ased on the arguments of the President, to improve public finances in light of the difficult global economic situation, and the decrease in petroleum revenues for Mexico, certain modifications are made to tax provisions for the clear purpose of increasing fiscal collections.

The tax reforms that we discuss herein will generate significant economic effects, which, when added to the increase in the flat rate business tax (IETU) rate for 2010 from 17% to 17.5%, will seriously affect the ability to generate employment and create new investments, and in turn adversely impact family incomes.

Unfortunately these changes do not contemplate specific actions to increase the taxpayer base, or measures intended to simplify compliance with tax obligations or generate incentives for investment.

In the economic sphere, it is estimated that federal revenues will increase by 4.39% in nominal terms for the year 2010, compared to the budget for 2009.

One of the most significant tax reforms for the year 2010 is the change in the tax consolidation regime, which will have a significant financial effect, since any income tax that taxpayers deferred under the tax consolidation regime, as well as any tax deferred in subsequent years, will be paid after five fiscal years have elapsed, and it is stipulated that such tax will be paid under a scheme of five annual installments.

This reform will first be applied in the year 2010, when the deferred tax generated during the year 2004 and prior years will begin to be paid.

As discussed in this document, the procedure to determine the deferred tax presents a number of distortions which result in an even heavier tax burden for the taxpayers.

With tax collections in mind, the income tax rate is increased temporarily to 30% for fiscal years 2010, 2011 and 2012, is reduced to 29% for fiscal year 2013, and only returns to the current 28% rate in the fiscal year 2014.

The bill submitted by the President for the year 2010 also incorporated a new indirect tax designed to combat poverty, in which the intention was to levy a 2% rate on the economic activities of taxpayers; however, this was rejected by the Congress.

Alternatively, in order to obtain resources to combat poverty and address other areas of public spending, the general value added tax rate is increased from 15% to 16% and from 10% to 11%, when the acts or activities subject to such tax are carried out in the border zone.

In relation to the tax on cash deposits, the corresponding rate is increased from 2% to 3% and the exempt monthly limit for cash deposits is reduced from $25,000 to $15,000.

For the year 2010, the annual income tax withholding rate is decreased from 0.85% to 0.60%, which financial institutions must apply to any principal that generates interest payments they make.

As of the year 2011, a new mechanism is established to determine the real interest accrued by individuals resident in Mexico, including that accrued by investment funds for their members or shareholders resident in Mexico, which is based on a "cash-in - cash-out" procedure that recognizes the effects of inflation through the application of Investment Units (UDIS).

This mechanism modifies the procedure that financial institutions must apply to determine the income tax to be withheld from all taxpayers resident in Mexico, and will be determined by applying the tax rate to the real interest accrued, rather than to the amount of principal.

Given the distortions that arise under this new scheme, we believe that it will probably be amended and/or adapted in the subsequent legislative sessions before it goes into effect.

Another of the reforms that will enter into effect as of the year 2011 is the obligation for taxpayers to issue digital receipts for tax purposes, thus eliminating the scheme of printing such receipts, except in certain circumstances.

The deadline for the tax authorities to carry out the refund of recoverable balances of taxpayers who issue these digital receipts is reduced from 40 to 20 business days.

For purposes of the excise tax, a new 3% tax is established for taxpayers that render telecommunications services, through one or more public networks.

The payment of the excise tax on the import and sale of cigarettes is increased through the incorporation of a fixed fee, and the rates of this tax are temporarily increased for the import and sale of certain alcoholic beverages, including beer.

Please bear in mind that the Decree regulating capital repatriation published in March 2009, which grants different tax benefits to taxpayers that return to Mexico resources held abroad will be in effect up to December 31, 2009.

In our analysis of the relevant aspects of the tax reform, we discuss the most important changes which are for general application, and use only a few technical concepts, to simplify the understanding of the tax changes for the non-tax specialist executive.

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INCOME TAX

General Provisions

The corporate income tax rate is temporarily increased to 30% for the fiscal years 2010, 2011 and 2012. For the fiscal year 2013, the corporate rate will decrease to 29%, and it will not be until 2014 that the 28% rate is restored.

A transitory provision modifies the gross-up ratios applicable to dividends or profits that entities distribute, by recognizing the tax rates for each year.

The Mexican Central Bank is included as a member of the financial system for purposes of the Income Tax Law.

In accordance with the comments made during the legislative process, this measure is taken to clarify and to provide accuracy in the identification of entities engaged in the financial system and, in particular, regarding the non-withholding of income tax on interest paid by the Mexican Central Bank.

Deductions

Donations to international organizations

It is established that donations made to international organizations of which Mexico is a full member may be deducted, provided that such organizations have the same purpose as an authorized donee in Mexico.

Unfortunately, the deduction of the donation will be conditional upon the donor ascertaining the purposes of such organizations. We consider it necessary that the tax authorities publish a list of the organizations which fulfill such purposes.

Account statements

As of July 1, 2010, the possibility of considering account statements which contain payments made by transfers from accounts in credit institutions or brokerage agencies, credit, debit or service cards or electronic purses, as receipts for tax purposes is added.

Compliance

Filing of annual tax return

It will be understood that the taxpayers have filed their annual tax return for the year when they file the corresponding audit report within the deadlines established in the Federal Tax Code, provided that (i) the taxpayers are obligated to have their financial statements audited or have elected to do so and (ii) they issue their digital tax receipts through the tax authorities' web site. This provision will go into effect as of July 1, 2010.

Given the date that it goes into effect, we believe that this obligation will be applicable as of the filing date of the annual tax return for fiscal year 2010 and thereafter.

Information return on customers and suppliers

As of July 1, 2010, taxpayers will no longer be required to file the information return on customers and suppliers, provided that they issue digital tax receipts through the web site of the tax authorities.

Tax Consolidation

The most significant reform effective for 2010 is the one related to the tax consolidation regime. Such reform involves substantial modifications to this optional regime, which will clearly generate a significant financial effect for the Mexican business groups that consolidate their tax results.

A scheme is established whereby any tax that was deferred due to the application of the consolidation regime, as well as any tax that is deferred in subsequent years, will be paid after five fiscal years have elapsed.

As the first application of this reform, the deferred tax generated during 2004 and previous years will be paid in 2010.

This does not mean that groups which may have elected to do so, will no longer determine their consolidated tax result. For this reason, they may continue to temporarily apply the benefits granted under the tax consolidation regime, such as the free flow of dividends not deriving from the Net Tax Profit Account (Spanish acronym CUFIN) between the companies comprising the consolidation group, and the application of any tax losses obtained in the year by certain controlled companies against the taxable income determined by other controlled companies of the same group, among others.

According to the Preliminary Recitals of the proposed Tax Reform, limiting the deferral of the income tax as a result of the tax consolidation, for a period of five years computed as of that in which such tax was generated, it reconciles such optional regime with the obligation to contribute to public expenditure, as established in the Mexican Constitution.

The Income Tax Law in effect until the fiscal year 2009 already included mechanisms for the payment of the deferred tax, but only when one of the following assumptions was fulfilled, among others (i) the holding company reduces its shareholding percentage in a controlled company; (ii) a controlled company withdraws from the consolidation regime; (iii) the group ceases the consolidation regime; (iv) recapture of tax losses and losses on alienation of shares due to expiration.

As we will explain further below, the new mechanism to determine and pay the deferred tax considers all the elements as if it involved the elimination of the group's tax consolidation regime at a given date.

This mechanism presents significant distortions which in certain cases result in the payment of an income tax different from the amount of tax originally deferred, and will also substantially affect the cash flows of groups that pay taxes under this regime, as well as its stockholders' equity and, consequently, certain contractual commitments already acquired with third parties.

The changes made to the tax consolidation regime only establish the payment of income tax that was deferred, and not the reversal, as the case may be, of the effects generated by the determination of asset tax on a consolidated basis.

Obligation to pay the deferred tax

Effective 2010 and subsequent years, holding companies must pay any deferred tax that was generated in the sixth fiscal year prior to that in which the payment of such deferred tax must be made.

The law establishes the following two mechanisms for the determination and payment of the deferred tax: (i) the one that is determined up to December 31, 2004 and (ii) the one determined for each fiscal year starting 2005.

The payment of the deferred tax must be made on the same date in which the consolidation return of the fiscal year immediately prior to that for which the deferred tax must be paid, except for that related to fiscal years 2004 and previous years, which must be paid on June 2010.

However, a period of five years is established for the payment of the deferred tax for each year, as shown below:

I. 25% in the fiscal year in which the payment of the deferred tax must be made.

II. 25% in the second fiscal year.

III. 20% in the third fiscal year.

IV. 15% in the fourth fiscal year.

V. 15% in the fifth fiscal year.

We believe that due to a clear error in the wording of the transitory provision that establishes the deadline for the payment of the deferred tax for the year 2004 and previous years, the first payment must be made in the month of June 2010, but the second and subsequent payments will be made as of April 2012. In other words, no partial payment of deferred tax for the year 2004 and previous years will be made in the year 2011.

Based on the above, the scheme of partial payments for the deferred tax would be as follows:

Payment scheme for the deferred tax								
Fiscal year to which the deferred tax corresponds	Percentage of payment							
	2010*	2011**	2012**	2013**	2014**	2015**	2016**	2017**
2004 and previous years	25%	0%	25%	20%	15%	15%		
2005		25%	25%	20%	15%	15%		
2006			25%	25%	20%	15%	15%	
2007				25%	25%	20%	15%	15%

* Payment on June 2010

** Payment on April of each year

The amount of the second and subsequent installments will have to be restated by inflation from the month in which the payment of the first 25% is made up to the month immediately prior to that in which the payment of the corresponding installment is made.

However, the wording of the transitory provision that refers to the deferred tax of 2004 does not include the restatement of the second and subsequent installments applicable to such tax.

It is established that when the holding company does not fulfill the requirement to pay the deferred tax within the aforementioned deadlines, the tax authorities will assess the unpaid tax and any additional charges, regardless of any applicable penalties under the Federal Fiscal Code.

Due to its inadequate wording, it would appear that it is established that if the payment of the deferred tax is omitted in any of the deadlines established, the holding company must pay the total amount of the unpaid tax, plus the surcharges calculated from the due date of the first installment payment until the month in which the tax is actually paid; except when the non-payment refers to the first installment, in which case it would seem that the 50% of the deferred tax must be paid, and thus, retaining the deferral benefit for the remaining 50%.

Based on the current wording of the transitory provision establishing the payment of the deferred tax of 2004 and previous years, it may be concluded that the installment payment scheme for the deferred tax is not applicable thereto; consequently, if the payment of one of the installments of the aforementioned deferred tax is not timely fulfilled, the taxpayer would not forfeit the right to make the subsequent installments.

In general terms, this mechanism obligates taxpayers to pay the differed income tax due to the application of the tax consolidation regime.

It is questionable that in certain cases the payment of such tax does not increase the consolidated CUFIN. In accordance with the income tax regime, those profits on which the corresponding corporate tax has already been paid, increase the possibility of paying dividends without incurring any additional tax, through the mechanism of the CUFIN. For this reason there is no justification for not increasing the consolidated CUFIN when the holding company has already paid the deferred tax.

Procedure for deferred IT from 2005 and thereafter

Based on the considerations of the Congress, the determination of the deferred tax will be made separately and independently of any consolidated tax that the holding company determines in the fiscal year. In other words, the calculation, effects and payment of the deferred tax will be made independently, without taking into account the consolidated tax result of previous years.

The procedure which holding companies must apply to determine the deferred tax due is the one established in the Income Tax Law for the withdrawal from the consolidation regime of a controlled company, which is also applicable when the holding company ceases to determine its consolidated tax result.

