



## VAT Refund Shipping Agents

### How does VAT work in Mexico?

The Mexican Value-Added Tax Law (hereinafter “MVATL”) establishes that VAT will be imposed on individuals and entities that carry out the following acts or activities within the Mexican territory:

- Alienation of goods
- Rendering of independent services
- Granting of the temporary use or enjoyment of goods
- Importation of goods or services

Individuals and entities will be subject to pay VAT regardless of their nationality for tax purposes (residents in Mexico, residents abroad with a permanent establishment in Mexico and residents abroad with no permanent establishment in Mexico), when they perform the aforesaid acts or activities within Mexican territory and on a cash flow basis.

The VAT is calculated by apply the corresponding rate to the price or consideration collected for the taxable activities.

The general VAT rate is 16% and until 2013 the VAT rate applicable in the border zone was 11%. From 2013 the 16% is applicable in all the country. The 0% rate is applicable on sales of certain products, such as food or patented medicines, and also some exported goods and services.

The monthly VAT balance is determined by diminishing to the total VAT collected on its sales (output VAT), the total VAT paid on purchases and expenses (input VAT) on a monthly basis and remits the net amount to the tax authorities. If there is a favorable balance, it may be carried forward to the following month, it could be compensated against any other federal tax or the taxpayer may request the refund to the tax authorities.

### How do Shipping Agents work?

International Shipping to Mexico

#### Activity

1. A foreign Client (Client) hires a Shipping Line (Line) in order to render international shipping services from a foreign country to Mexico.
2. Under the Mexican Navigation Law, the Line should hire a local Shipping Agent (Mex Ship A) in order to render in Mexican territory all those services necessary for the arriving of the ships of the Line, for example: the reception in port, liberation and unloading of the merchandise, among others.
3. The services could be “door to port”, “port to port” or “port to door”, and Mex Ship A will be in charge of hiring local suppliers for the diverse kind of services needed in order to render its services to the Line.

## VAT favorable balance

### Revenues of Shipping Agent

- The activities performed by the Shipping Agents are considered as commission in accordance to the Mexican Navigation Law.
- For VAT purposes, when a commission is provided by a Mexican resident and the benefits of this commission are enjoyed by a foreign resident, the commission is considered as exportation of services.
- MVATL considers that when the exportation of goods and services is performed, a 0% tax rate will apply, therefore the revenues of the Shipping Agent will be subject to a 0% rate.

### Expenses, investments and other payments

- The Shipping Agents need to incur expenses, make investments, hire suppliers and purchase goods in order to render their services and these activities are performed in Mexico then will be subject to VAT.

### Example:

Revenues (Commission)	1,000,000
VAT rate	0%
Payable VAT (a)	-
Expenses, Investments, Other payments	800,000
VAT rate	16%
Creditable VAT (b)	128,000
<b>VAT to be paid (favorable) (a-b)</b>	<b>(128,000)</b>

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