

## **BUILDING OR REMODELING?**

*Be sure to get the right receipts!*

by Linda Jones Neil

It can be exciting to buy a vacant lot or a fixer upper and build a dream home or make wonderful repairs and changes to an existing building to make the home “yours”!

Any money spent on repairs, remodel or new construction can add to the value and to the tax basis of the property, IF the right fiscal receipts are obtained!

Mexico’s tax laws, most of which are patterned closely after the US IRS and Revenue Canada, are much stricter when it comes to obtaining tax deductible receipts. We have the official invoice, known in Spanish as the “*factura*”

For all of us in business, it is essential we obtain official *facturas* for all equipment, paper goods, electricity, telephone services, gasoline, office rent, any and ALL commercial purchases for use in our business. Additionally, if we consult with an attorney, a notary or other professional, we need a *Recibo de Honorarios*. These documents must bear special markings and be sent through special services which print the invoices. They must also bear the vendor’s name, address and Federal Registration Number as well as the Buyer’s information.

All of this is essential for the business owner in Mexico to have deductions against income.

What is often not understood in the real estate world is that the buyer or fixer upper of Mexican homes must also have official receipts in order for them to be applied as deductions against the capital gains tax (*Impuesto sobre la Renta ISR*) when the property is sold.

All contractors, and suppliers of building materials must be registered with SAT, the Mexico tax authority, have a Taxpayer Identification Number and file taxes on income each month. Additionally, they must issue to the buyer, foreign or national, their invoice (*factura*) or receipt for fees (*recibo de honorarios*) that bear Vendor’s details, a description of the property where improvements or construction is being done, and buyer’s full name, address and Tax ID number. If a Buyer is a Foreigner, this is no excuse for not issuing the official receipt. According to SAT the number which must be used if the buyer has no tax identification number is XEXX010101000.

*Why is this important to the foreign owner of a home in Mexico??*

**No exemptions of tax are permitted when a vacation or rental home in Mexico is sold. This applies to all, Mexican nationals and foreigners.** The tax on non-exempted transactions is 35% of the difference between the value declared

in the deed and the value of the new sale, less allowable deductions; or 25% of the entire amount of the transaction, whichever is less. It is very important when acquiring property to insist upon having the full amount of the sale declared in the deed, in order to avoid overpaying taxes upon sale. and to obtain and retain official receipts for all construction and improvements made on the property. This record-keeping can reduce the tax owed substantially.

If you are a foreigner with property in Mexico and want to increase your tax basis in your investment, be sure to insist upon the *Factura* or *Recibo de Honorarios* when you make a purchase of materials or pay for services rendered.. Accept nothing less!

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about the author:

**LINDA JONES NEIL** is the founder of The Settlement Company®, which specializes in real estate transfers and escrows. Licensed as a California real estate broker, she has pursued her profession in Mexico for over forty years. Her skills in negotiating contracts between parties from three distinct cultures have placed her services in demand as a consultant and for speaking engagements on Mexican law and customs in Mexico, the United States and Canada. She has been widely published on the subject of real property in Mexico. Memberships; FIABCI, AMPI and NAR. Linda is a former member of the National Advisory Council of AMPI and has served as NAR Presidential Liaison to Mexico..

**E-mail** [info@settlement-co.com](mailto:info@settlement-co.com), **website:** <http://www.settlement-co.com>