The rules contained in the current Income Tax Law for the calculation of the tax generated on the withdrawal of controlled companies from the regime or the entire elimination of a group's tax consolidation, represent significant distortions and are difficult to apply for the calculation of the deferred tax as a result of the tax consolidation.

Due to their nature, these rules establish the procedure regarding the withdrawal of one or more companies from the consolidation regime at a specific date, but do not in any way determine a deferred tax by comparing effects at two different dates. We believe that applying this procedure will be absurd, due that, in fact, the total tax payable due to the elimination of the consolidation regime would be determined and paid each year.

To replace the above, an optional procedure is added in order to determine the deferred tax that must be paid by holding companies. The procedure chosen by the taxpayer (the general procedure or the optional one) must be applied for a period of at least five fiscal years.

With certain exceptions, when the determination of the deferred tax includes items that also have an effect on the tax derived from the changes in the shareholding percentage, the withdrawal from consolidation of controlled companies or elimination of the tax consolidation regime by a group, such items will not be considered if they were recognized in previous years by the holding company for the determination and payment of the deferred tax.

· *Optional calculation mechanism*

The optional mechanism considers the recognition of four concepts related to the sixth fiscal year prior to that for which the deferred tax must be paid, which are:

a) Dividends or profits paid by the controlled companies not deriving from the CUFIN or Reinvested Net Tax Profit Account (Spanish acronym CUFINRE), that were distributed to one or more of the group's companies.

b) Individual tax losses of the controlled companies and the holding company that are part of the consolidated taxable income or consolidated tax loss, and which the companies that generated them were unable to apply at the individual level.

c) Losses generated on the alienation of shares of controlled companies that were deducted in order to determine the consolidated result (profit or loss), and which the company that generated them was unable to deduct at the individual level.

d) Consolidated CUFIN that was used before the controlled companies paid dividends from their individual CUFIN. For this purpose, a new concept arises known as the CUFIN record applicable to the calculation of the deferred tax, which is discussed further below.

The deferred tax will be the result of adding up the tax determined for each of the above mentioned items, as follows:

IT on dividends not deriving from CUFIN or CUFINRE

	Dividends of sixth previous year
(x)	Gross-up ratio
(=)	IT basis on dividends
(x)	IT rate
(=)	IT on dividends

IT on losses not applied individually

	Losses of controlled and holding companies not applied individually as of December 31 of the year immediately prior for which the deferred tax must be paid
(+)	Losses on the alienation of shares not applied individually as of December 31 of the year immediately prior to that for which the deferred tax must be paid
(=)	IT basis on losses
(x)	IT rate
(=)	IT on losses

IT for comparison of CUFIN records

	Individual CUFIN record of controlled and holding companies of the sixth previous year
(vs)	Consolidated CUFIN record of the sixth previous year (increased by certain items that will be discussed subsequently)
(=)	The difference is considered as profit only if the consolidated CUFIN is lower
(x)	Gross-up ratio
(=)	IT basis for comparison of CUFIN records
(x)	IT rate
(=)	IT for comparison of CUFIN records

Deferred IT

	IT on dividends
(+)	IT on losses
(+)	IT for comparison of CUFIN records
(=)	Deferred IT

* IT – Income Tax

The deferred tax must be restated from March of the fifth fiscal year prior to the year in which it must be paid, until the month in which the return containing such tax payment is filed.

· *Dividends not deriving from the CUFIN or CUFINRE*

Under the tax consolidation regime, the tax generated on profits or dividends distributed by group companies among themselves may be deferred when such dividends or profits do not derive from the CUFIN or CUFINRE.

According to the Income Tax Law in effect until 2009, the dividends or profits referred to in the preceding paragraph, generated income tax when any of the following assumptions took place (i) all or part of the shares were sold or the equity owned by the holding company in the controlled company that paid the dividends or profits was reduced; (ii) such company withdrew from the consolidation regime; or (iii) the group ceases the consolidation regime.

With the introduction of the reforms to the tax consolidation regime, as of year 2010 the holding company must pay the deferred tax if it fulfills any of the assumptions established in the preceding paragraph, or in the sixth fiscal year following the payment of such dividend, whichever occurs first.

The deferred tax will be determined by applying to the amount of such dividends or profits, increased by the income tax due (gross-up), the tax rate in effect in the fiscal year in which the dividends or profits were distributed.

An option is established whereby the holding company may calculate the correspondent tax, by applying the gross-up ratio and tax rate in effect in the fiscal year in which the payment must be made, instead of applying those in effect at the time the dividend was paid. The mechanism chosen by the taxpayer must be applied for a minimum period of five years.

If this option is applied, the dividends or profits will be restated from the month in which they were distributed until the corresponding deferred tax must be paid. We should point out that under this option, it will no longer be necessary to restate the deferred tax determined for this concept, due that the dividend is already restated.

By incorporating an incorrect reference into the legal text, the Congress introduced the possibility that "once the deferred tax is paid", the amount of such dividends or profits may be added to the balance of the consolidated CUFIN and not, as proposed by the President, only to the record of the consolidated CUFIN.

The period that elapses for the incorporation of the consolidated CUFIN into the aforementioned record may result in distortions due to the duplicated payment of the deferred tax.

Furthermore, the term "once the deferred tax is paid" generates confusion regarding the moment in which such condition is fulfilled, considering that the payment of the deferred tax is made in installments.

It is important to mention that the text of the law omitted the effect that should be generated by the payment of the deferred tax on these dividends, in the cases of (i) the calculation of the tax cost of the shares issued by the controlled company that paid them and (ii) a reduction in the equity owned by the holding company in the controlled company that paid them.

· *Individual tax losses and tax losses on alienation of shares*

The tax consolidation regime allows the deduction of tax losses generated by controlled companies or the holding company from the amount of taxable income generated by one or more companies of the same group, without having to wait for the companies that suffered the tax losses to apply them against taxable income at the individual level.

Such regime allows the tax losses suffered on the alienation of non-securitized shares issued by controlled companies to be included in the determination of the consolidated tax result (profit or loss).

The above even though that under the general rule of law, such losses may only be deducted at the individual level from gains on the alienation of shares, without exceeding the amount of the latter.

With the introduction of the reforms to the consolidation regime, any tax that was deferred due to the application of the two types of losses described above at the consolidated level in the sixth fiscal year prior to that in which the payment of such tax is due, must be paid provided that the losses could not be applied or deducted at the individual level as of December 31 of the year immediately prior to the latter.

The aforementioned losses will be included in the consolidation percentage of the year immediately prior to that in which the payment of the corresponding deferred tax must be made.

The deferred tax due to the application of the aforementioned tax losses at the consolidated level will be determined by applying the corresponding income tax rate to the amount that could not be applied or deducted at the individual level, based on the consolidation percentage used.

The amount of the aforementioned losses must be included in the calculation of the deferred tax, without any restatement for inflation, since as mentioned above, such tax is the one to be restated.

To avoid a double payment of income tax, it is established that if these losses were already considered in the calculation of the deferred tax, they must not be added to the consolidated tax result (profit or loss); when the right to deduct them at the individual level is forfeited.

In accordance with the Income Tax Law, the right to deduct tax losses, as well as losses obtained from the alienation of shares, is forfeited, among other cases, 10 years after they were generated. However, the tax deferred on such losses reverses as of the fifth year after they were generated.

As established in the preceding paragraph, it is possible that the holding company may recognize in the consolidation the aforementioned losses in the year in which they are applied or deducted at the individual level, as the case may be, provided that they were included in some prior year in the determination and payment of the deferred tax.

As a result of this inadequate wording, the holding company is allowed to increase the balance of the consolidated CUFIN record, as long as the deferred tax on these losses is paid and the assumption discussed in the preceding paragraph is also fulfilled.

The amount by which this record would be increased is equivalent to the amount of such losses, less the deferred tax. As a result of the inadequate wording, it is unclear whether the tax that must be deducted is exclusively that applicable to these losses, as should be the case, or refers to the total amount of the deferred tax.

It is questionable that the increase in the consolidated CUFIN record is conditional upon the company that suffered the loss applies it on an individual basis, due that the corresponding tax was paid, whether or not it is able to do so. This requirement will surely result in a double payment of the deferred tax for the same concept.

· *Comparison of balances of the CUFIN record*

One of the items that should be recognized in the determination of the deferred tax is the difference between the balance of the individual CUFIN record of the controlled companies and the holding company, and the balance of the consolidated CUFIN record.

The mechanism established to determine the aforementioned difference generates a number of distortions in the calculation of the deferred tax payable by the holding company, thus resulting in a higher tax than that which was actually deferred by this type of taxpayers.

Pursuant to the foregoing, such item should be corrected or even eliminated, especially if the differences between the balance of the individual CUFIN record of the controlled companies and the holding company, and the balance of the consolidated CUFIN record, are mainly due to other items which, as discussed above, are already included in the calculation of the deferred tax, as in the case of the tax losses, the losses on alienation of shares and the dividends not deriving from the CUFIN balance or CUFINRE balance.

When carrying out the calculation of the deferred tax in consolidation for the aforementioned items, the differences should be duly corrected. However, if a difference still exists, it could only be due to a timing effect, which we believe does not constitute a detriment to the federal treasury.

Such timing effect could only be adjusted if a comparison was made between the balances of the CUFIN record at the end of the year immediately prior to that for which the deferred tax is paid.

Trying to measure these timing effects using data as of the sixth fiscal year prior to that for which the tax should be paid, generates a number of distortions, due that it is possible that they would have already been corrected in the year in which the deferred tax is determined and paid.

Below we describe the calculation mechanism which the holding companies must apply to determine the difference in balances between the aforementioned records.

First of all, the holding company will compare the balance of the CUFIN record of the controlled companies and the holding company at the individual level, corresponding to the shareholding percentage at the end of the year immediately prior to that for which the payment of the deferred tax refers, against the record of the consolidated CUFIN.

The balances of the CUFIN records indicated in the preceding paragraph will be those regarding the fiscal year for which the tax should be paid (the sixth fiscal year prior to that to which the payment refers); however, it is absurd that the percentage which must be considered will correspond to the seventh immediate prior year.

Based on the comparison of the aforementioned CUFIN records, the procedure that must be applied is as follows:

- If the balance of the consolidated CUFIN record is higher than the balance of the same record of the companies at the individual level, inexplicably, as we will discuss further below, the consolidated balance must be decreased only by the amount of the individual balance.

- If the balance of the consolidated CUFIN record is lower than the balance of the same record of the companies at the individual level, the difference is considered as profit, apart from the fact that inexplicably the balance of the consolidated record is also decreased by the balance of the individual record, until it reaches zero.

  The deferred tax is obtained by applying the corporate income tax rate to the result of multiplying the aforementioned profit by the corresponding gross-up ratio.

Any tax that is paid in the aforementioned terms may be credited in the subsequent fiscal years against any tax resulting from the comparison of the balances of the consolidated and individual CUFIN records.

Some of the distortions inherent to the calculation mechanism of the differential between the balances of the CUFIN records are as follows:

- The concept of the CUFIN record is not defined; however, based on an interpretation of the tax provisions, it can be understood that this concept refers to the records that the holding company is required to keep by law, which enable the determination of the individual CUFIN balances of the controlled companies and the holding company, and also of the consolidated CUFIN.

- Inexplicably, in each fiscal year the balance of the consolidated CUFIN record must be decreased by the balance of the individual CUFIN record, as the case may be, until it reaches zero.

