

## **Mexico Resort Real Estate Update .....**

**From The Settlement Company®**

***Ver el anexo para leerlo en español.***

Welcome to our Fourth Quarter, 2017 newsletter. In this edition we have reports from the International Community Foundation, the Annual Meeting of the Mexican Association of Real Estate Professionals (AMPI) and articles on medical tourism, taxes and the mediation process in Mexico...

### **The International Community Foundation-Working for Mexico**

By Anne Mc Enany, President –C.E.O. ICF

Have you heard of the International Community Foundation or ICF? An international nonprofit organization, ICF grants to local organizations throughout Mexico (and many other countries in Latin America) to improve health, education, and environmental outcomes. In fact, ICF has granted over \$70 million since it began in 1990 to carefully vetted initiatives, particularly in Baja California and Northwest Mexico. To see year's Baja California Sur Giving Guide and see more about the types of groups that ICF supports:

[www.icfdn.org](http://www.icfdn.org)

ICF works with U.S. donors to provide tax-deductions for their gifts – and to ensure that these funds reach effective projects, programs, and organizations. ICF offers a simple charitable giving process that makes it easy to support international causes. ICF's donors contributed over \$13 million in fiscal year 2017 to support projects like:

- Eliminating dengue and zika in Mexico;
- Keeping kids in school through scholarships and teacher training;
- Protecting groundwater resources and testing near-shore water quality to ensure swimmable, drinkable water;
- Responding to disasters like earthquakes and hurricanes in Mexico;
- Jumpstarting a cancer registry for Baja California Sur; and many more.

How can you get more involved? You can make a meaningful gift on ICF's website to one of the nonprofits listed there or you can contact Anne McEnany, ICF's President & CEO, to get more information about how to contribute stock, a gift from your IRA, life insurance, or other assets.

**Further information:** [anne@ifcfd.org](mailto:anne@ifcfd.org)

# How US Expats and Medical Tourism are Making the Mexican Medical Economy Boom

Courtsey AMR (Retirement in Mexico)

By Vladimir Lazareff | Biz Latin Hub

Healthcare services are feeling the effects of globalization. Medical tourism is one of the fastest growing industries in the world today, which is why we are going to examine its impact in Mexico. As a result of the increase in the sector, there is a full suite of business opportunities for opening up to foreigners investing in Mexico.

While a family of five living in the South of England are getting ready for their “booze cruise” weekend out in France to stock up on relatively cheap French wine, Samantha is in San Francisco, California, planning her next trip to Merida, Mexico for an affordable nose job. Healthcare services, henceforth like any other products on the market, are becoming more and more competitive as patients are willing to travel abroad for better treatments and prices.

In the whole of the Western Hemisphere, Mexico is the most popular destination for North-Americans who are looking for affordable healthcare. As of last year, more than one million foreigners travelled to Mexico for a large range of medical treatments. As a result, Mexico’s earnings from medical tourism have significantly increased in the past decade, growing from \$544 million USD in 2006 to \$4.7 billion USD in just 2016. And the trend is only predicted to grow further.

## Why is there Such a High Demand for Healthcare Services in Mexico?

### 1 .Growing number of U.S. expats retiring in Mexico:

Mexico is a retirement paradise for U.S citizens. With their US pensions in dollars, retirees can afford to have a nicer life for less in these heavenly regions of Mexico where the weather is ideal all year round.

As most of these Americans are elderly, they are in particular need of medical treatments. Although it is difficult to know the exact number, it is estimated that at least 1 million or so American citizens live in Mexico. This generates a significant amount of business for Mexican hospitals and clinics which offer the same if not better quality of treatment than in the US.

## 2. **The actual medical tourism, those who travel for treatment:**

Medical tourists are those who really symbolize this phenomenon because the reason for their trip is purely medical as opposed to expats who just want to live a better life or retire in Mexico. These are of all ages and come from all over the US.

