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ENJOYING INCOME FROM RENTAL PROPERTIES

by Linda Jones Neil

Everyday more and more foreigners, people from the U.S., Canada, Asia and Europe, have found Mexico to be an ideal location for healthy retirement. Others have come to Mexico as a result of job transfers. Others still, taking advantage of electronic and wireless communications, seek out delightful areas in which to live and work from their in-home offices and studios.

Many newcomers prefer to rent or lease a house or an apartment while they shop for the ideal location and home for purchase. This increase in demand for housing has made the acquisition of rental properties an increasingly attractive investment. What better and more secure income can be found than a house or apartment complex which will produce rental income for many years? Especially when it is most likely increasing in value at the same time!

Investors can pay all cash, use funds from IRA accounts or even, possibly, negotiate seller financing to establish solid long-term gains.

Rental contracts can be simple and should always contain an arbitration clause. Just as in a rental in the U.S. or Canada, a security deposit is a good idea.

For the real estate investor who is thinking of acquiring properties for rental there are a couple of important considerations: one is the way to hold title and the other is how to declare and pay taxes on income.

HOLDING TITLE:

A Mexican Corporation can be established to hold title to all NON-residential property. This can mean apartments and houses which will be used entirely for rental and/or commercial purposes. The expense involved in accounting and maintaining a corporation is substantial, however and may be too expensive if the investor has only a few properties. For properties owned by the corporation an IVA tax of 15% of the value of the construction is charged at acquisition, in addition to the 2% acquisition tax. Corporate tax declarations must be filed monthly and estimated taxes paid monthly. Property taxes will be charged at a rate for commercial not residential properties, as will utilities. Stock in the corporation, if sold or transferred, is subject to an income tax (ISR) similar to that paid by an individual on the gain on the sale of a house.

The alternative to the Mexican corporation is that the buyer hold title in fee simple, if in the interior of the country, or in trust (*fideicomiso*), if the property is located in the restricted zone. In fee simple, property will need to be registered with the Secretary of Foreign Relations but has no additional annual title fee. In the trust, the annual cost to hold title will be the trustee fee of 375. USD to 550.USD. Utilities and property taxes will generally be charged at a residential rate, rather than a commercial rate.

Annual maintenance, fees for accounting and legal services, as well as taxes, will generally be less for up to seven properties in fee simple where permitted, or in trust (*fideicomiso*) than the costs generated by the properties held by the Mexican corporation.

PAYING TAXES:

Mexico's tax law is patterned after those of the United States and Canada and states that:

*"Physical persons (individuals) and legal persons (companies) who are **residents of Mexico** and who receive income in this country, are obligated to register with Hacienda, declare their income and pay their taxes, regardless of the source;*

*and..... "Physical and legal persons **who are residents in a foreign country** (outside Mexico) must declare their income and pay their taxes on all income generated in Mexico".....*

If the properties are held in a Mexican corporation, the Mexican accountant will prepare the monthly declarations and estimated taxes will be paid.

If in a bank trust, a Mexican accounting firm can perform all necessary tax and accounting services including the monthly filings, tax payments and can provide the foreign owner with accounting and documents for obtaining tax credits on U.S. or Canadian taxes.

It has never been simpler to enjoy a return on investment, monthly income and pay taxes in accordance with the law!

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LINDA NEIL is the founder of *The Settlement Company*, which specializes in real estate transfers, escrows, and consultations. *Settlement* also prepares monthly tax declarations, files them and perform additional essential landlord accounting services.

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