  This procedure necessarily means that the balance of the consolidated CUFIN record is decreased year by year, even when it reaches zero, while the balance of the individual CUFIN record is maintained on an accrued basis and, therefore, is increased over time.

  Pursuant to the foregoing, clearly the balance of the individual CUFIN record will exceed the balance of the consolidated CUFIN record, which will involve the determination of a nonexistent deferred tax.

Procedure for deferred IT from 2004 and prior years

Transitory provisions establish that during fiscal year 2010, the holding company must pay any deferred tax in accordance with the new rules discussed above, for fiscal years 2004 and previous years, that was not paid as of December 31, 2009.

It is established that the holding company will apply the general procedure contained in the law for those cases involving the withdrawal from consolidation of a controlled company or the elimination of the consolidation regime by a group, which is also impossible to apply for practical purposes. Likewise, transitory provisions establish an optional procedure for purposes of calculation such deferred tax.

The procedure that is established in transitory provisions for the determination of the deferred tax as of December 31, 2004 is similar to that contained in the Income Tax Law in effect as of fiscal year 2010, for the calculation of the deferred tax for years starting 2005.

On this regard, the tax will be determined on a specific basis; in other words, separately from the consolidated tax result that was determined by the holding company in the corresponding year.

In accordance with transitory provisions, a restatement mechanism is established for the elements that must be considered in the calculation of the deferred tax. This restatement will be applied to each of the items in the formula, in contrast to the procedure established for the deferred tax from the year 2005 and thereafter, in which the restatement is applied to any deferred tax determined.

This calculation uses the same elements to determine any deferred tax from 2005 and thereafter. However, two additional concepts apart from the formula are included (i) Reinvested Net Tax Profit Account (Spanish acronym CUFINRE) and (ii) special consolidation items based on the tax regime that was in effect in 2004 and previous years, which will be discussed subsequently.

The procedure that is established in transitory provisions contains the same inconsistencies and errors as the mechanism established for the calculation of the deferred tax from 2005 and thereafter, for which reason the comments issued on this regard are also applicable to this new calculation. Notwithstanding, other significant distortions are also generated which will be discussed further below.

· *Dividends not deriving from the CUFIN or CUFINRE*

The restated dividends or profits not deriving from the CUFIN or the CUFINRE, which the consolidating companies distributed among themselves prior to 2005 will be considered, when the corresponding tax had not been paid as of December 31, 2009.

It is clearly established that dividends paid before January 1, 1999 will not be considered for the calculation of the deferred tax. It is also established that in the case of such dividends, the effect will not be applicable until the group eliminates the consolidation regime.

The deferred tax will be determined by applying the tax rate in effect on the date the dividends were paid, to the amount obtained by applying the corresponding gross-up ratio to them. It is established that the restatement of the dividends will be calculated from the month in which they were paid until March 2010.

On an optional basis, the taxpayer may apply the 30% rate in effect in year 2010 to the dividends grossed up by the 1.4286 ratio. Under this option, the restatement must be made from the month in which they were paid until the month of April 2010.

Based on the wording of the transitory article, it can be understood that the restatement of the items indicated in the preceding paragraphs is made by considering the date on which the determination of the deferred tax must be filed in accordance with the legal mechanism established for 2005 and subsequent years; i.e., the date on which the consolidation return is filed. Nevertheless, as discussed above, the first installment payment of the deferred tax for 2004 and previous years will be paid in the month of June 2010.

On this regard, the possibility that the amount of the dividends for which the deferred tax is determined based on such transitory provision may be added to the balance of the consolidated CUFIN record as of December 31, 2004 is established provided that the corresponding deferred tax is paid.

· *Individual tax losses and losses on alienation of shares*

It is established that the individual tax losses of the holding company and the controlled companies, as well as the losses on alienation of shares that should be considered for the determination of this deferred tax, will be those that were subtracted in the determination of the consolidated tax result (profit or loss) from 2004 and previous years, and which the company or companies that generated them were unable to deduct at the individual level as of December 31, 2009.

It is correctly established that the deferred tax will not be calculated for the tax losses suffered by the holding company and the controlled companies prior to January 1, 1999, situation that is in line with what was established in the transitory provision of the Income Tax Law in effect as of year 2002.

The losses which are used to calculate this deferred tax must be considered in the consolidation percentage used for 2009.

The restatement of the losses derived from the alienation of shares will be determined from the month in which they were generated, until the final month of 2004. Undeducted tax losses of the holding company and the controlled companies will be restated from the first month of the second half of the year in which they were generated until the last month of 2004.

The deferred tax for this item will be the amount resulting from applying the 2010 tax rate to the amount of the losses restated in accordance with the procedure described above.

As mentioned, the items used for the calculation of this deferred tax are restated up to 2004. For this reason, it has to be pointed out that this transitory provision does not include the restatement of the tax to the date of its payment.

In accordance with the relevant provisions of the Income Tax Law, the right to deduct tax losses is forfeited, among other cases, 10 fiscal years after such losses were generated. However, the deferred tax on the losses is reversed before the expiration of such deadline.

Pursuant to the foregoing, it is established that the holding company may recognize the aforementioned losses in the consolidation, in the year in which they are applied on an individual basis, provided that they were considered in some previous year in the determination and payment of the deferred tax.

Furthermore, the holding company is allowed to increase the balance of the consolidated CUFIN record with the amount of the losses considered in the calculation of this deferred tax. Also, such increase depends on the holding company recognizing the aforementioned losses due that they were applied on an individual basis, as indicated in the preceding paragraph.

Inexplicably, such losses must be decreased by the deferred tax paid on the difference in CUFIN records, and not by the one paid on such losses.

A transitory provision is included for the purpose of increasing the balance of the consolidated CUFIN record, with the tax losses generated by the holding company and the controlled companies prior to January 1, 1999, which were included in the determination of the consolidated tax result. However, given the inadequate wording of the legal text, the dates and conditions established for the exercise of this right make the rule inoperable.

As discussed above, in the calculation of the deferred tax of 2005 and thereafter, it is questionable that the increase in the consolidated CUFIN record depends on if the company that suffered the loss is able to apply it on an individual basis, due that the corresponding tax has been paid whether or not it is able to do so. This condition will surely result in the payment of a nonexistent deferred tax.

· *Comparison of the balances of CUFIN and CUFINRE records*

As with the optional procedure established in the law, discussed in preceding paragraphs, for the determination of the deferred tax, the optional mechanism contained in the transitory provisions also establishes that the balance of the consolidated CUFIN record must be compared with the balance of the CUFIN record of the controlled companies and the holding company on an individual basis. In this case, the balances as of December 31, 2004 have to be considered.

Furthermore, if the holding company or the controlled companies have a balance in their consolidated CUFINRE or individual CUFINRE, as the case may be, the comparisons of these accounts must be made by considering their balances held as of December 31, 2004.

The tax rate and the gross-up ratio applicable to any difference determined for the aforementioned accounts will be those in effect in 2010.

As discussed above, the balances of said accounts as of December 31, 2004 will be considered; however, this provision does not include the restatement of the deferred tax for this item up to the date of its payment.

The comparison of the aforementioned balances and the calculation of the tax are carried out as follows:

IT for comparison of CUFIN records

	Individual CUFIN records of controlled and holding companies as of 2004*
(vs)	Consolidated CUFIN record as of 2004* (increased by the dividends prior to 2005 for which the deferred tax was paid)
(=)	The difference is considered as profit if the consolidated CUFIN is lower
(x)	Gross-up ratio
(=)	IT basis for comparison of CUFIN records
(x)	IT rate
(=)	IT for comparison of CUFIN records

* The starting balance as of January 1, 2005 will be zero

IT for comparison of CUFINRE

	Individual CUFINRE of controlled and holding companies as of 2004
(vs)	Consolidated CUFINRE as of 2004
(=)	The difference is considered as profit if the consolidated CUFINRE is lower
(x)	Gross-up ratio
(=)	IT basis for comparison of CUFINRE
(x)	IT rate
(=)	IT for comparison of CUFINRE

It is questionable that any tax resulting from the comparison of the aforementioned balances cannot be credited in subsequent years against any tax that is determined and paid for these purposes and also that the balance of the consolidated CUFIN cannot be increased by the resulting profit.

The optional procedure established in transitory provisions involves a recalculation in case the comparison of the CUFIN record generates a payable tax, but in the comparison of the CUFINRE no tax should be determined and vice versa, as established below:

Alternative for consolidated CUFIN

	If the consolidated CUFIN < individual CUFIN but consolidated CUFINRE > individual CUFINRE, then:
	Consolidated CUFIN + consolidated CUFINRE
(vs)	CUFIN of controlled and holding companies + CUFINRE of controlled and holding companies
(=)	If the consolidated balance > individual, the difference is subtracted from the balance of the consolidated CUFINRE
(=)	If the individual balance > consolidated, the difference is considered profit and the consolidated CUFINRE balance is decreased to zero
(x)	Gross-up ratio
(=)	IT basis for alternative of consolidated CUFIN
(x)	IT rate
(=)	Deferred IT payable*

* This IT replaces the deferred IT for comparison of CUFIN records

Alternative for consolidated CUFINRE

	If the consolidated CUFINRE < individual CUFINRE but consolidated CUFIN > individual CUFIN, then:
	Consolidated CUFIN + consolidated CUFINRE
(vs)	CUFIN of controlled and holding companies + CUFINRE of controlled and holding companies
(=)	If the consolidated balance > individual, the difference is subtracted from balance of the consolidated CUFINRE*
(=)	If the individual balance > consolidated, the difference is considered as profit and the balance of the consolidated CUFIN is decreased to zero
(x)	Gross-up ratio
(=)	IT basis for alternative of consolidated CUFINRE
(x)	IT rate
(=)	Deferred IT payable**

* The text is incorrect by indicating that the difference is decreased from the balance of the consolidated CUFINRE, when the balance of the consolidated CUFIN must be decreased

** This IT replaces the deferred IT for comparison of the CUFINRE

As established in the transitory provision, for the calculation of the deferred tax in the comparison of the aforementioned items, the term "balance of the record of the consolidated CUFIN and individual CUFIN", will be any amount that the controlled companies and holding company determined for the CUFIN and the consolidated CUFIN as of December 31, 2004.

Furthermore, the balances of the CUFIN record of the controlled companies and holding company, as well as those of the individual CUFINRE, will be considered in the consolidation percentage corresponding to December 31 of the immediate prior year to which the payment of this tax refers.

As with the procedure applicable in the comparison of balances of CUFIN records for 2005 and thereafter, the mechanism for the determination of the differences discussed in this subsection generates a number of distortions in the calculation of the deferred tax, which result in a higher tax than the one which was actually deferred, as in 2010 such differences may not longer exist if the balances of such accounts are considered as of this year.

· *Special consolidation items*

The deferred tax determined for 2004 and previous years must also consider the effect applicable to all the transactions that until December 31, 2001 generated special consolidation items that the holding company elected to continue determining in the year 2002.

It is important to mention that as established in the transitory provision, the special consolidation items determined for transactions corresponding to fiscal years prior to January 1, 1999 will not be considered in order to determine the deferred tax.

That is why the special consolidation items for which the deferred tax must be paid will only be those generated on transactions carried out between 1999 and 2001. Please bear in mind that such special items were eliminated from the tax consolidation regime starting on year 2002.

The restated special consolidation items for which the deferred tax must be calculated will be considered as carried out with third parties from the date on which the transaction that resulted in their classification was carried out. These items will be added or subtracted in the consolidation percentage used for 2009.

The restatement of these items will be carried out as follows:

- In the case of (i) gains or losses derived from the alienation of land, investments, shares and partnership interest and (ii) gains derived from mergers, liquidation or capital reduction, the period from the final month of the fiscal year in which the transaction was performed until the month in which the payment return for the deferred tax is filed will be used.