Their inflow in Mexico is intimately connected to U.S. politics regarding healthcare. The US, as of today, does not have any form of universal healthcare but instead a complex system of private insurance and government-provided healthcare that many can't afford. Barack Obama's attempt in 2010 to trigger a reform with the launching of Obamacare (the Patient Protection and Affordable Care Act) gave millions of Americans access to basic healthcare support. Even then, not all Americans had access to Obamacare as it wasn't universal.

Since President Trump's election, Obamacare's repeal is being debated in the Senate, putting millions of Americans at risk of losing the little government support they previously had.

In the meantime, the Mexican expertise in Medicine is growing with a new generation of experts offering services at very competitive rates. A plastic surgery procedure such as rhinoplasty (nose job) costs approximately 56% less than in the U.S. while a heart valve replacement can be as much as 89% cheaper for example. One can imagine that the price of the flight ticket to Mexico represents only a small part of the investment.

Although many doubt it, if Trump Care becomes the law, the Congressional Budget Office estimates that 15 million Americans will lose their health insurance. This would bring a huge amount of medical tourists to Mexico and a full range of business opportunities for businesses involved in the healthcare sector.

**MEDIATION OF LEGAL DISPUTES IS LEGAL IN MEXICO- SAVING YEARS OF LITIGATION AND UNTOLD LEGAL FEES.**

By Don D. Nelson, Tax Attorney at Law

If you want to dramatically cut costs and waiting for a resolution, consider using Mediation to resolve your legal disputes in Mexico.

Mediation is an informal process where an impartial third-party, the mediator, helps the disputing parties find a mutually satisfactory solution to their issue. The mediator guides the parties toward a mutually agreeable settlement by helping them clarify their underlying interests and concerns, and encouraging compromise and trade-offs based on the relative importance of each item to each party.

Mediators cannot impose a resolution upon the parties since they are not able to make legally binding decisions. Any settlement reached, if in fact one is reached, is simply an agreement signed by the parties just like any other contract. The settlement does not have the same legal force as an *Award* which results from arbitration.

Mediation is usually well-suited to disputing parties who still have a somewhat amicable relationship, who are still able to negotiate, and who do not want a third-party to make final decision. Statistically mediation has historically been successful somewhere between 40 to 50 percent of the times it has been used.

What do you need to do? Put a written arbitration and mediation clause into all contracts you enter into in Mexico. It will save you many years in Mexican courts and untold legal fees.

NOTE: The Settlement Company® has an arbitration clause in all of its contracts.

**About the author::**

*Don D. Nelson is a specialist at Arbitration and Mediation of Business Real Estate. He is an international tax expert.*

## The 46th Annual AMPI Conference

By Mercy Duenas, ABR, CIPS,TRC, CNE

The annual conference of the Mexican Association of Real Estate Professionals (AMPI) is held in a different city each year. This year it was in Villahermosa, Tabasco. Founded in 1564 the city now has 855,678 residents and is the center for Mexico's petroleum industry and also known for its chocolate factories!

AMPI members from all over the country come together every year, to hold their Annual General Meeting, attend social events, and partake of education sessions plus elect new members of the National Advisory Board and decide on the location of the Conference for the following year. 10 new National Advisory Board members were elected. They represent a cross section of the Republic. Our new president for AMPI NATIONAL 2018 is Alejandro Kuri. Pablo Vazquez from Zamora, Michoacan is AMPI's new Executive Vice President and will be the President of AMPI 2019.

During his report on CCIE, (AMPI's Training and Statistics Section) newly appointed, Director Sergio Dueñas said, "Continuous education is the most important part of our profession along with experience. Our CCIE has great plans this coming

year, to obtain better real estate market data for our members and to expand our INTERNATIONAL real estate training to those members that work in the restricted area of Mexico, along the coasts and borders. CCIE also plans to offer more training throughout Mexico.”

AMPI’s 2018 Conference will be held in the city of Oaxaca, Oaxaca.

## **A Crash Course In Mexican Taxes**

By Raoul Rodríguez, CFP®, EA

Raoul Rodriguez a professional who specializes in Mexican tax implications for residents from the three NAFTA countries, has written a document outlining obligations under Mexican tax law. Below is a synopsis. It includes a list of areas covered.. To see the full article please go to:

[www.pinnacleadvisoryinternational.com](http://www.pinnacleadvisoryinternational.com).

