

Simple explanation of how the VAT 0% incentive for foreign productions work.

According to the law, all goods and services used in a production destined to be exported and projected in movie theatres or television are susceptible to the return of the VAT: including but not limited to wardrobe, make-up, location fees, props, set decoration, crew and equipment transportation services to/from location (air, ground, sea), accommodation, film equipment (camera, lighting grip, etc.), catering (specialized in film or restaurants), animal rental, etc.

The above goods and services are considered for export when provided by Mexican residents to non-Mexican residents living abroad.

REQUIREMENTS:

- 1.- Foreign investment (not residing in Mexico)
- 2.- Mexican company – investment administrator – production company

GENERAL PROCEDURE:

1. Contract signed between investor and administrator specifying approximate duration of the project, total amount of investment, and service fee
2. Deposit of foreign funds in a Mexican bank account via banking services such as wire transfers
3. Notify the SAT (Tributary Administration Service - Mexican equivalent to IRS) in writing, about the project, specifying duration and filming locations. The written notification must be presented by the Mexican company using its fiscal address, along with the signed contract and a shooting schedule
4. Crew hiring. The administrator will hire the necessary crew through a contract – signed in triplicate- for services rendered: make-up, wardrobe, extras casting, etc. as well as vendors such as catering, transportation, camera, special effects, etc.
5. Once all the necessary personnel for prep, principal photography and wrap has been hired, the administrator will keep track of all expenses pertaining to the project using any system (COI, CONTPAQ, etc.) so there is a clear account of all taxes (owed and due) generated in the claimed period according to Mexico's tax law and notwithstanding the form and system requested by the foreign investor for their own accounts.
6. All payments must be made through a check or wire transfer to the person/company for their services. All invoices (FACTURAS) must fulfill the fiscal requirements marked by the law in order to be eligible for the VAT return. It should be noted that in order to keep all these records correctly, it is not necessary to hire a registered public accountant; the production accountant may assign a clerk to do it
7. The administrator must invoice the total amount of the foreign investment using the VAT 0% on behalf of the investor and include it in the project's accounting records
8. Once all the stages of the project are finished, the administrator must hire a registered Public Accountant who will go through each and every operation in which the VAT was paid, making sure the invoices were issued in accordance to the current Mexican law and pertain to the project itself. He/she will then issue a report known as "Dictamen de Contador Público" or "Public Accountant Report" which will be presented to the SAT requesting the return of the paid VAT corresponding to

the project. It is important to clarify that only the expenses generated during the period established in the first written notification to SAT (step 3) will be eligible

9. Estimated time of receiving the return of the paid VAT is of 90-120 business days as of the day the SAT has approved the VAT return in its entirety. Please note that the SAT may require one or more thorough revisions before approving the VAT return
10. SAT will return the VAT in the form of a deposit to the administrator's bank account