- In the case of the deduction of investments for the assets described in the preceding paragraph, from the final month of the period in which its restatement was carried out, until the month in which the payment return for the deferred tax is filed.

The 30% tax rate will be applied to the result obtained from adding or subtracting each of the restated special consolidation items. The amount so determined will increase the deferred tax that must be paid.

Other obligations of the holding company

As of fiscal year 2010, the holding company must keep the appropriate records to enable it to determine the deferred tax for each of the items that must be recognized in accordance with the new rules added.

Likewise, the holding company must keep the appropriate records to ascertain (i) the restated amount of the deferred tax for each fiscal year as a result of the consolidation regime; (ii) the deferred tax paid in each fiscal year, as well as the year in which it was generated; and (iii) the restated balance of the remaining amount of the deferred tax pending to be paid for each fiscal year.

Oddly enough, the obligation to keep the aforementioned records for those fiscal years in which the obligation exists to keep accounting is added; however, the same provision already required the records to be kept for the entire period in which the holding company consolidates its tax result.

It is essential to keep the new records, since not doing so will cause the obligation to cease for the consolidation regime.

As a control measure, an obligation is incorporated, which consists in having the auditor that issues the report to review and express an opinion regarding the determination of the deferred tax according to judgment samples as established by the tax provisions.

According to the new rules added, it is established the information that must be disclosed in the audit report, regarding the calculation of the deferred tax which must be paid by the holding company.

In case the obligation to disclose information in the audit report regarding the deferred tax which the holding company must pay is not complied, it will cause the obligation to cease for the consolidation regime thus, the unpaid deferred tax must be paid. It is questionable that a procedural omission regarding information should have such severe consequences, especially if its compliance depends on a third party not related to the taxpayer.

Notice to cease consolidation

In an attempt to justify these consolidation reforms at a constitutional level, the optional nature to elect for the tax consolidation regime is clearly established, indicating the information and documentation which the holding companies must attach, so that any notice filed with the tax authorities in order to exercise the option to withdraw from this regime can go into effect.

The above measure eliminates the obligation to obtain authorization from the tax authorities, which was previously required in order to withdraw from the tax consolidation regime.

Loans for the payment of the deferred tax

Through the Federal Income Act it is established that Nacional Financiera may grant credits to those holding companies which during fiscal year 2010 have to pay the tax deferred under the consolidation regime, corresponding to 2004 and previous years, provided that they are used exclusively to pay such tax.

Unfortunately, no preferential conditions are established for these credits, despite the financial burden that the payment of this tax will represent for business groups.

Constitutional considerations

As a result of the modifications to the tax consolidation regime, the law establishes two mechanisms for the determination of the deferred tax, depending on the year to which the tax corresponds; one for fiscal year 2004 and previous years and another for fiscal year 2005 and subsequent years.

The new provisions which regulate the tax consolidation regime violate the principle of non-retroactivity of the law due that holding companies are obligated to pay the deferred tax generated in the sixth fiscal year prior to that in which the payment must be made, when prior to the reform the necessary elements were already provided for the payment of such tax. In other words, a time for payment of the deferred tax was already established, in accordance with the provisions in effect at the time the tax was incurred.

Even though the obligation to pay the deferred tax is limited to the sixth fiscal year prior to that for which the payment must be made, this does not change the fact that its payment is based on situations that occurred before it was enacted and, therefore, involve retroactive provisions.

Regarding the mechanism for determining the tax deferred up to fiscal year 2004, which will have to be paid as of June 2010, we have already indicated that the procedure established in transitory provisions, or established in the Income Tax Law as an optional regime, will be applied.

Regarding the mechanism to determine the deferred tax as of fiscal year 2005 and thereafter, which will have to be paid starting April 2011, the general procedure established in the Income Tax Law will be applied, or taxpayers may elect to use the procedure established in such law, but in either case the option chosen must be applied for a period of at least five fiscal years.

We believe that the provisions regulating the determination of the deferred tax establish a procedure that is impossible to apply for practical purposes, apart from the fact that the mechanism established as "optional" contains a number of distortions, for which reason such provisions violate the constitutional rights to fiscal legality and legal certainty.

The reform to the tax consolidation regime also violates the principle that any act of authority must be duly grounded in law and fact, in as much as it is not a situation that needs to be regulated by the courts, because, as discussed above, the Income Tax Law already established the deadlines and the time at which the deferred tax had to be paid.

This new regime may be challenged by means of an indirect *amparo* lawsuit, which must be filed within the 30 business days after the reforms to the Income Tax Law become in effect for those companies which have authorization from the tax authorities to apply the tax consolidation regime. The latter due that the provisions regulating the consolidated tax regime, affect holding companies as of the new rules are effective.

Nonprofit Entities

Certain modifications are made to the requirements and obligations that must be fulfilled by nonprofit entities authorized to receive deductible donations so that all of them, including trusts authorized to receive deductible donations, are subject to the same obligations and requirements, which are (i) to determine a distributable balance for members even though it has not been paid to their members or partners and (ii) to file an annual information return at the latest on February 15 of each year, regarding the revenues obtained and the expenses incurred.

It is established that as of May 1, 2010, authorized donees can obtain revenues from activities different from the purposes for which they were authorized to receive donations, provided that they do not exceed 10% of the total revenues in the year in question. Previously, this limit was 5% and was not applicable to certain authorized donees.

For such purposes, revenues from activities different from the purposes for which they were authorized do not include those received in donations; financial aid or incentives provided by the federal government, states or municipalities; sales of their fixed or intangible assets; fees from their members; interest; rights derived from intellectual property; the temporary use of real estate property, or yields obtained from shares or other credit instruments listed in the public market, under the terms established in the general rules issued for such purpose by the tax authorities.

If the aforementioned limit of 10% is exceeded, the authorized donees must pay the corresponding tax on the amounts exceeding such limit.

It is also established that the authorized donees must comply with the transparency requirements established for such purpose in the Regulations of the Income Tax Law, and the general rules issued for such purpose by the tax authorities.

Individuals

Exempt revenue from the alienation of residences

The exemption remains in effect for the revenue derived from the alienation of residences owned by individuals; however, it is established that such exemption may only be applied once every five years.

Exempt income due to withdrawals from savings sub-accounts

In response to the current economic situation that Mexico is facing, withdrawals made from the subaccount for retirement, the personal account opened under the terms of the Social Security Law, for unemployment assistance, are considered as exempt revenue for income tax purposes.

Tax rate

During fiscal years 2010, 2011 and 2012, the maximum income tax rate will increase to 30%. Such rate will be reduced to 29% for the year 2013, and return to its current rate of 28% as of the year 2014.

The tax will not be increased during the aforementioned years for income of below $10,298.36 a month or $123,580.21 a year; in other words, individuals who earn less than six minimum wages in effect in the geographical area of Mexico City will not have their tax rate increased.

In the exhibit included at the end of these Tax Reform Highlights, we show the tax effect derived from the increase in the income tax rates that will be generated for individuals during the year 2010, at both annual and monthly level.

As you can see, for a monthly income of $50,000.00 or an annual income of $600,000.00, the percentage increase in the tax for individuals in the year 2010 is 6.41%, compared to 2009.

It is questionable that a transitory provision established that the last restatement period of the applicable rates used for the determination of the tax is as of December 2009, not recognizing the inflation suffered in previous years.

Business and professional activities

As of July 1, 2010, individuals who issue digital tax receipts through the website of the tax authorities will not be required to file the information return related to customers and suppliers.

Personal deductions

· *Donations to international organizations*

Donations made to international organizations of which Mexico is a full member are incorporated as a personal deduction of individuals provided that the purposes for which they were created reflect activities for which authorization can be obtained to receive donations in Mexico.

We believe it is essential for the tax authorities to publish a listing of the organizations that fulfill these characteristics in order to provide legal certainty to the taxpayers.

· *Interest on mortgage loans*

Up to the year 2009, the real interest derived from mortgage loans applied to residences could be deducted by individuals in the determination of their annual tax, provided that the loan amount did not exceed 1,500,000 UDIS; in other words, approximately $6,450,000.

In accordance with the tax provisions in effect up to the year 2009, it was not necessary for the real estate property acquired through the mortgage loans to be the residence of the individual who took the interest deduction.

Furthermore, it could be interpreted that the interest on several mortgage loans used for residences could be deducted, when the amount per mortgage loan did not exceed the aforementioned limit.

The reform establishes that any real estate property acquired must be the residence of the person who deducts the interest, and if there are several mortgage loans involved, the limit of 1,500,000 UDIS will apply to the sum of the aforementioned loans.

As of the fiscal year 2011, the determination of the real interest paid on these mortgage loans is amended through a mechanism of differences between the beginning and closing balances of the loans, based on the payment of principal, interest and commissions generated during the year. Under this mechanism, inflation will be recorded through the application of UDIS.

A transitory provision also establishes that for the year 2010, the amount of real interest actually paid will be determined based on the annual adjustment for inflation calculated in such year, as determined up to the year 2009.

Residents Abroad

4.9% rate on interest

Through an annual provision, the 4.9% withholding rate on interest paid to foreign banks registered with the tax authorities remains in effect for fiscal year 2010, provided that such banks reside in a country with which Mexico has a current double taxation treaty and the requirements established in such treaty are duly fulfilled.

Sale of shares

The provision established in the Federal Income Act for 2009 whereby finance entities resident abroad in which the Federal Government (through the Treasury Department or the Mexican Central Bank) holds equity may pay any income tax incurred on the sale of shares derived from a Mexican source of wealth, based on the gain determined on the sale, subject to compliance with the requirements established in tax provisions, such as that of filing an audit report, is incorporated to the Mexican Income Tax Law

Tax Incentives

Technology R&D

The tax incentive related to expenses and investments in technology R&D is eliminated, and a transitory provision establishes that taxpayers will be able to continue using the unapplied credit until it is fully applied, based on the rules in effect up to December 31, 2009.

Domestic movie production

It is established that the tax credit applicable to this tax incentive will not be considered as taxable for income tax purposes.

New Interest Regime for 2011

A new taxation scheme is established to determine accruable interest income for individuals, which will go into effect as of January 1, 2011. Transitory provisions establish that for the tax year of 2010 the regime in effect in the tax year of 2009 will continue to be applied.

In other words, to determine the income tax withholding on interest income, financial institutions will apply the rate established in the Federal Income Act, which is decreased from 0.85% to 0.60% annually, on the amount of principal that generates interest.

Such withholding will be considered as an advanced payment for both individuals and entities, for which reason they must file their annual tax return based on the assumptions established in the provisions in effect up to 2009.

We believe that the new scheme proposed for implementation in fiscal year 2011 will be modified in the following legislative periods before its enactment; nevertheless, below we discuss the most significant characteristics of this tax regime.

Mechanism

The taxation scheme applicable to fiscal year 2011 considers a new method for the calculation of the real interest accrued by individuals, which consists of applying a mechanism known as "cash-in - cash-out", while the effects of inflation are recognized through the use of UDIS.

One of the main changes is that the real interest will be taxable as it is accrued, not when it is collected, as was the case up to the year 2009, with certain exceptions. Please note that the commissions collected by financial institutions will be deductible under this procedure.

Furthermore, the positive real interest accrued will be taxed at the maximum income tax rate, instead of paying (i) the tax that was payable by the individual, based on his annual level of income or (ii) a percentage of the principal that generated interest, when the latter represented his only income and was less than $100,000 a year.

