts are tax-exempt, provided the gift does not exceed three times the annual minimum wage for the geographic area in which the taxpayer resides (currently about US$5,000). Any portion of the gift exceeding this amount would be subject to income tax.

102 Recipients of a tax-exempt gift or inheritance acquire a cost basis in the asset that is equal to the cost basis of the donor of the gift or inheritance (“carry-over basis”). The cost basis of an asset received as a taxable gift is the fair value of the gift as used for determining the income tax (“stepped-up basis”).

103 Even if the transfer is exempt for federal income tax purposes the beneficiary of a gift or bequest of real property would be subject to a local real estate transfer tax of between 2% and 4% depending on the state in which the real estate is located.

Mandatory information disclosures

104 Loans, prizes, gifts, travel expenses reimbursed by your employer, inheritances, and/or gross proceeds from sale of personal residence received during the calendar year should be reported in the Mexican annual income tax return for information purposes only, unless the total amount received is under certain limits. These items may not be taxable, but any tax exemption can be lost if the information is not reported on the annual tax return.

Business and travel expenses

105 When you have a business expense, it must be properly documented. You must ask the local merchant for an official receipt ("factura"). To obtain the receipt, you must show a copy of your company's official taxpayer seal issued by the Ministry of Finance which discloses the company’s tax ID number (RFC). Usually your Mexican employer will provide you with a card with a copy of the company’s official tax seal which contains this information so that these charges may be deducted. Business trips that are within 50 kilometers of the business, or that do not specify food, transportation, car rental, kilometers traveled and hotel expenses are not deductible. However, the

following business expenses are deductible provided that they comply with the above rules and they are properly documented with official receipts:

- Meals (when traveling);
- Car rental (only for the purpose of business travel);
- Temporary hotel; and
- Seminar or convention business trips (up to an amount not exceeding the limit of daily travel expenses for lodging).

Under current miscellaneous rules, up to 10% of the cost of a business trip can be reimbursed to an employee tax free, without third party receipts, up to certain limits.

106 The expenses for having a meal at a restaurant that is within 50 kilometers of the business would be deductible by the employer at 25% of the actual cost, but only if the payment is made by credit, debit or service card. Expenses incurred at a bar would not be deductible in any case.

107 The preceding business expenses are deductible up to certain limits, which are updated regularly for inflation. In most cases, the deductible limits are lower for expenses incurred within Mexico than for those incurred abroad.

Private pensions

108 Private pension plan distributions may result in a taxable benefit for the employee for Mexican tax purposes. In this respect, professional advice should be sought.

Purchasing / selling / renting an apartment or house

109 For an expatriate who will be staying in Mexico less than 5 years, renting an apartment or house is the general practice. In this respect, it is advisable that the rental payment be made directly by the employee and not by the company. The reimbursement of the rental cost will be fully taxable to the employee no matter who pays the landlord. However, if the assignee does decide to buy a house or apartment, it should be noted that historically interest rates are higher than in the US or Europe and loans may be difficult to obtain, although this is beginning to change. Capital gains derived from a sale of a principal residence are at least partially tax-exempt, but only once every 5 years.

Purchasing or selling a car

110 New automobiles are generally more expensive in Mexico than in some other countries. The sticker price already includes the value-added tax. Other costs involved in purchasing a new car include the excise tax, license plates, periodic emissions check (mandatory in Mexico City) and the annual automobile property tax ("tenencia") which is relatively expensive.

111 If you decide to bring your car with you to Mexico, be prepared for burdensome responsibilities and documentation. By importing a car, you will be required to submit numerous forms and obtain authorization from Mexican customs officials at the point of entry, noting the car's destination within Mexico. You must renew the permit every six months (or within the periodicity established at entry) with the customs office closest to your domicile in Mexico. Only the individual importing the car may drive it, and the car must be used solely for personal use. You will not have to pay the general import tax but you will not be permitted to sell your car while in Mexico. Foreign cars are subject to the pollution control regulations which restrict use of the car in Mexico City, whereas late model Mexican cars are currently exempt from the pollution control regulations.

112 Holders of an FM2 resident visa (even though not yet permanent) are not allowed to import a car, since a car can be imported only temporarily, so you need to have a FM-3, temporary visitor's visa.

113 It may be to your benefit when leaving the country to sell your car if acquired in Mexico. Otherwise, you may have to pay an export tax to take it out of the country. If you sell your car you will be required to provide the new owner with the registration documentation of the car, the latest emissions check certificate, and original receipts for each year's property tax ("tenencia").

