

MEXICO RENTAL INCOME.....PAYING TAX IS NOW EASIER THAN EVER AND WITH STATESIDE BENEFITS!!

by Linda Jones Neil, ABR, PIC,TRC

Those who have rental properties in Mexico can now rest easy. SAT, Mexico's Uncle Sam, has provided a straightforward and relatively simple way to declare and pay taxes on rental income for those foreigners who have long wished to be in compliance but did not know the way to do so.

As of February 2010, SAT eliminated the requirement for a taxpayer identification number (RFC) which had previously been obtained only through extreme efforts,

Now the foreign taxpayer has two options: One to obtain the taxpayer identification number (RFC), file monthly declarations whether there is income or not, and enjoy a deduction of expenses. This is Option One.

Option Two provides for the taxpayer to make a declaration when income is received, pay a flat tax and obtain a receipt to take to the tax authorities in his/her tax residence, for credit or deduction of taxes in the home country.

On any rental the owner, or his/her property managers, are responsible for collecting the IVA tax (the added value tax) which is 11% on the Baja and Yucatan peninsulas and 16% elsewhere. The owner or property manager must also collect the state hospitality tax which is 2 to 4% of the rental amount. These taxes must be delivered to the federal and local governments, as applicable.

It is important for the foreigner with rental property in Mexico to make arrangements for payment of these taxes since penalties can be high in Mexico for non-payment and, additionally, these same tax payments and expenses can be deducted or credited against income in taxpayer's home country.

The next part of the equation for the US taxpayer has been deciding how to declare this income and enjoy the deductions in their US returns.

Don Nelson, Attorney and Certified Public Accountant located in California reports the following regarding tax treatment for U.S. taxpayers:

- If the Mexican rental property owned in an individuals name or through a Fideicomiso, all rental income and expenses are reported on Schedule E of the form 1040.
- Allowable rental expenses are the same as for a US property.
- Management fees, interest, property taxes, utilities, repairs, maintenance, association dues, insurance...ALL are deductible!
- Depreciation on a Mexican property is 40 years straight line

- Taxpayer can take a Foreign Tax Credit against the US income tax paid on the net rental income for income taxes paid in Mexico on that income.
- IVA (added value tax) collected from the renter must be included in rental income, but then deducted out so no double taxation.
- The special Vacation Home rules applicable to US rental property occupied part time by the owner is also apply to Mexican rental property.
- IN A SALE OF THE PROPERTY, net gain is taxed in the US at the applicable lower capital gains rates and Mexican ISR paid is a credit against that US tax on that profit.

For further information on the Rental Payment Program for Mexican properties, please contact: Lic. Quirino Parra: quirino.parra@settlement-co.com.

For further information on the payment of US taxes when Mexican income is involved, please contact attorney and CPA Don D. Nelson: ddnelson@gmail.com . His website is at www.taxmeless.com.

About the Author: Linda Neil is the founder of The Settlement Company. It is the first escrow company in Mexico, and is dedicated to counseling buyers and sellers, processing the trusts and title transfers of Mexican real estate for foreign buyers and sellers for properties located ANYWHERE in Mexico and, now, for payment of taxes on rental income for foreigners with properties in Mexico.. Ms. Neil is also licensed as a Real Estate Broker in California, is an Accredited Buyer Representative through NAR, and has over thirty five years of experience in all aspects of Mexican real estate. She holds membership in AMPI, NAR and FIABCI and PROFECO Certificate 00063/96.

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