The payment of income tax will be made by means of withholding applied to the amount of the positive real interest. If a negative real interest is generated, no withholding may be applied and this will generate a tax credit that can be applied in the future, exclusively against the same type of income.

The income tax withholding rate will be the one applicable to entities, which for fiscal year 2011 will be 30% of the amount of positive real interest accrued, and will be applied to the available funds held in the taxpayer's accounts or financial assets.

In those cases where the interest is paid by persons not engaged in the financial system or refers to interest on credit instruments not listed in the public market, the individual himself will be responsible for paying the tax, which will be on a monthly basis.

For individuals, any income tax paid on the amount of positive real interest, either by means of withholding or direct payment, will be considered as a final payment.

Consequently, individuals will no longer have to file an annual tax return for this type of income. They will only be required to report in the annual tax return, the amount of interest obtained in those cases where their total annual income exceeds $500,000 (which includes exempt income, taxed income and income on which the final tax has been paid).

Regime for entities

Given that the mechanism for the withholding of interest generated through financial institutions will be modified as of 2011, any tax that such institutions withhold from entities will continue to be considered as an advance payment, which may be credited against their annual tax payable. For this reason, the provisions related to the recognition of this type of income and the corresponding annual adjustment for inflation are not modified.

Withholding by financial system

As a general rule, institutions belonging to the Mexican financial system must calculate and withhold the income tax on the final day of each month, on the available funds held in the taxpayer's financial accounts or assets, and are considered jointly liable for the correct payment of the tax. Such withholding must be paid within three business days following that on which it was applied.

However, if the taxpayers liquidate the account, transfer the resources to another institution or sell the financial assets, the institutions must withhold the tax at any of such moments, instead of doing so on the final day of each month.

Before the total cancellation or sale of the taxpayer's financial accounts or assets, the aforementioned tax must be fully paid. If the resources are transferred to another institution, company, person or entity, the financial institution which makes the transfer must notify the receiving institution of the amount of tax that was not withheld from the taxpayer at that date.

Any institution transferring financial accounts or assets that issues incomplete or incorrect information will be held jointly liable for the amount of tax not withheld. If the receiving institution does not withhold the tax when it can do so, it will be considered jointly liable for the amount not withheld and paid to the tax authorities.

If the financial accounts or assets do not have sufficient available funds to pay the tax, the amount owed will be considered as tax not withheld, for which reason the institutions in question will apply the total or partial withholding, when for any reason available funds exist.

The tax not withheld will be restated by applying a mechanism based on the average funding rate for bank securities, published for such purpose by the Mexican Central Bank, for which reason the amount of this tax will not be subject to restatement or surcharges established in the Federal Tax Code.

If the financial institutions withhold the aforementioned income tax and do not pay it to the authorities, the institution will be held directly responsible and, in this case, the corresponding restatement and surcharges will have to be calculated and paid.

A new obligation is included for financial institutions to report on a monthly basis to taxpayers, through their account statements, the amount of real positive interest accrued, the amount of tax withheld; the tax credit on negative real interest, as well as the tax not withheld.

As a result of the modifications to the interest regime, the obligation to provide annual interest withholding certifications to taxpayers is eliminated, which was in effect up to fiscal year 2009.

Interest on private transactions (non-financial system)

Given that the income tax will be paid on a monthly basis by the taxpayer himself, those persons who pay this type of interest will not have to withhold the corresponding tax, even when the payments are made by entities that are resident for tax purposes in Mexico.

Any tax which has to be paid may be decreased by any tax credit which, as the case may be, was determined previously, provided that the individual has complied with his obligations for the monthly payment of income tax derived from the positive real interest accrued.

Unfortunately, there is still some confusion about which chapters should be applied for this type of interest income, because the specific chapter regulating it and the one applicable to other income include this concept.

As one of the distortions that arise, the specific chapter on interest establishes that residents in Mexico who make payments for these items must provide the tax authorities with information related to the payments. Furthermore, every month they must notify the persons to whom they pay the interest of the amount of the real interest accrued, even when it is negative, which obligation is not included in the chapter related to other income.

It is questionable that the person who pays the interest should also be responsible for determining the real interest accrued, because the latter is no longer required to withhold the income tax.

Tax credit for negative interest

When the amount of real interest is negative, it may be considered as a loss. This loss, multiplied by the maximum income tax rate, will generate a tax credit that could be applied against any future payments of income tax which have to be made.

In relation to interest paid by financial institutions, such entities must apply the corresponding credit against any tax which they have to withhold subsequently.

If the individual is responsible for paying the monthly tax, he will be entitled to apply any credit determined against the income tax that he has to pay subsequently on said interest income.

This reform eliminates the possibility of applying the loss against the other income obtained by individuals (except wages and professional and business activities), as was the case up to the year 2009, because the credit may only be applied against tax generated on positive real interest accrued.

That part of the tax credit which cannot be applied may be credited in the subsequent 10 fiscal years until it is fully applied, adjusted by inflation.

The possibility of treating as a tax credit the amount of income tax actually paid for interest generated on a credit or security that is considered as a bad debt is established, which will be added to the credit for negative real interest accrued.

It is questionable that the reform does not allow the restatement of income tax paid in relation to credits or securities which are considered as bad debts.

Based on the wording of this provision, it is assumed that the tax credit for the credits or securities considered as bad debts must be added to the tax credit for negative real interest accrued; i.e., it constitutes a single credit which could be applied against any income tax payments that have to be made in the 10 subsequent fiscal years.

Notwithstanding, it is established that if the individuals have a tax credit that is not applied in relation to a credit or security considered as a bad debt, such credit cannot be applied in the future against the income tax on their positive real interest accrued.

We believe that this provision intends to avoid duplicity in the application of this credit for bad debts; however, given the inadequate wording of this provision, we estimate that the situation should be clarified by the tax authorities.

Unfortunately, no transitory regime is established regarding undeducted negative real interest that is generated up to December 31, 2010.

Economic effects of the new regime

The main economic effects generated for individuals under the new interest regime will be as follows:

- Interest received from the financial system among other cases, will be taxable as it is accrued, not when it is received, which was the case in the year 2009. Consequently, the tax is paid on income that has not yet been received.

- The obligation of filing an annual tax return for obtaining exclusively interest income in the case of individuals is eliminated; therefore, taxpayers would pay a higher tax than that applicable on his level of income and, as the case may be, after any personal deductions have been taken.

- In certain cases, it will be necessary to sell any investments held in order to be able to cancel or transfer the accounts or investments to another institution in the financial system, which could generate an economic loss for the taxpayer, depending on the market conditions at the time the assets are turned into cash.

- The negative tax credit generated from obtaining real interest can only be applied by the institution from the financial system in which the interest-bearing investments are held, because if there are investments in other institutions, the tax credit cannot be applied against the positive real interest accrued in the other institution.

- The possibility of decreasing the negative real interest from the other revenues obtained by individuals is eliminated. Currently, the negative real interest can be applied against the income received, except income from wages and income from business and professional activities.

- No transitory regime is established for unapplied negative real interest generated up to December 31, 2010, thus generating uncertainty about the right to deduct it in subsequent years.

Interest from abroad

In relation to the interest on deposits made abroad, or on credits or loans granted to residents abroad, up to the year 2010 there is no obligation to make advanced payments of income tax; in other words, the tax is not paid until the annual tax return. However, as of the year 2011, income tax must be determined and paid on a monthly basis, and will be considered as a final payment.

The tax credits derived from the negative real interest accrued and credits or loans which are bad debts, may also be applied based on the same rules indicated previously.

No specific procedure is established to determine the exchange gain or loss, because such effect will be recognized as part of the new interest mechanism, at the time the opening and closing balances of the accounts or deposits made abroad are converted into Mexican pesos.

Given that the new mechanism for determining the positive real interest accrued includes the exchange gain or loss, cases might arise in which income tax is paid on positive exchange fluctuations in one month, and in the following months a tax credit is generated as a result of negative exchange fluctuations, anticipating tax payments.

Survival and pension insurance

As of fiscal year 2011, payments made by insurance companies to insured parties or to their beneficiaries through partial or total withdrawals of the premiums paid or the yields on them, before the risk or event covered occurs, will not be considered as interest.

Also, payments made to insured parties or to their beneficiaries, in the case of insurance which covered risk is the survival of the insured party, will not be considered as interest when the exemption requirements established for this type of insurance are not fulfilled and the premium has been paid directly by the insured party.

This reform is based on the fact that as of fiscal year 2011, insurance companies will withhold income tax from the "savings component" of life insurance premiums (including the survival insurance) and pension insurance. In other words, any yields generated through these insurance policies will be subject to monthly income tax withholding.

This situation is questionable because currently the yields generated on this type of policy are exempt from income tax (subject to certain requirements and restrictions). Nevertheless, as a result of this reform such exemption will be indirectly lost, because while the article establishing the exemption of amounts received from this type of policies remains in effect, insurance companies will monthly withhold the income tax generated on the yields.

By eliminating the provisions that treated partial or total withdrawals made from insurance policies as interest, it is not clear what will be the tax treatment applicable to withdrawals made from policies other than life and pension insurance.

No definition is established of what must be understood as "savings component", for which reason in our opinion the tax authorities must clarify this situation.

We believe that the constitutional right to tax proportionality is violated in the monthly income tax that has to be withheld by insurance companies from the yields on the "savings component" of the premiums, when in accordance with the terms and conditions of the insurance contract, the insured parties cannot make partial withdrawals, because tax is being paid without a positive modification in the net worth of the taxpayers.

Incentive for pension and savings plans

As of fiscal year 2011, individuals must not consider as taxable income the interest received or withdrawn from the special personal savings account, any insurance contract whose basis is pension plans related to age, retirement, early retirement or certain investment funds, because the income tax on these yields will be paid based on the new mechanism for determining positive real interest accrued, by considering the income tax withheld as a final payment.

Voluntary and supplemental savings under SAR

As of fiscal year 2011 the real interest accrued derived from the voluntary contributions subaccount or from the complementary contributions retirement subaccount will be determined in accordance with the new interest mechanism.

Investment funds specializing in retirement funds (Spanish acronym SIEFORES) will be required to determine the real interest accrued, whereas the retirement fund administrators (AFORES) will be responsible for withholding the income tax on such interest.

It is correctly established that withdrawals made from the voluntary contributions subaccount and the complementary contributions retirement subaccount, whose purpose is to pay the tax, are not in violation of the permanency requirements established in the Retirement Savings Systems Law.

Financial derivative transactions

As of fiscal year 2011, withholding for individuals is increased to the maximum income tax rate applicable to revenues from debt financial derivative transactions. The withholding rate up to December 31, 2010 will be 25%.

Investment Funds

General provisions

A number of changes are made to the tax regime applicable to debt instrument investment funds (SIID) and to variable income instrument investment funds (SIRV), which will go into effect as of January 1, 2011.

The changes made include the incorporation of a new mechanism for the determination of the real interest accrued for the shareholders of such funds, based on a scheme known as "cash-in - cash-out", on which basis the balances must be converted to their equivalent in UDIS.

Please bear in mind that under this procedure the interest generated on the debt portfolio of investment funds is taxed on an accrual basis, even though such interest has not been paid by the corresponding financial intermediary.

The aforementioned mechanism is that established for the determination of such interest generated by financial institutions.

The Income Tax Law now incorporates the general mechanism established in its Regulations for the determination of daily dividends per share, for the daily gain on the sale of taxed shareholding portfolio and for the variation in such portfolio, applicable to the shareholders of these funds.

For the year 2010 the same tax regime applicable to 2009 remains in effect, and the income tax withholding rate is reduced from 0.85% to 0.60% a year on the principal bearing interest.