You will see NEWS and the article, “A Crash Course I Mexican Taxes.”

Here are a few excerpts from the article:?

Mexican tax residents are subject to report and pay Mexican income tax on worldwide income. Paying income tax to your host country is no different than what U.S. residents (or residents from most countries of the world) are expected to do in the country where they live. Though dealing with a new tax system is definitely complex, with proper planning you might find that you actually save on taxes.

Note that tax residence is not the same as legal residence. Tax residence is defined in international tax treaties and local tax laws, while legal residence is based in immigration and nationality laws. Under certain circumstances, you may have the legal ability to live in a country and not be a tax resident of that country. On the other hand, you could be living in the same country with expired or no legal documentation and still be subject to payment of income taxes. Generally, you can only be a tax resident of one country at a time, so it’s important to know who is a tax resident and who isn’t.

In Mexico, tax residence is first understood in light of the tax treaties the country has signed with other nations (the U.S. and Canada, for example). Article 4 of those treaties defines a tax resident as a person who has established an abode in the country. That is, if you have a permanent home in Mexico you are, in the first instance, a Mexican tax resident and subject to pay Mexican income taxes on worldwide income. What happens if you have a home in both countries, as do many of us who travel back and forth? In that case, you are a considered a tax resident of the country where you have your “center of vital interests.” Mexico further defines “center of vital interests” in its Fiscal Code, which says that a person has their center of vital interests in Mexico if either of two things are true:

1. Mexico is the country where professional activities are carried out (i.e., work).
2. The person receives over 50% of his or her income from sources within Mexico.

If you are not considered a Mexican tax resident, then you are only liable to pay tax on Mexican income sources. Often you will not even have to file a tax return since any withholding at source may be considered final. Tax rates for non-residents are often higher.

Assuming you are a Mexican tax resident, what income taxes are you subject to? Income subject to this tax would include interest, dividends, rental income, capital gains, foreign social security payments, etc. It is important to note that Mexican taxes are not calculated the same way they are in the U.S. or Canada. For example, what is tax qualified in the U.S. or Canada is not tax qualified in Mexico. How cost basis and depreciation are calculated are different too. Exemptions, deductions, tax rates, filing deadlines, and estimated payments are all established by Mexican law and are not the same as our neighbor's rules to the "Norte."

It is an unfortunate fact that holding U.S. citizenship (or a green card) also comes with an obligation to file and possibly pay U.S. taxes regardless of where in the world a person might live. As a result, U.S. persons who are also tax residents of Mexico might need to file an income tax return in both the U.S. and Mexico (with each return having its own complexities). Coordinating both sides of the tax equation to obtain the most favorable results can be complicated and some solutions may be counterintuitive. What might be ideal planning in the context of one country could be disastrous in view of a combined plan. Mistakes may lead to penalties costing tens of thousands of dollars, and if non-compliance is willful, even criminal charges may be filed. To make matters even more difficult, it may be hard to find competent tax preparers who have the technical and language skills to do proper international tax planning.

Before you run away, you should know that just because you need to file in two countries does not mean that you pay a double tax burden. Deductions, exemptions, foreign tax credits, and treaty rates all help lower tax burdens significantly. Often, the result is that most of the tax burden is paid to the tax resident country. Done correctly, a move to Mexico might even result in a lower tax burden overall!

Despite what the Mexican tax laws say about registering to pay income taxes on worldwide income, very few foreign nationals do so. Clients tell me that the main reason for non-compliance is that Mexico is not inclined to enforce tax laws on foreign residents (and who wants to pay taxes anyway?). The Mexican tax authority, *Servicio de Administración Tributaria* (SAT), often does not bring enforcement actions against its own citizens due to a lack of resources. The Authority concentrates its limited resources on businesses and those with some sort of commercial activity (Mexican and foreign), where they expect to get the most bang for their buck. They also know that enforcing tax laws on non-Mexican individuals would send a chill through the large expatriate

community and thus have often decided (at least for the time being) to ‘let sleeping dogs lie.’

