

ECONOMIC BENEFITS RESULTING FROM THE ENTRANCE INTO FORCE OF AN AGREEMENT ON EXCHANGE OF INFORMATION RELATED TO TAX MATTERS WITH MEXICO

The economic benefits shown below are applicable to Guernsey following revision of the Resolucion Fiscal Miscelanea on 7 June 2012 by the Mexican authorities.

1. INFORMATIVE TAX RETURNS

Article 214 of the Income Tax Law establishes the obligation to file an informative tax return in respect with income subjected to a Preferential Tax Regime or income derived from a jurisdiction listed in its transitory provisions.

For such purposes, foreign income will be deemed to be subjected to a preferential Tax Regime if it is subjected to a lower tax rate than 21%. Nevertheless, income shall not be regarded as derived from a preferential Tax Regime if it is derived from the performance of active business operations carried out through foreign entities, to the extent that their passive income do not represents more than 20% of their overall income.

The obligation mentioned in paragraph 1 is applicable to all the investments that Mexican taxpayers keep in the jurisdictions listed in the transitory provisions of the Income Tax Law (Guernsey included). However, no such obligation will apply in the case of jurisdictions having an agreement of exchange of information with Mexico in force, to the extent that the requirements set forth in the second paragraph are met.

For the above mentioned, once the Agreement between Mexico and Guernsey comes into force, Mexican taxpayers having investments in Guernsey will not be compelled to file such informative tax return if they carry out active business in Guernsey and their passive income do not exceed 20% of their overall income sourced in Guernsey.

2. COMPANIES REORGANIZATION

In case of reorganizations, the tax authorities have the power to authorize the deferral of the tax on income derived from alienation of shares until such shares leave the group. The authorities will only authorize such deferral when the alienator or acquirer are not subjected to a Preferred Tax Regime and when such alienator or acquirer reside in a country which has an agreement on exchange of tax information with Mexico. (Article 190 of the Income Tax Law).

3. FOREIGN TAX CREDIT

Article 6 of the Income Tax Law establishes that Mexican residents may apply for a tax credit from income tax paid abroad. In this sense, the income tax paid by a non resident company (NR1) paying dividends to another non resident company (NR2), which at the same time distributes dividends to a Mexican company, may be credited in Mexico.

This benefit will apply only if the following conditions are met:

- NR1 must be a resident of a country having an Agreement on Exchange Information in Tax Matters with Mexico.
- The Mexican resident must have a minimum participation of 10% in the shares of NR2.
- The Mexican resident must have a minimum participation of 5% in the shares of NR1.

4. GROUP TAXATION

In order to be considered a holding company and thus, obtain all privileges of the group taxation regime, a company must be a resident of Mexico and withhold more than 50% (directly or indirectly) of the voting shares of the subsidiary.

A further requisite is that more than 50% of the voting shares of the holding company must not be owned by a third company, unless the latter is a resident of a country that has an agreement of exchange of information in tax matters with Mexico. (Article 64 of the Income Tax Law).

Therefore, this Agreement on Exchange of Information in Tax Matters will allow Guernsey's companies to own a Mexican holding that could apply for the benefits derived from group taxation.