Medical insurance

114 You should determine if your insurance plan from your home country would give you the coverage you need in Mexico. You can buy medical insurance that offers complete medical coverage, although coverage limited to major medical expenses is the most common.

Appendix A: Individual income tax rates

Individual income tax rates

The projected annual individual resident income tax rates for 2010 are as follows:

Taxable income over (Ps$)	Not over (Ps$)	Tax on Column 1 (Ps$)	Percentage on Excess
0.01	5,952.96	0	1.92%
5,952.96	50,525.03	114.24	6.40%
50,525.04	88,793.15	2,966.76	10.88%
88,793.16	103,218.11	7,130.88	16.00%
103,218.12	123,580.31	9,438.60	17.92%
123,580.32	249,243.59	13,087.44	21.36%
249,243.60	392,842.07	39,929.04	23.52%
392,842.08	And above	73,703.04	30.00%

Notes:

1. The brackets are adjusted when inflation accrued from the date of the most recent update exceeds 10%. The updates will be effective as of the next month of January. The adjustment factor will reflect the effects of inflation as measured by the increase in the National Consumer Price for the particular year.

Appendix B: Individual nonresident income tax rates applicable to compensation income

The income tax on Mexican source compensation earned by nonresident employees is calculated using the following tax rate tables:

Tax rates applicable to Compensation of Nonresident Employees

Cumulative Compensation Ps$

Lower Limit	Upper Limit	Tax Rates
0	125,900	Exempt
125,900	1,000,000	15.00%
1,000,000	And above	30.00%

Notes:

1. The above income brackets will be adjusted when indicated by the Mexican tax authorities, once inflation has increased more than 10% since the last update.

2. The tax rates are applied on a monthly basis to income as it accumulates during the applicable 12-month period. The tax due for any month is the excess of the tax on compensation received to date during the 12-month period less the tax on the compensation received through the previous month.

Appendix C: Social security rates applicable to salary

Mexican Daily Social Contribution Table - Employee's Responsibility (Including the Retirement Savings Fund (SAR) and the Workers' Housing Fund (INFONAVIT))

Daily Wage Lower Limit (Ps$)	Daily Wage Upper Limit (Ps$)	Basic Rate	Occupational Hazard Premium Rate	Total Rate applicable to Daily Wage Bracket
-	57.46	2.375%	0.00%	2.375%
57.46	172.38	2.375%	0.00%	2.375%
172.38	1,436.50	2.775%	0.00%	2.775%
1,436.50	-			

Maximum annual wage subject to IMSS Ps $524,323
Maximum annual wage subject to IMSS US $40,300 (approximately)

Mexican Daily Social Contribution Table - Employer's Responsibility (Including the Retirement Savings Fund (SAR) and the Workers' Housing Fund (INFONAVIT))

Daily Wage Lower Limit (Ps$)	Daily Wage Upper Limit (Ps$)	Basic Rate	Occupational Hazard Premium Rate	Total Rate applicable to Daily Wage Bracket
-	57.46	35.050%	0.544%	35.594%
57.46	172.38	14.650%	0.544%	15.194%
172.38	1,436.50	15.750%	0.544%	16.294%
1,436.50	-			

Maximum annual wage subject to IMSS Ps $524,323
Maximum annual wage subject to IMSS US $40,300 (approximately)

Notes:

1. The contributions are calculated by multiplying the contribution on one daily wage by the number of days in the period.

2. For 2010, the maximum daily wage subject to social contributions in Mexico City is Ps $1,436.50 (Ps $57.46 x 25). The annual wage cap would be Ps $524,323 (Ps $1,436.50/day x 365 days) or US$40,332 (FX$13.00/$1USD).

3. This table includes the social security contributions covering the funding for sickness and maternity, disability and life, day-care, old age and retirement, as well as the contributions for the retirement savings fund (SAR) and the workers' housing fund (INFONAVIT).

4. The occupational hazard premium rate used in this example is an average rate for low risk businesses, such as an office. The premium rate can be as high as 15% for very high risk industries.

