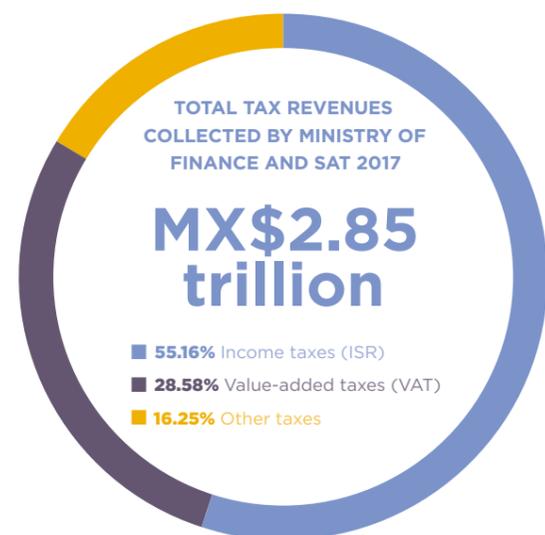


THE MINING FISCAL REQUIREMENTS IN REVIEW

The Fiscal Reform specifies that mining companies must pay to hold the rights for their extractive activities. New taxes brought the promise that 77.5 percent of the funds levied would be distributed among mining states to improve life quality among mining communities. The volatility of metal

prices and the new fiscal requirements have companies prioritizing their investments. Miners subsequently called for the government to strive for fiscal policies that will foster investment and exploration with a long-term view, considering the importance of mining for Mexico's economic performance.



TAX IN MINING AND EXTRACTIVE INDUSTRIES CONTRIBUTION TO GDP

97.2% Extractive industries

2.8% Mining*



MINING CONTRIBUTIONS*

62.5% Non-tax revenues

37.5% Tax revenues

MINING NATIONAL NET COLLECTION 2017 (MX\$ million)		
Concept	Total tax in mining and extractive industries	Mining*
Total GDP contributions	481,979.5	13,254.7
Non-tax revenues	452,009.9	8,281.5
Tax revenues	29,969.6	4,973.3
Income taxes (ISR)	35,512.3	28,805.6
Value-Added Taxes (VAT)	-6,793.0	-20,820.3
Production and Services	-3,204.8	-3,204.8
Foreign trade	0.1	0.3
Other taxes	4,455.1	192.6

*Metal and non-metal minerals. Except O&G, mining related services and other non-specified mining services

ZACATECAS ECOLOGICAL TAXES

In December 2016, Zacatecas state Governor announced green taxes on all extractive and highly-contaminating activities in the state. The tax came into effect in January 2017 but was contested by various industries, mining chief among them. Some miners complied and paid the taxes, while others filed *amparos* questioning its constitutionality. President Peña Nieto escalated the case to the SCJN. The government of Zacatecas is still in negotiations with the main industries affected.