Many U.S. persons with Mexican sources of income have historically failed to also report that income back to the IRS. Several years ago, I wrote that I believed pressure to comply with Mexican income tax laws would not come from the Mexican authorities, but from the U.S. That prediction has come to pass in the form of a program called the Foreign Account Tax Compliance Act (FATCA). Under FATCA, the U.S. and Mexico now automatically share information on each other’s taxpayers resulting from transactions in their country’s respective financial systems, incentivizing compliance on both sides of the border. Mexico has entered into similar agreements with over 90 other countries under a separate Organization for Economic Cooperation and Development (OECD) program known as the Common Reporting Standards (CRS). Canada has announced that it too will commit to the CRS as of July 2017.

## What Taxes?

Here’s a brief description of the types of income subject to Mexican income tax laws as they apply to tax residents. Non-tax residents are covered under separate provisions and are not discussed here.

Mexico has signed tax treaties with over 40 countries, including the U.S. and Canada. The provisions in the tax treaties override local law and often will provide lower treaty rates for certain types of income. As a result, any review of tax liabilities for people with foreign sources of income should start with a look at the applicable treaty.

## Mexican Tax Rates

Mexican income taxes are applied on a marginal basis and for natural persons reaches as high as 35% (although there is a current proposal with the federal legislature to take the highest marginal rate to 40%). The current Mexican rates could be a good deal if you are coming from a jurisdiction that has higher combined federal and state (or provincial) income taxes. To provide some context, according to OECD statistics, the average effective tax rate for a family with no children in Mexico is 10.8%, which is next to the lowest of 35 countries considered. Per the [same study](#), the U.S. and Canada had rates of 22.7% and 18.9% respectively.

While 35% may sound attractive on the surface, you reach the 35% bracket when income reaches \$3 million pesos, which, at current exchange rates, is about \$166,000 USD.

Individual states in Mexico are now allowed to charge their own income tax, known in Mexico as *impuesto cedular*. Most states have chosen not to impose an income tax at present, and those that do, assess only limited types of income. Rates cannot be higher than 5%. Any state tax paid

is a deduction on the federal return. The following states impose some sort of income tax: Chihuahua, Guerrero, Guanajuato, Nayarit, and Oaxaca.

## **Mexican Capital Gains Taxes**

Capital gains are not a preference item and are taxed at regular tax rates. There are two major exceptions: gains for the sale of Mexican registered securities and the sale of a principal residence.

## **Mexican Rental Income**

Rental income is subject to Mexican income taxes. A blind deduction of up to 35% or certain actual deductions are allowed. The taxpayer can take the higher of those two numbers while the remainder is taxed at regular income tax rates.

More information: [www.RentalTaxMexico.com](http://www.RentalTaxMexico.com) .

## **Mexican Interest Income**

Interest income is generally subject to regular income tax rates.

## **Mexican Dividends**

Dividends were historically exempt from income tax if the corporation making the payment had paid income tax on that income to the Mexican tax authorities. In other words, there was no double taxation. But all good things must come to an end—at present, dividend payments are subject to tax rates up to 42%! However, tax on dividend income is a good example of why we look at treaty rates. Dividends paid by U.S. business to tax residents are subject to a 10% rate—significantly lower than the general rule—and 15% if from Canadian sources, per the applicable treaty rates.

## **Mexican Estate Taxes**

Mexico has no estate or inheritance tax applied to tax residents (non-residents that receive gratuitous transfers pay up to 25% of the value of the property received).

## **Mexican Gift Taxes**

Mexico has no gift taxes when transfers are made between ascendants and descendants. In other cases, the beneficiary of the gratuitous transfer is responsible for any income tax generated (non-residents pay up to 25% of the value of the property received).

## Other Taxes

Mexico has a series of other taxes that apply to both residents and non-residents, including:

- Property Taxes (*Predial*): very low compared to the U.S. and varies by state and municipality
- Value Added Taxes (*Impuesto al Valor Agregado – IVA*): 16% in all of Mexico.
- Transfer taxes (*Traslado de Dominio*): varies by state.
- Automobile Tax (*Tenencia*): varies by state.