Determination of real interest accrued

It is established that persons who distribute SIID and SIRV shares will determine the real interest accrued daily for each type of taxpayer, individual, entity and nonprofit corporation, as well as the corresponding daily income tax per share.

The procedure for calculating the real interest accrued reflects the mechanism established for the determination of such interest generated by financial institutions, but on a daily basis.

For such purposes, every day the opening balance of outstanding shares must be compared for each type of taxpayer (increased by the deposits made during the day for SIID or SIRV) against the final balance of such shares for each type of taxpayer (less the withdrawals made during the day).

The opening and final balances of the shares of SIID and SIRV will be the value of such shares, owned by each taxpayer, at the beginning and the end of each day, duly converted at the value of the UDI of the previous day and the day in question, respectively.

The value of the purchases or sales of the shares of the investment fund, made by the taxpayer on the day that they are actually settled, converted into UDIS, will be considered as deposits and withdrawals, respectively.

The result obtained from the comparison described above will be converted into pesos at the value of the UDI on the day in question, and will be the daily real interest accrued by each type of taxpayer.

This calculation should be made by considering the balances of the debt portfolio owned by the investment fund, rather than the total value of the shares issued by each fund, because this value is composed of items other than the debt portfolio, such as the shareholding portfolio.

The above means that the tax effect is duplicated in the gain obtained from the sale of the shareholding portfolio owned by the investment fund and in the variation in the valuation of such portfolio, because such gain is being taxed based on two different provisions. In other words, the provision regulating real interest accrued, and that regulating the gain on the sale of the shareholding portfolio, are taxing the same concept.

We hope that the tax authorities correct this situation to avoid duplication in the payment of income tax on the shareholding portfolio.

Daily income tax per share

The corresponding income tax will be determined, as the case may be, by applying the maximum tax rate to the amount of real interest accrued by each type of shareholder.

The daily income tax per share will be determined by dividing that applicable to each type of shareholder, by the number of shares outstanding, for each type of shareholder as of the immediately previous day.

If the individual shareholders of SIID and SIRV obtain real negative interest, they will be entitled to apply the tax credit described above, which must be calculated per share.

It is established that persons who distribute the shares of investment funds will determine the tax applicable to each shareholder by multiplying the tax per share by the number of shares owned by each one for the immediately previous day. The monthly tax for the shareholder will be the sum of the daily amounts of the tax during the month.

Those persons who distribute shares of investment funds must withhold the income tax from each shareholder on a daily basis and must pay it to the tax authorities within the following three business days.

Even though the tax should be withheld on a monthly basis, in accordance with the general withholding scheme for real interest accrued, given the inadequate wording of the provisions it is understood that such withholding is daily.

It is established that tax authorities, based on its general rules, may issue a simplified calculation procedure for the determination of real interest accrued per share.

Daily gain on sale of shareholding portfolio

As discussed above, the Income Tax Law incorporates the mechanism established in its Regulations to determine the daily gain on the sale of the taxed shareholding portfolio in the SIID and SIRV, and the variation in such portfolio, net of expenses.

Individuals and entities must consider the gain determined in accordance with the preceding paragraph as taxable income, while for residents abroad, the investment fund must withhold the corresponding income tax as established by law.

Due to the different interpretations that existed regarding the exemptions from income tax payment on the sale of stock market shares that form part of the investment fund portfolio, it is established that individuals and residents abroad will be exempt for the sale of portfolio represented by stock market shares, provided that they are exempt for such persons in terms of the law.

Pursuant to the foregoing, as of the year 2011, the shares which an investment fund holds in international funds will be subject to income tax on an accrual basis.

The mechanism established for the determination of the daily gain from the sale of the taxed shareholding portfolio in the SIID and SIRV, and the variation in such portfolio, will be applicable to any other type of revenue obtained by the SIID or SIRV, other than interest, dividends or gains from the sale of shares.

Formal obligations

It is established that SIID and SIRV, through the persons who distribute their shares, must provide each month to the shareholders of these funds, the account statement containing the information on positive real interest accrued and, as the case may be, any income tax withheld, their tax credit, among others.

Furthermore, those persons who distribute shares of SIID and SIRV, must provide to its shareholders, at the latest on February 15 each year, a certification containing information from the previous year related to the gain or loss on the sale of shares of the taxed shareholding portfolio, and on the variation in the valuation of such portfolio, the amount of the taxable gross dividends, and the creditable income tax, together with the amount of any other type of revenue obtained through these funds.

Additionally, those persons required to provide the aforementioned certifications must file with the tax authorities, at the latest on February 15 each year, the information on such certifications, including the name, domicile and the Federal Taxpayer Registration number of the taxpayer.

It is established that companies which operate investment funds and persons who distribute shares of SIID and SIRV will be held jointly liable for the nonpayment of any taxes incurred by the shareholders of such funds, when the information contained in the aforementioned account statements or certifications is incorrect or incomplete or when it is indicated by tax laws.

Residents abroad

In contrast to the mechanism established for the aforementioned investment funds, in the case of foreigners, the intention is to make transparent the tax treatment applicable to the interest taxed for these taxpayers.

The procedure consists of decreasing the selling price of the shares by their average acquisition cost, both in the percentage which the taxed debt instrument investment portfolio represents for the residents abroad of the total debt instruments applicable to such shareholders.

In relation to revenues received by residents abroad other than interest from SIID and SIRV, the accruable revenue will be determined based on the mechanism established for residents in Mexico, as described above.

The income tax withheld will be considered as a final payment for the residents abroad. The withholding rate applicable to that part of the taxable interest derived from SIID and SIRV, will be the one resulting for the beneficial owner of the yields. The withholding rate on the gain from the taxed shareholding portfolio related to the SIRV will be 25%.

VALUE ADDED TAX

The general rate of this tax is increased from 15% to 16%, and from 10% to 11% when the taxable acts or activities are performed by residents in the border zone.

A transitory provision establishes that in the sale of shares, rendering of services and granting of the temporary use of goods which took place before January 1, 2010, the 15% rate (10% in the border zone) may be applied provided that the goods or services were rendered or delivered, or their temporary use was granted, as the case may be, before the aforementioned date and the payment of the corresponding considerations is made within the 10 calendar days immediately following such date.

The terms of the preceding paragraph will not be applicable to transactions entered between related parties.

In our opinion, this transitory provision will generate practical problems, given the administrative burden represented by having to control the collection of the corresponding considerations.

Exempt interest

As of July 1, 2010, the exemption from the payment of this tax is eliminated for interest received or paid by credit institutions on loans granted to individuals who elect to be taxed under a special individual income tax regime called REPECOS.

Pursuant to the foregoing, it is established that individuals must provide their RFC number to the corresponding financial institution, between January 1 and July 1, 2010, so that under the general rules issued for such purpose, they can confirm with the tax authorities that such individuals are registered in such registry and that they do not pay taxes as REPECOS.

If the individuals do not provide the information indicated, it will be assumed that they are not registered before the taxpayer registry or that they pay taxes as REPECOS.

It is questionable that the amended provision does not admit evidence to the contrary, thus generating legal uncertainty regarding its application, especially when the obligation to confirm registration with the taxpayer registry or the REPECO status of the person depends on a third party.

Tax receipts for installment payments

Regarding the receipts issued by taxpayers who make installment payments, as of 2011 the requirement that they must be printed in a print shop authorized by the tax authorities is eliminated. However, such receipts must contain a security device that complies with the requirements and characteristics established by the tax authorities.

TAX ON CASH DEPOSITS

The tax rate is increased from 2% to 3%, and the monthly limit exempt from cash deposits is reduced from $25,000 to $15,000, for which reason the excess amount will be taxed.

Tax exempted persons

As of July 1, 2010, the exemption from payment of this tax is eliminated for entities and individuals who pay taxes under the regime of business and/or professional activities established in the Income Tax Law, for cash deposits in their own accounts opened as a result of credits granted to them by institutions engaged in the financial system.

It is established that individuals who have the aforementioned accounts must provide to the financial institution, their RFC number in order to verify with the tax authorities, based on the general rules issued for such purpose, that such individuals do not pay taxes under the regime applicable to business and/or professional activities.

Those individuals who as of December 31, 2009 have opened the aforementioned accounts must provide such information between January 1 and July 1, 2010 to the corresponding financial institution. If the individuals do not provide this information, it will be assumed that they are taxed under the regime applicable to business and/or professional activities.

It is also questionable that the amended provision does not admit evidence to the contrary, which results in a legal uncertainty regarding its application, especially when the obligation to confirm registration in the taxpayer registry or the activity with which the person is registered depends on a third party.

Determination of tax credit

Appropriately, the procedure through which the tax authorities will assess an unpaid tax liability on taxpayers if there is a balance payable for the tax on cash deposits is modified to establish that such authorities will first notify this fact to the taxpayer, and will grant him a period of 20 business days to provide a written declaration clarifying this situation.

After this deadline has elapsed and the taxpayer has not rebutted the existence of the balance payable, the tax authorities will assess the unpaid tax liability, together with the corresponding restatement and surcharges, and will issue the official request for its payment and collection.

Institutions engaged in the financial system

A new concept is incorporated for institutions from the financial system, including savings and loan cooperatives, community finance companies and rural financial integration agencies, as referred to in the Popular Savings and Credit Law.

In the case of multiple purpose finance entities, they will not have to fulfill the requirements established in the Income Tax Law to qualify as financial institutions.

A transitory provision establishes that members of the financial system also include companies engaged in attracting and placing resources among their members, which are in the process of obtaining authorization from the National Banking and Securities Commission (CNBV) to operate as savings and loan cooperatives, based on the requirements and deadlines established in the Law Regulating the Activities of Savings and Loans Cooperatives and the Popular Savings and Credit Law.

Transactions with partners or shareholders

It is also established that individuals and entities will be obligated to pay the tax on cash deposits made in accounts that are opened in their name in any institution, whose purpose is to perform savings and loan transactions with their members or shareholders, or to attract funds or monetary resources from their partners or shareholders for placement among them, which must comply with all the obligations established in the law.

FEDERAL TAX CODE

Receipts for tax purposes

With the purpose of establishing administrative simplification measures that also strengthen tax collections, the Federal Tax Code is amended to strengthen verification mechanisms and avoid tax evasion and fraud.

The reform provides that as of January 1, 2011, taxpayers must issue digital tax receipts, and stop using the system of printing such receipts through authorized print shops, with the exception described below.

With the introduction of this reform, taxpayers will have an electronic application granted by the tax authorities to issue the digital tax receipts.

In contrast to the scheme that may be used optionally up to the year 2010, taxpayers will have to send each of the receipts they issue to the tax authorities so that they can validate, sign and assign the corresponding folio number.

Furthermore, there will be providers of digital tax receipt certification, who will be authorized by the tax authorities when they comply with the general rules issued for such purpose. Such providers will also be able to validate, sign and assign folio numbers to the digital tax receipts.

A transitory provision is included that allows the tax authorities to establish administrative facilities for tax verification purposes, so that taxpayers will be able to substantiate their operations.

As an exception, tax receipts for transactions of up to $2,000 may be issued in printed form as before. In order for such printed receipts to be valid, certain devices will be attached to them, which may be acquired from authorized suppliers.

If the aforementioned devices are not used within a period of two years, computed as of the date on which they are acquired, they will have to be destroyed, for which purpose the taxpayers will have to notify the tax authorities, in the terms general rules to be issued by such tax authorities.

Taxpayers must request the assignment of folio numbers from the tax authorities, in order to use them in the printed receipts and each quarter must report the folio numbers used, on the understanding that if this information is not filed, the tax authorities will not assign new folio numbers for them.