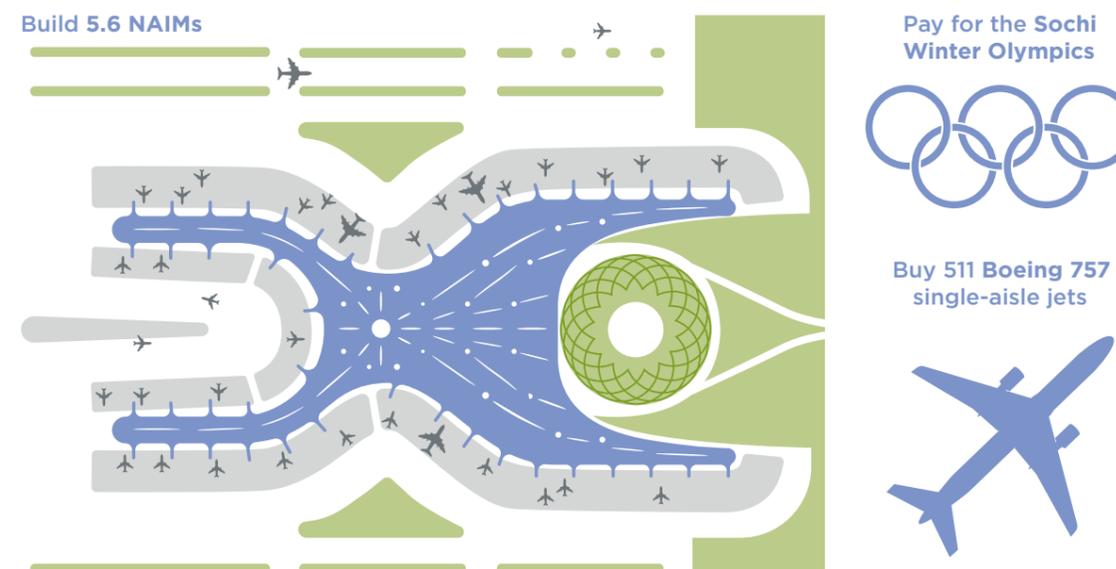
Concept	Description
Environmental remediation tax on materials production	Charge for each m ³ of extracted material during the mining process.
Tax on emissions of pollutants to the soil, subsoil and water	Charge of MXN\$25 for each 100m ² impacted by dangerous substances.
Tax on gas emissions into the atmosphere	Charge of MX\$250 for each ton of carbon dioxide released into the atmosphere.
Tax on the disposal of waste	Charge of MX\$100 for each stored ton of waste in private or public landfills.

CORPORATE TAXES AT A GLANCE

Corporate income	30% corporate income tax (CIT) rate
Withholding taxes royalties	25% for know-how and technical assistance (10% under most tax treaties)
Bonuses	Not applicable
Dividends	10% withholding tax (0% or 5% under some tax treaties)
Interest	<ul style="list-style-type: none"> 4.9% paid to banks resident in a treaty country and by certain registered financial entities 10% paid on negotiable instruments and to banks not resident in a treaty country 21% paid on qualified acquisitions of machinery and equipment 35% of other interest paid 15% paid to reinsurance companies (These rates may be reduced to 15% or 10% under most tax treaties)

WHAT WILL US\$51.1 BILLION BUY?

Since 2012, mining companies have invested US\$51.1 billion in Mexico, according to CAMIMEX. With the same amount of money, it is possible to:



FISCAL REGIME

Mexico does not have a tax holiday regimen, nor has it provided exploration incentives since 2014. As of January 2017, VAT paid during pre-operative period is creditable or refunded. Here the most relevant things to know about mining and taxes, explained by EY.

Corporate income tax

Mexico taxes resident companies 30 percent on worldwide earnings. A permanent establishment (PE) of a foreign resident is generally taxed equally as a Mexican resident but only on income attributable to the PE.

Pre-operating expenses

Must be capitalized and amortized on a straight-line basis over a 10-year period (a longer period for amortization of costs is possible). Pre-operating period lasts until products are sold or services are provided on a continuous basis.

MINING DUTIES

General mining duty

Mining concession holders shall pay it semiannually per assigned hectare (it varies depending on the size and the timing of the concession)

Extraordinary mining duty

Applicable on the gross value of sales of gold, silver and platinum, without any deductions, at a rate of 0.5 percent.

Depreciation of assets

Taxpayers are generally required to depreciate the cost of fixed assets using the straight-line method. The depreciation deduction is adjusted for inflation from the date of acquisition until the date of the deduction.

Research and development

A tax incentive will be granted, consisting of a 30 percent credit on expenses and investments made in R&D of technologies applicable against Corporate Income Tax payable in the fiscal year.

Royalties and technical assistance fees

Withholding tax is due on royalty payments to nonresidents at the earlier of the date they are paid or when they become due and payable. Its general rate for royalties is 25 percent, and 10 percent under most tax treaties. If royalty recipient is subject to preferential tax regime, the rate is 40 percent.

Special mining duty

Shall be paid by mining concession holders by applying 7.5 percent over the extractive profits. Holders can deduct authorized expenses for income tax purposes, except for depreciation of investments.

Additional mining duty

A penalty is applied when a concession is not developed.

Sources: CAMIMEX 2018 Annual Report, EY Mexico Mining and Metals Tax Guide 2017