## Practical Implications

As mentioned above, the Mexican tax authorities often do not have the capacity or will to audit their own citizens in any significant way. I have also found that most Mexican accountants are both unfamiliar with international tax issues and share the mentality that if a tax can be avoided, why bother complying? I would argue that being accepted to live in Mexico brings with it certain rights and obligations to the country, its citizens, and your neighbors... though that has never been a winning argument!

### About the author:

Raoul has worked as a Wealth Manager for over 20 years, including 18 years at his own firm, **Mexico Advisor**. He has completed many consultations with The Settlement Company® and its clients. Raoul joined Pinnacle Advisory Group in 2016, bringing with him significant experience in planning and investment management, along with expertise in the complex issues of cross-border financial planning. In addition to being a CFP®, he has obtained a master's degree in financial planning and is an Enrolled Agent authorized to practice before the Internal Revenue Service. Born in Mexico City, he is a graduate of a U.S. University and resides in Portland, Oregon/

## Economic Development in Baja California Sur

In his "INFOFRME" Carlos Mendoza, Governor of Baja California Sur reported that our state is the leader in Economic Development. In the Third Quarter of 2017, B.C.S. led Mexico with 13.6% growth. He also report that the level of "extreme poverty in the state has been reduced 50% in the last several years. While tourism is the

economic motor of the state, several major construction projects also made significant contributions. Currently, 5,000 new hotel rooms are being built in Los Cabos. In other news, the Baja 1,000 kicked off November. Starting in Ensenada it is the 50th anniversary of the classic. There are 406 competitors from 28 countries competing in the race.

A Mexican father and son team has won the Baja Mil (1,000), breaking the hold that foreign drivers have held on the event. Twenty one year old Carlos Lopez and his father teamed up to be the winners. They are from the municipality of Tecate, Baja California.

This was the first time in many years as a foreigner did not win the 50 year old annual, classic. Former champion B.J Baldwin was an early casualty when his transmission failed just outside San Felipe. The event was a winner for hotels and restaurants all down the Peninsula.

## **Real Estate and Education on a Global Basis**

The Mexican Association of Real Estate Professionals (AMPI) is one of eighty-nine organized associations having a formal relationship with the National Association of Realtors®. AMPI members have access to a plethora of NAR Designations

The National Association of REALTORS® is America's largest trade association, representing 1.2 million members, including NAR's institutes, societies, and councils, involved in all aspects of the residential and commercial real estate industries.

NAR and its affiliated Institutes, Societies, and Councils provide a wide-range of programs and services that help members increase their skills, proficiency, and knowledge. Designations and certifications acknowledging experience and expertise in various real estate sectors are awarded by NAR and each affiliated group upon completion of required courses.

November was such a great month for Certified International Property Specialists (CIPS) Designees. At the CIPS breakfast held at the Realtors Annual Conference and Expo, 300 Designees received their PINS and Certificates. The ceremony was held in the ballroom at the Chicago Marriott. Participating in the ceremony were the CIPS Instructors who formed a receiving line to greet the new Designees. There are now over 3,500 Designees spread around the Globe. To earn the prestigious award, applicants must attend five days of classes, pass an exam and complete at least one international real estate transaction

During the Conference Elizabeth Mendenhall from Columbia, Missouri was installed as the new NAR President. She is a sixth generation REALTOR®. Her father Richard was NAR President in 2001.

*Learn more about rental taxes in Mexico and how to pay them at [www.rentaltaxmexico.com](http://www.rentaltaxmexico.com)*

*Email us for more information on rental taxes: [ddnelson@gmail.com](mailto:ddnelson@gmail.com) [info@settlement-co.com](mailto:info@settlement-co.com)*

**For further information:**

[John.glaab@settlement-co.com](mailto:John.glaab@settlement-co.com)

[www.settlement-co.com](http://www.settlement-co.com)