Appendix D: Typical tax computations

Individual resident income tax calculation for 2010

Assumptions

1. Resident individual who earns a salary, with wife and two children.
2. Wife and children have no income.
3. Husband's income is as follows:

	Ps$
Salary, allowances and bonus	1,000,000
Non-taxable fringe benefits	100,000
Investment income from abroad, on which a foreign tax of 30% (Ps 16,500) was paid to the foreign country on a non-resident basis	55,000
Long-term capital gains on sales of shares in Mexican Stock market (exempt)	30,000
Total income	**1,185,000**

4. Allowable deductions include the following

	Ps$
Medical expenses	30,000
Charitable contributions	15,000
Total deductions	**45,000**

Tax Computation

Income:		**Ps$**
Salary, allowances, bonus and fringe benefits		1,100,000
Less: Earned income exclusions		
Non-taxable fringe benefits	(100,000)	
Exempt portion of Christmas bonus	(1,578)	
Exempt portion of vacation premium	(789)	(102,367)
Taxable earned income		997,633
Add - Foreign source investment income		55,000
Total income:		1,052,633
Deduct:		
Medical expenses	(30,000)	
Charitable contributions	(15,000)	(45,000)
Total income subject to regular tax		1,007,633
Income tax (art. 177 MITL)		241,804
Less - Tax credits:		0
Total tax		241,804
Less - Foreign tax credit (Note 1)		(3,238)
Net tax liability		**238,566**

Notes:

1. The foreign tax credit allowed is the lesser of the foreign tax paid on the foreign-source income (limited to the equivalent of the foreign taxes paid on a nonresident basis) in accordance with Art. 6 of the MITL. The limit is Ps $3,238 on Ps $55,000 of foreign source income.

Individual resident tax calculation for the Flat Tax on Business Income (IETU) for 2010

Assumptions

1. Resident individual who received rental income as follows:

Month	Ps$
January	20,000
February	20,000
March	19,500
April	19,500
May	18,000
June	22,000
July	22,000
August	19,500
September	19,500
October	20,000
November	20,000
December	20,000
Total Rental Income	**240,000**

2. Resident Individual effectively pays deductible expenses related to the rental property during 2010:

Month	Ps$
January	10,000
April	5,000
August	15,000
December	10,000
Total Expenses	**40,000**

Tax Computation

Income:		**Ps$**
Rental income		240,000
Total income:		**240,000**
Deduct:		
Rental expenses	(40,000)	(40,000)
Total income subject to regular tax		**200,000**
Tax rate	17.5%	35,000
Less - Tax credits:		
Tax credit (Property acquired between 1998 and 2007 (Note 1)		18,000
Total tax		17,000
Tax credit (Income Tax Liability (ISR) Note 2)		(17,000)
Net tax liability		**0**

Notes:

1. In accordance with Art. 6 of the transitory provision of the Flat Tax Law.
2. In accordance with Art. 8 of the Flat Tax Law.

Appendix E: Double taxation agreements

List of countries with which Mexico has tax treaties in force (updated as of June 2009):

Country	Applicable as of:	Country	Applicable as of:
Argentina	01/01/2005	Ireland	01/01/1999 (i)
Australia	01/01/2004 (a) and (i)	Japan	01/01/1997 (i)
Australia	01/07/2004 (b)	Korea	01/01/1996 (i)
Austria	01/01/2006 (i)	Luxembourg	01/01/2002 (i)
Barbados	01/01/2010	Netherlands	01/01/1995 (i)
Belgium	01/01/1998 (i)	New Zealand	01/08/2007 (h)
Brazil	01/01/2007 (i)	New Zealand	01/01/2008 (b) and (i)
Canada	01/01/1992	Norway	01/01/1997 (i)
Canada	01/01/2008 (g) and (i)	Poland	01/01/2003 (i)
Canada	01/01/1993 (c)	Portugal	01/01/2002 (i)
Chile	01/01/2000 (i)	Romania	01/01/2002 (i)
China	01/01/2007 (i)	Russia	01/01/2009 (i)
Czech Republic	01/01/2003 (i)	Slovakian Republic	01/01/2008 (i)
Denmark	01/01/1998 (i)	Singapore	01/01/1996 (i)
Ecuador	01/01/2001 (i)	Spain	01/01/1995 (i)
Finland	01/01/1999 (i)	Sweden	01/01/1993 (i)
France	01/01/1993 (i)	Switzerland	01/01/1995 (i)
Germany	01/01/1994 (i)	United Kingdom	01/04/1994 (e) and (i)
Greece	01/01/2006 (i)	United States	01/01/1994
Iceland	01/01/2009	United States	26/10/1995 (d)
Indonesia	01/01/2005 (i)	United States	18/01/1990 (c)
Italy	01/01/1996 (i)	United States	26/10/1995 (c) and (d)
Israel	01/01/2000 (i)		

(a) Regarding only taxes related to: (1) Dividends, (2) Interest, and (3) Royalties;
(b) Regarding other taxes;
(c) For information interchange purposes only;
(d) Modification;
(e) Applied retroactively;
(f) To avoid double taxation on international transportation;
(g) Renegotiated agreement signature date;

(h) Regarding only taxes related to income tax withheld benefits and profits of a nonresident;
(i) This country has accepted the Flat Tax on business income (IETU) as an income tax for tax treaty purposes.

