Mexico targets multinationals using aggressive tax schemes

(Please note that this article is from an independent third-party tax news provider and the views expressed do not necessarily reflect those of Deloitte).

Mexico's *Servicio de Administración Tributaria* (SAT) has stepped up its fight against tax base erosion by initiating a review of 270 multinational entities, seven of which are being audited on suspicion of using aggressive tax schemes, SAT head Aristóteles Nuñez Sánchez said during a 14 January 2014 conference in Mexico City. (For prior coverage of the conference, see Mexican tax authorities host base erosion and profit shifting seminar). The SAT has also published a list of noncompliant taxpayers, including corporations, and a list of entities that falsified business records to qualify for favourable tax treatment, Nuñez said.

The purpose of the conference, which was organised by the SAT, was to outline specific measures the Mexican tax authority is taking to comply with the OECD base erosion and profit-shifting action plan, released on 19 July 2013. Mexico has the lowest tax revenue, as a percentage of gross domestic product, in the OECD. A tax reform package designed to bolster revenue took effect on 1 January.

The tax reforms, Nuñez said, focus on multinational enterprises that are resident in other countries but carry out operations in Mexico, or that are resident in Mexico but have international operations. Nuñez said that some companies earn profits in Mexico but pay their taxes in other countries with lower taxation. Such aggressive tax planning schemes will not be allowed in Mexico, he said, noting that this is what Mexico's SAT is fighting against.

Mexico's actions

Both the list of noncompliant taxpayers and the list of entities that falsified business records are available through the SAT's website. Nuñez said this public disclosure serves as justice and reciprocity for those Mexican taxpayers who do pay taxes. He said Mexico is following other countries that publish lists of delinquent taxpayers, including Denmark, Finland, the UK, Greece, Costa Rica, Ecuador, Paraguay and Bulgaria.

Luis Liñero of Deloitte Mexico, who also attended the conference, told Tax Analysts that although the SAT did not disclose the names of the 270 entities under review or the seven multinationals selected for audit, it is targeting companies in various industries and entities with parent corporations in several jurisdictions, and not just U.S. multinationals.

Liñero said the SAT picked the companies under review based on the effective tax rates of the entities, specific activities – including restructuring activities and cross-border transactions – and whether changes had an economic basis and were not motivated purely for tax advantages. The SAT reviewed the tax database and compared the effective tax rate from year to year and other metrics to determine any suspicious actions, he said.

Most practitioners and clients find the SAT officials' assertive and uncompromising message to be excessive, Liñero said. He said that many multinationals are compliant with Mexican tax law and that greater attention should be focused on the country's underground economy, which accounts for an estimated half of the country's economy. In this respect, the SAT's message is inconsistent, Liñero said.