It is also established that when the account statements contain tax information related to the transaction, it will not be necessary to have the receipt to support the corresponding deduction or credit.

It is questionable that in order to grant administrative facilities for income tax, taxpayers will be required to issue their digital tax receipts through the tax authorities' web site, as of July 1, 2010, whereas the regulation established for the digital receipts discussed in this paragraph will go into effect as of January 1, 2011.

Concept of "finance entities"

The concept of finance entities is added, which, apart from credit institutions, includes (i) insurance companies that offer life insurance, (ii) AFORES, (iii) credit unions, (iv) brokerage agencies, (v) low-cost finance companies, (vi) SIRV and SIID, (vii) investment fund operators (viii) and companies which render distribution services of shares in investment funds.

This amendment is made in order to extend the current references made in the Federal Tax Code to credit institutions for all the entities mentioned before.

This concept of finance entities is not the same as that established in the Income Tax Law for institutions engaged in the financial system.

Refunds

As a result of the changes made regarding the issuance of digital tax receipts, the deadline applicable to the authorities to refund recoverable balances of taxpayers which issue such receipts is reduced.

Such deadline is reduced from 40 to 20 business days, which is even less than the 25 days established for taxpayers that have their financial statements audited.

We believe that the benefit of the deadline reduction is applicable only to taxpayers that issue all their tax receipts digitally, including those which cover transactions of up to $2,000, but the wording of the provision is unclear in this regard.

Calculation of the UDI

As a result of the reform approved for the interest regime in the Income Tax Law, the mechanism to determine the value of the UDI is incorporated into the Federal Tax Code, which is the same as that published by the Mexican Central Bank on April 4, 1995.

Audit report

It is established that individuals and entities which implement rounding up programs in sales to the general public, in order to use or grant funds for themselves or for third parties, are required to have their financial statements audited.

Amended returns

To ensure that taxpayers do not alter the data of the years subject to review, the amended returns for years before these will be considered not valid, when they have an effect in the year subject to review.

Faculties of the Tax Authorities

Means of enforcement

In order to streamline the tax inspection process, the provisional attachment of goods or the business is incorporated as a means of enforcement, when the taxpayers or third parties related to them, oppose, prevent or physically hinder the initiation or development of the exercise of the powers of the tax authorities.

Information through finance entities

According to the Congressional Declaration of Purpose, as a measure that will help expedite the powers of the tax authorities in terms of tax inspection and collection, their powers are extended so that, apart from obtaining information related to the taxpayers through the CNBV, they can also obtain it from the National Retirement Savings System Commission (Spanish acronym CONSAR) or from the National Insurance Commission (Spanish acronym CNSF), or even directly from the finance entities or savings and loan cooperatives, as the case may be.

Furthermore, it is established that if the tax authorities are auditing a taxpayer, they may request information on the transactions contained in the account statements directly from the finance entities.

Specific official tax audit

The faculties of the authorities are extended to verify, through official tax audits (i) the operation of electronic systems and records that have to be kept in accordance with tax provisions and (ii) compliance with obligations related to customs authorizations, concessions, lists, duties or records.

Unpaid tax liability for omissions in returns

A new faculty is established for the tax authorities to presumptively determine an unpaid tax liability which then may be collected in three days, when the taxpayers fail to file a periodic payment return, for which purpose they will proceed as follows:

1. They will levy the corresponding fine on the taxpayer for the omission and will require the taxpayer to file the missing document up to three times, granting a period of 15 days for compliance with each requirement. If the requirements are not fulfilled, the corresponding fines will be levied on the understanding that it will be one fine for each obligation not fulfilled.
2. After the third requirement is issued regarding the same obligation, the authorities will be able to assess on the taxpayer or the joint obligor responsible for the omission, an amount equal to the highest amount that was determined as payable, in any of the last six returns of the tax in question, which does not release the person responsible from the requirement to file the omitted return.

   When the omission refers to a return where the amount to which the corresponding rate or charge applies is reliably known, the tax authority will be able to collect from the taxpayer an amount of equal to any tax that the latter may determine, but such payment does not release him from the obligation to file the omitted return.

   If the return is filed after the taxpayer has been notified of the amount determined by the authorities, the latter will be subtracted from the amount that must be paid in any return filed, and any difference resulting between the amount determined by the authorities and the amount payable in the return must then be paid, as the case may be. If the return contains an amount lower than that determined by the tax authorities, the difference paid by the taxpayer may only be offset in subsequent returns.
3. The unpaid tax liability determined may be enforced through the administrative law enforcement proceeding, as of the third day following that on which it is notified, but it will not be possible to secure the unpaid tax liability in order to suspend its collection as a result of filing legal action.

Immovable deposits, investments or insurance

The Federal Tax Code for fiscal year 2009 establishes the faculties for the tax authorities to immobilize bank deposits, in which case an official notice is issued to the financial institution so that it can then attach and hold the total amount of the funds deposited.

This reform restricts the immobilization of accounts up to the amount of the unpaid tax liability and its additional charges or, as the case may be, up to the amount not covered by the security created for the unpaid tax liability.

The accounts which can be immovable are extended to include not only bank accounts, but also insurance or any other deposit in Mexican pesos or foreign currency made in any type of account held by the taxpayer in his name, in finance entities and savings and loan cooperatives, as well as investments or securities, except for deposits that a person holds in his personal retirement savings account, including voluntary contributions, up to the amount of any contributions made in accordance with applicable law.

Those persons obliged not to move the accounts are extended to include any financial institution, as well as any savings and loan cooperative.

The immobilization order will be issued to the CNBV, the CNSF or the CONSAR, as the case may be, or to the finance entity or savings and loan cooperative to which the account refers, so that the account can be immediately immobilized and the funds deposited can be held, in which case the tax authorities will notify the taxpayer of such attachment.

If there are insufficient funds in the deposit or insurance accounts to secure the unpaid tax liability, the obligation is also established for the finance entities or the savings and loan cooperatives to conduct a search in their databases to determine whether the taxpayer has other accounts with sufficient resources, in which case they must immediately freeze and hold the resources deposited up to the amount of the unpaid tax liability.

Such immobilization must be notified to the tax authorities within the two business days following that on which it takes place, so that the taxpayer can in turn be notified accordingly.

Furthermore, the finance entity or savings and loan cooperative must inform the tax authorities of any increase in the account for interest generated.

The taxpayer who has an immobilized account still has the right to offer another security, as long as the unpaid tax liability secured is not confirmed. In this case, the authorities must make a ruling and notify the taxpayer of the acceptance or rejection of the security offered, or request compliance with additional requirements within a maximum term of 10 days.

The tax authorities must notify the finance entity or savings and loan cooperative of the verdict of the ruling, by sending a copy thereof within the 15 days following the notification served upon the taxpayer; if it does not do so within the deadline established, the entity or cooperative will release the account.

Transfer of funds from immobilized accounts

The Federal Tax Code for the year 2009 establishes the possibility of transferring the funds from immobilized taxpayer accounts to the Treasury, up to the amount necessary to cover the unpaid tax liability, with no further regulation in this regard.

The procedure is established for the transfer of resources from an immobilized account, once the unpaid tax liabilities are definitive, for which purpose different assumptions are established depending on whether the authorities have immobilized accounts or investments before the liability is confirmed and the taxpayer has created the corresponding security or not at that date.

Accounts already immobilized

If the authorities have immobilized accounts or investments and securities before the unpaid tax liability is definitive, because a preliminary immobilization was performed and the taxpayer does not create another sufficient security, the authorities will order the transfer of the resources up to the amount of the unpaid tax liability or for the difference not covered by the security, without any requirement to notify the taxpayer.

No deadline is established for the finance entity or savings and loan cooperative to make the transfer, but they must inform the tax authorities of the amount transferred to the Federal Treasury, within the three days following such order, and attach the receipt authenticating the transfer.

Security for the unpaid tax liability

If the unpaid tax liability is irrevocable and the corresponding security is guaranteed with a pledge, mortgage, joint obligation assumed by a third party, administrative law attachment proceeding, securities, or with a portfolio of the taxpayer's credits, the tax authorities will request that the latter pays the unpaid tax liability within a term of five days.

If the payment is not made, the authorities may either enforce the security or proceed to attach the accounts, and, once they are immobilized, transfer the resources in the terms established above, in which case the authorities must release the security created within a maximum of three days, once the tax authorities have been notified of the transfer of resources.

When the unpaid tax liability is irrevocable and the security is guaranteed with a cash deposit, letter of credit, another form of financial equivalent guarantee in terms of the Miscellaneous Tax Resolution, or through a third party surety granted by an authorized institution, the tax authorities will then enforce the security, for which reason they cannot freeze deposits, insurance or investments.

Lack of security for the unpaid tax liability

If there is an irrevocable tax liability and the security is not guaranteed, the tax authorities may then immobilize accounts and transfer resources, without having to clearly establish that such attachment should be carried out after first informing the taxpayer.

Refund of excess transfer

If when the amount is transferred to the Federal Treasury, the taxpayer considers that it is higher than the unpaid tax liability, he must demonstrate such fact to the tax authorities with sufficient documentary evidence, so that the latter can make the refund of the excess amount transferred within a term of no more than 20 days, based on the refund procedure for unduly paid amounts established in the Federal Tax Code. If the tax authorities consider the evidence is insufficient, the interested party will be notified of such fact and will also be informed that he is entitled to file an appeal.

This means that the tax authorities may exercise their official inspection faculties to refund the aforementioned excess amount, on which basis the 20 day deadline described above may be extended for another 90 days.

Levy prior to judgment

To determine the amount of the levy, it is established that the tax authorities will make a preliminary assessment of the presumed tax debts only for such purposes, in accordance with the procedure established in the Federal Tax Code for such authorities to make presumptive determinations.

The goods or the business to which the preliminary attachment is applied may be left in the possession of the taxpayer, provided that he acts as their depositary, in which case he must render monthly accounts to the competent tax authority.

Deposits in finance entities or savings and loan cooperatives or other goods may also be left in the possession of the taxpayer as part of the business.

Fines

The amount of the fine is increased for the following violations (i) failing to file the corresponding notices with the taxpayers registry or doing so untimely; (ii) failing to issue or deliver receipts of the activities performed when obligated to do so or issuing them without meeting tax requirements and (iii) issuing tax receipts that contain different data regarding the person who receives the good, service or temporary use.

The failure to provide data, reports or documents requested by the authorities in order to schedule tax inspection acts, is also established as a violation, for each request that is not resolved.

In accordance with the modifications to the tax receipts as of January 1, 2011 it is considered a violation (i) to issue the digital tax receipts without validating the digital folio number and signature; (ii) to not provide the tax authorities with the information on the digital receipts issued with the folio numbers assigned by the latter; (iii) to not provide the tax authorities with certain information on suppliers of security devices, as well as (iv) to not destroy the unused security devices or not file the corresponding destruction notice.

The legality of penalizing the taxpayer for not filing a destruction notice of security devices is questionable, when such filing requirements are completely at the discretion of the tax authorities, because the form of filing the notice is regulated through general rules issued for such purpose.

The following violations are added for finance entities and savings and loan cooperatives: (i) not freezing the deposits held in taxpayer accounts or not informing the tax authorities that such accounts have been frozen; (ii) not providing the tax authorities with the information contained in the account statements, requested as a result of the initiation of the official inspection faculties (in effect as of January 1, 2011); (iii) not providing the tax authorities with information on the deposits, trusts or any operation, requested as a result of the initiation of the official tax audit faculties or for the collection of unpaid tax liabilities.