List of countries with which Mexico is negotiating tax treaties (or which do not have final approval) (updated list as of June 2009):

Aruba	Kuwait**	Slovenia
Austria**(a)	Lebanon	South Africa+
Bahrein	Letonia	Switzerland**(a)
Costa Rica	Malaysia	Thailand
Colombia**	Morocco	Ukraine
Dutch Antilles**	Nicaragua	United Kingdom**(a)
Hungary	Panama	Uruguay**
India**	Singapore**(a)	Venezuela+

* Already signed, and also approved by the Mexican Senate;
** Already signed, but not approved by either countries' legislature;
*** Already signed, approved by the Mexican Senate, but not approved by the foreign country;
\+ Already signed, not approved by the Mexican Senate, but approved by the foreign country;
(a) Renegotiated.

List of countries with which Mexico has signed social security totalization agreements (Updated list as of February 2010):

Country	Applicable as of:
Canada	05/01/1996
Spain	01/01/1995
United States	Not approved by either countries' legislature

List of countries considered territories with preferred tax regimes (Tax Heaven Countries) for purposes of the Income Tax Law and the Federal Fiscal Code (Transitory Provision of the Income Tax Law for 2005):

Anguilla	French Polynesia	Ostrava Free Zone	Rep. of the Seychelles
Antigua and Bermuda	Gibraltar	Pacific Islands	Republic of Vanuatu
American Samoa	Granada	Patau	Republic of Yemen
Aruba	Greenland	Pitcairn	Saint Helena
Ascension	Guam	Principality of Andorra	Saint Kitts
Azores Islands	Hashemite Kingdom of Jordan	Principality of Liechtenstein	Saint Lucie
Barbados	Hong Kong	Principality of Monaco	Saint Pierre and Miquelon Islands
Belize	Ind. State of Samoa (formerly West. Samoa)	Qeshm Island	Saint Vincent and the Grenadines
Bermuda	Isle of Man	Republic of Albania	Soc Dem Rep of Sri Lanka
British Virgin Islands	Kingdom of Swaziland	Republic of Angola	Solomon Islands
Brunei Darussalam	Kingdom of Tonga	Republic of Costa Rica	Special Zone of the Canary Islands
Campione D'Italia	Kiribati	Republic of Cypress	State of Bahrain
Canary Islands	Labuan	Republic of Djibouti	State of Kuwait
Cape Verde Republic	Macao	Republic of Guyana	State of Qatar
Cayman Islands	Madeira	Republic of Honduras	Sultanate of Oman
Channel Islands: Guernsey, Jersey, Alderney, Great Sark, Herm, LIttle	Malta	Republic of Liberia	Svalvard Archipelago
Sark, Brechou, Jethou, Lihou	Montserrat	Republic of Maldives	Tokelau
Christmas Island	Most Serene Republic of San Marino	Republic of Mauritius	Trieste
Cocos-Kelling Islands	Netherlands Antilles	Republic of Nauru	Tristan da Cunha
Commonwealth of Dominica	Nevis	Republic of Panama	Turks and Caicos Islands
Commonwealth of Bahamas	Niue	Republic of Trinidad and Tobago	Tuvalu
Cook Islands	Norfolk Island	Republic of Tunez	United Arab Emirates
Falkland Islands (Islas Malvinas)	Oriental Republic of Uruguay	Republic of the Marshall Islands	U.S. Virgin Islands
Free Associated State of Puerto Rico			

List of countries in which a territorial tax system exists (Transitory Provision of the Income Tax Law for 2003):

Arab Socialist Popular Republic of Libya	Guatemalan Republic	Nicaraguan Republic
Bolivian Republic	Guinea Republic	Paraguayan Republic
Botswana Republic	Ivory Coast Republic	Republic of Zaire
Cameron Republic	Jamaica	Republic of Zimbabwe
Dominican Republic	Lebanese Republic	Senegal Republic
El Salvador Republic	Lithuanian Republic	South African Republic
Gabon's Republic	Namibian Republic	

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