

# the settlement company®

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## PAYMENT OF TAX ON RENTAL INCOME, FOR RESIDENTS WITH TAX ID

Mexican newspapers are full of headlines about the growing problem of foreigners who are renting their homes or condominiums and failing to pay Mexican taxes. Not only is this a violation of the terms of most bank trusts (*fideicomisos*), but also it is a violation of Mexican tax law and reprisals are severe.

**FOREIGNERS ARE OBLIGATED TO PAY TAXES ON INCOME GENERATED IN MEXICO.** Mexico's tax law is patterned after those of the United States and Canada (world rental system) which states in the First Article::

*Article One: Physical persons (individuals) and legal persons (companies) are obligated to pay an income tax in the following cases:*

- I Residents of Mexico, must report and pay on all income no matter where the source is located;*
- II. Those with residence in a foreign country with a permanent establishment in Mexico must report and pay on all income generated from the permanent establishment in Mexico.*
- III. Those with residence in a foreign country, must report and pay on the income produced by property located in the national territory, **when there is no permanent establishment in the country or, even if there is, but not covered by the situations outlined in I and II above..***

If you own a property in Mexico and rent it often or only occasionally, **ENJOY** your rental income and ***SLEEP EASILY KNOWING YOU HAVE COMPLIED WITH TAX LAWS!***

The Settlement Company® with many years of experience in the transfer of titles and resolution of problems related to title, is able to assist you in receiving your funds in an escrow account, complying with your fiscal obligations in Mexico, providing you with the accounting and the documents you require in your country of residence to avoid double taxation!

### **TO BEGIN, WE WILL NEED THE FOLLOWING:**

1. Appointment of Consultores Phoenix, S.C. (The Settlement Company®) as your legal representative for the payment of taxes. We will prepare this document for you, in English and in Spanish. This must be signed before a Notary Public in Mexico or in your home country with an Apostille obtained or the document legalized before the Mexican consulate.
2. Escrow and Settlement Instructions authorizing The Settlement Company® to collect and pay out taxes on rental income on your behalf, delivering legal receipts to you. This document is also prepared by us and will need to be initialed on each page and signed on

the last page.

Also required:

3. An original of your latest property tax receipt, including property tax number.
4. A copy of the deed to your property.
5. A copy of your passport.
- 6.. The information sheet and authorization, attached.

**AS A RESIDENT OF MEXICO, with a RESIDENT DOCUMENT:**

We require a certified copy of your immigration document and your official tax id number, your password with SAT, your electronic signature (Firma Electronica Avanzada (FEA)) and your password for FEA. in addition to items one through six above.

**GENERAL:**

Upon receipt of your information, and your set up fee and advance payment (three monthly fees), we prepare your documents. Once executed and returned to us, we establish your individual custodial account and are able to receive and pay out funds.

**TWO OPTIONS for PAYMENT OF TAXES WITH YOUR TAXPAYER ID:**

**1. DECLARATION OF GROSS INCOME,** less a deduction for property taxes paid is calculated. **A BLIND DEDUCTION of 35% of Gross income,** less property tax is taken and your tax to be paid is calculated. No receipts are required. Payment for this tax (ISR) PLUS IVA tax of 16%, collected from your tenant if unit is furnished, is due and payable. Payment must be made per the calendar below.

**2. DECLARATION OF GROSS INCOME WITH DEDUCTIBLES:** Under this plan your declaration of gross income and **scanned copies** of your authorized deductions must be presented per the calendar below. Your tax is calculated and payment for this tax (ISR) PLUS IVA tax of 16%, collected from your tenant if unit is furnished, is due and payable. Original receipts must be made available in the event of an audit.

**ALLOWABLE DEDUCTIONS FOR OPTION TWO.**

Property Taxes, Maintenance expenses, Potable water, Salaries, Commissions, Professional Fees (Property Managers, Promotion through Air BnB, or Other, Insurance, Improvements, Paper goods. All receipts must be official invoices (*facturas*) accepted in Mexico.

**TAX RATES range from 6.4% to 35% based upon the total net amount declared under Option One or Two for the month.**

**IMPORTANT POINT:** Option One or Option Two may be selected but must remain in place for one full year. Owners have the option to change if requested at the beginning of year two.

**FEES: AN OVERVIEW**

**THE FOLLOWING SERVICES ARE INCLUDED IN THE MONTHLY PAYMENT:**

PREPARATION and filing of the monthly calculations and declaration, based upon your income and deductions as permitted in Option one or two

ISR Income Tax Retention  
IVA Added Value Tax

**Initial Set Up fee: \$ 250.00 USD plus IVA 16% = 290.00 USD**

**MONTHLY FEE \$155. USD, incl. IVA payable in advance for three months: \$465.00 USD due and payable on January 1, April 1, July 1 and September 1 each year**

Contract for two years, automatically renewable unless cancelled in writing with notification to the other party at least ninety days prior to expiration. In the event of early cancellation due to sale of the subject property, a charge of three months (465.USD) will be made.

*Under the law, these tax payments are provisional and a final declaration must be made in April of the year following. The fee stated herein INCLUDES the annual declaration as well as services rendered in initial audits.*

**OTHER FEES:**

**WIRE TRANSFER FEES, as applicable** \$ 20.00 USD incoming domestic transfer  
\$50.00 USD outgoing domestic transfer  
\$ 75.00 USD international outgoing transfer

**COURIER SERVICE:** \$ 50.00 per international shipment  
\$ 50.00 per domestic shipment

**CALENDAR OF REPORTING AND DECLARATIONS:**

**5<sup>TH</sup> DAY OF EACH MONTH:** REPORT DUE FROM OWNER WITH GROSS INCOME AND RECEIPTS FOR DEDUCTIONS, IF APPLICABLE

*note: a declaration must be filed monthly whether there is income or not.*

**10<sup>th</sup> DAY OF EACH MONTH:** Settlement Company® notifies owner of the tax amount due

**15<sup>th</sup> DAY OF EACH MONTH:** OWNER must deposit tax amounts due

All funds are held in trust through US and Mexican Banks. A quarterly statement will be provided showing amounts received and paid out of your individual trust account. These reports are sent out as follows:

FIRST QUARTER: ( <i>january, february march</i> )	MAY 15
SECOND QUARTER: ( <i>april, may, june</i> )	AUGUST 15
THIRD QUARTER: ( <i>july, august, September</i> )	NOVEMBER 15
FOURTH QUARTER: ( <i>October, November, dec</i> )	FEBRUARY 15

We look forward to being able to assist you in the payment of your taxes. The next step is to complete the attached form, providing us with the information for the parties on your title. Upon receipt of same, we will prepare and send your documents for execution.

Please contact us if you have concerns or questions. We look forward to having the opportunity to serve you!

Sincerely,

*Linda Neil*

Program Director  
**The Settlement Company®**