As of January 1, 2011 the following are established as violations for entities authorized to issue credit, debit and service cards or electronic purses (i) not issuing the account statements complying with requirements for each transaction contained in an account statement and (ii) not providing the tax authorities with the information contained in the account statements, requested as a result of the initiation of official inspection faculties.

Tax Crimes

The following are established as offenses comparable to crimes of tax fraud (i) selling security devices for tax receipts; (ii) giving tax effects to receipts whose security devices do not fulfill established requirements; (iii) giving tax effects to digital tax receipts when they do not fulfill requirements; (iv) performing acts such as reproducing, selling, obtaining, using, possessing or manipulating the security devices without having acquired them as established in the Federal Tax Code.

FEDERAL INCOME ACT

Withholding on interest paid by financial institutions

The annual withholding rate which financial institutions have to apply to principal that generates interest payments is reduced from 0.85% to 0.60%.

Even though the annual withholding rate is reduced by approximately 29%, the very low levels of current interest rates do not justify a withholding of this size.

Flat rate business tax

A provision is added that eliminates the possibility of applying the credit for excess deductions against the income tax incurred in the year in which such credit is determined. It may now only be credited against any flat rate tax in the following 10 years.

As it is a provision contained in the Federal Income Act, it will only be applicable in the year 2010, unless it is included again in the Federal Income Act for subsequent years, or is incorporated into the Flat Rate Business Tax Law.

As it is a credit against the income tax incurred, it could be interpreted as a procedural regulation, thus potentially affecting the payment of the tax for the year 2009, this situation should be clarified by the tax authorities in order to recognize the right of taxpayers to apply it.

Technology R&D

As a result of the elimination of the incentive established in the Income Tax Law for technology R&D projects, the provision regulating the support to such projects through the Federal Expense Budget is eliminated.

EXCISE TAX

Alcoholic beverages

An increase is established to the applicable rate for producers and importers of beverages with alcohol content in excess of 20°G.L., from 50% to 53% during fiscal years 2010, 2011 and 2012, decreasing to 52% for fiscal year 2013 and diminishing to 50% until 2014.

It is established that the rate in effect in the year 2009 will be applied for the sale of beverages with an alcohol content in excess of 20°G.L. carried out in fiscal year 2009, and whose collection is made in the year 2010, provided that the product was delivered before January 1, 2010, the corresponding collection is made during the first 10 calendar days of the year, and the sale is not held between related parties.

Beer

An increase is established to the rate for the sale and importation of beer, from 25% to 26.5% during fiscal years 2010, 2011 and 2012, and decreasing to 26% for the year 2013. As of the year 2014, the rate will again be 25%.

It is also established that the rate in effect in the year 2009 will be applicable for the sale of beer performed in such year whose collection is carried out in fiscal year 2010, as long as the product was delivered before January 1, 2010, collection is made during the first 10 calendar days of the same year, and the sale is not held between related parties.

Tobacco

The payment of the tax on imported or sold cigarettes increases: a specific rate of $0.04 is applied for each cigarette sold or imported, and will increase to $0.06 for fiscal year 2011, to $0.08 for fiscal year 2012 and will be $0.10 as of fiscal year 2013.

The payment of the tax on tobacco, other than cigarettes, is increased; however, the total amount of grams sold is considered to determine the tax.

Pursuant to the foregoing, the calculation of the new tax on tobacco, other than cigarettes, will be determined by applying the rate of $0.04 to the result of dividing the total weight of tobacco, other than cigarettes (including the weight of other substances mixed in with the tobacco) by 0.75. Please note that the rate of $0.04 will be increased in the subsequent fiscal years as indicated above.

It is also established that the rate in effect in the year 2009 will be applied when the sale of tobacco took place in such fiscal year and the collection is made in the year 2010, provided that the product was delivered before January 1, its collection is made within the first 10 calendar days of the same year, and the sale is not held between related parties.

We believe that this reform will generate practical problems, given the administrative burden of controlling the collection of the corresponding considerations.

The obligation to specify the total weight of tobacco contained or the amount of cigarettes sold in any receipts that are issued is added. This information must be provided for each of the brands produced or imported by the taxpayer.

The obligation to inform the tax authorities, along with the monthly tax return, of the total amount of tobacco, other than cigarettes, sold or, as the case may be, the total amount of cigarettes sold is included.

Additionally, as of July 1, 2010, the obligation to incorporate a security code that fulfills the characteristics determined by the tax authorities in its general rules, into packs of cigarettes and tobacco, except for cigars and other types of tobacco manufactured entirely by hand, for their sale in Mexico, in order to provide the tax authorities with the necessary tools to avoid smuggling is established.

Betting, games of chance and draws

The rate applicable to betting, games of chance and draws is increased from 20% to 30%.

Control systems for any industry engaged in the performance of betting, games of chance and draws must have computer equipment that enables the tax authorities to obtain online, permanently and in real-time information from the central betting system as well as the cashier and cash control system.

Such obligation will be in effect as of July 1, 2010, for which purpose, general rules will be issued within the three months following January 1, 2010.

Telecommunications

As of the enactment of the reform discussed above, a new 3% tax is established for taxpayers who render telecommunications services through one or more public networks, and the definitions of public telecommunications network, telecommunications network and telecommunications terminal equipment are added.

As with the other services taxed in accordance with the law, the new tax applicable to telecommunications services will be determined on the amount of the considerations effectively collected.

Exemption for telecommunications services

A tax exemption is provided for the use of public and rural telephone services. Also interconnection services are exempted, including those performed between residents in Mexico and those performed with residents abroad.

Internet access services through a fixed or mobile network, covering all services, applications and contents rendered through a telecommunications network using such access, are exempted from payment of the tax.

The exemption will also apply to Internet access services that are rendered in connection with other telecommunication services, provided that the consideration for the Internet service is determined separately from any other services in the receipt issued, and such consideration is determined based on the amounts and prices that would have been collected if the joint service had not been provided. The exemption for the consideration of the Internet service cannot exceed 30% of the joint considerations billed.

GOVERNMENT SERVICE CHARGES LAW

CNBV inspection and oversight government fees

Flat fees are established for the inspection and oversight services rendered by the CNBV, which have to be paid by the Futures and Options Markets, Stock Markets, Clearinghouses, Central Counterparties and Securities Deposit Institutions. Previously the fee was a percentage of the net worth.

For fiscal year 2010, transitory provisions establish an optional taxation regime for Stock Markets, Clearing Houses, Central Counterparties and Securities Rating Agencies, when the inspection and oversight fees are more than 10% higher than the charges determined for fiscal year 2008.

In accordance with this regime, such institutions may elect to pay the inspection and oversight government fee based on the higher of the fee determined for fiscal year 2008, increased by 10% and the minimum fee applicable to fiscal year 2010.

Furthermore, it is temporarily established that Stock Markets, Clearing Houses, Central Counterparties and Securities Rating Agencies which were created in 2008 or 2009 may elect to pay the inspection and oversight fee using the same procedure, based on the fees established for newly created entities.

In the case of mergers of finance entities or affiliates of finance entities abroad, it is established that the fee payable by the entity resulting from the merger will be the sum of the charges that each entity had been paying for the inspection and oversight services rendered by the CNBV, without under any circumstance exceeding the maximum or flat rates established for such services.

Radioelectric frequency bands

An annual government fee is added for the use or exploitation of radioelectric frequency bands covered within certain megahertz frequency bands, for each region in which they operate and for each kilohertz concessioned or licensed in the future.

A transitory provision establishes that the aforementioned government fee will enter into effect on January 1, 2012, when the concessions are granted at the latest on November 30, 2010, while for concessions granted as of December 1, 2010, they will enter into effect on January 1, 2013.

* * * * *

EXHIBIT

INCOME OF INDIVIDUALS (MONTHLY BASIS)

- Example of IT – Monthly income $10,000:

		2009	2010	Differences
	Taxable income	$ 10,000.00	$ 10,000.00	$ -
-	Lower limit	8,601.51	8,601.51	0.00
=	Excess above lower limit	1,398.49	1,398.49	0.00
x	Rate	17.92%	17.92%	0.00%
=	Marginal tax	250.60	250.60	0.00
+	Fixed fee	786.55	786.55	0.00
=	IT payable	$ 1,037.15	$ 1,037.15	$ -
=	Percentage increase in IT			**0.00%**
=	Effective rate	**10.37%**	**10.37%**	**0.00%**

- Example of IT – Monthly income $50,000:

		2009	2010	Differences
	Taxable income	$ 50,000.00	$ 50,000.00	$ -
-	Lower limit	32,736.84	32,736.84	0.00
=	Excess above lower limit	17,263.16	17,263.16	0.00
x	Rate	28.00%	30.00%	2.00%
=	Marginal tax	4,833.68	5,178.94	345.26
+	Fixed fee	5,805.20	6,141.95	336.75
=	IT payable	$ 10,638.88	$ 11,320.89	$ 682.01
=	Percentage increase in IT			**6.41%**
=	Effective rate	**21.28%**	**22.64%**	**1.36%**

- Example of IT – Monthly income $100,000:

		2009	2010	Differences
	Taxable income	$ 100,000.00	$ 100,000.00	$ -
-	Lower limit	32,736.84	32,736.84	0.00
=	Excess above lower limit	67,263.16	67,263.16	0.00
x	Rate	28.00%	30.00%	2.00%
=	Marginal tax	18,833.68	20,178.94	1,345.26
+	Fixed fee	5,805.20	6,141.95	336.75
=	IT payable	$ 24,638.88	$ 26,320.89	$ 1,682.01
=	Percentage increase in IT			**6.83%**
=	Effective rate	**24.64%**	**26.32%**	**1.68%**

INCOME OF INDIVIDUALS (ANNUAL BASIS)

- Example of IT – Annual income $120,000:

		2009	2010	Differences
	Taxable income	$ 120,000.00	$ 120,000.00	$ -
-	Lower limit	103,218.01	103,218.01	0.00
=	Excess above lower limit	16,781.99	16,781.99	0.00
x	Rate	17.92%	17.92%	0.00%
=	Marginal tax	3,007.33	3,007.33	0.00
+	Fixed fee	9,438.60	9,438.60	0.00
=	IT payable	$ 12,445.93	$ 12,445.93	$ -
=	Percentage increase in IT			0.00%
=	Effective rate	10.37%	10.37%	0.00%

- Example of IT – Annual income $600,000:

		2009	2010	Differences
	Taxable income	$ 600,000.00	$ 600,000.00	$ -
-	Lower limit	392,841.97	392,841.97	0.00
=	Excess above lower limit	207,158.03	207,158.03	0.00
x	Rate	28.00%	30.00%	2.00%
=	Marginal tax	58,004.24	62,147.40	4,143.16
+	Fixed fee	69,662.40	73,703.40	4,041.00
=	IT payable	$ 127,666.64	$ 135,850.80	$ 8,184.16
=	Percentage increase in IT			6.41%
=	Effective rate	21.28%	22.64%	1.36%

- Example of IT – Annual income $1,200,000:

		2009	2010	Differences
	Taxable income	$ 1,200,000.00	$ 1,200,000.00	$ -
-	Lower limit	392,841.97	392,841.97	0.00
=	Excess above lower limit	807,158.03	807,158.03	0.00
x	Rate	28.00%	30.00%	2.00%
=	Marginal tax	226,004.24	242,147.40	16,143.16
+	Fixed fee	69,662.40	73,703.40	4,041.00
=	IT payable	$ 295,666.64	$ 315,850.80	$ 20,184.16
=	Percentage increase in IT			6.83%
=	Effective rate	24.64%	26.32%	1.68%