

# Lodging Services through Digital Platforms



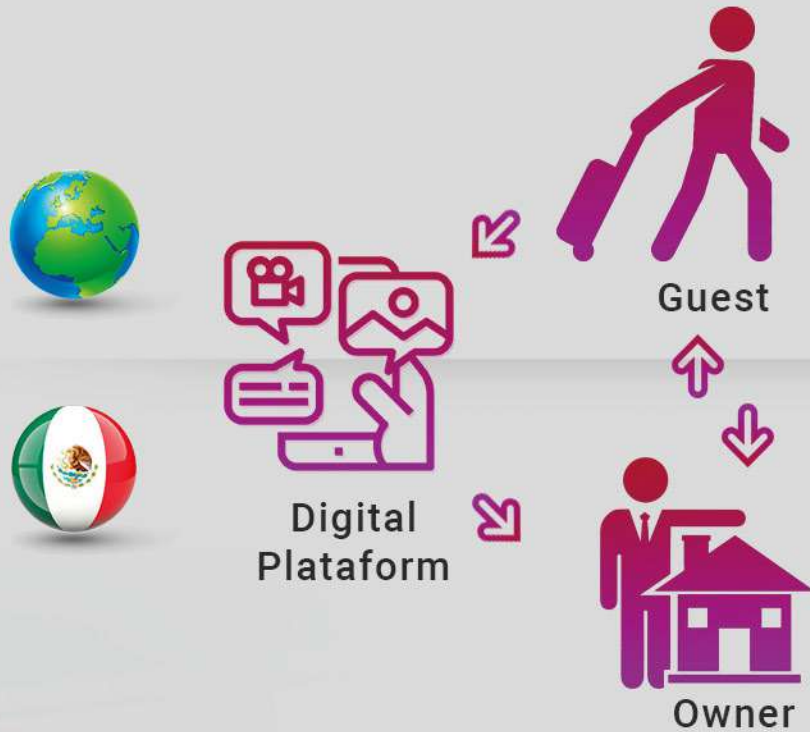
## Lodging Services through Digital Platforms

In the following days (June 2020), Mexico will have new tax rules related to electronic business; one of them is the lodging services doing through digital platforms.

For Mexican tax law digital platforms means an electronic way like the internet to promote, facilitate, help or as an intermediary to provide lodging services, an example of these kinds of entities are Airbnb, Homeaway, Vrbo, etc.,



The following chart will show the three entities involved in this kind of business.



## Owner

The owner is the individual, Mexican, or Foreigner corporations who have the control of the Mexican Property, which used as business related to lodging services in Mexico.

According to the Mexican tax law, any person having incomes from Mexican sources will be necessary to pay taxes in Mexico, which like Income tax, Valued Added Tax (sales tax), and Local lodging tax.

# There are three ways to pay the Mexican taxes for the incomes mentioned above; please see these options as follows:

	A	B	C
<b>Option</b>	<b>As Individual</b>		<b>Through business entity (Mex LLC)</b>
	Mex taxpayer, Not Mexican resident but with a permanent establishment in México	Non Mexican tax payer	
<b>Legal protection</b>	Individual must to cover any contingency with is assets		Contingency should be covered with entity's equity
<b>Income - Limit</b>	Unlimited	Unlimited	Unlimited
<b>Federal tax - Income tax</b>	Income tax Progressive rate since 2% to 35%...@profit	25% @ gross income	Corporate reate = 30% @ net income + 10% @ dividends.
<b>Federal tax - Sales tax</b>	16% @ gross income (VAT paid to suppliers can be credited)	16% @ gross income (VAT paid to suppliers can be credited)	16% @ gross income (VAT paid to suppliers can be credited)
<b>Local tax</b>	3% @ gross income	3% @ gross income	3% @ gross income
<b>Tax payment procedure</b>	It will be necessary to get a Tax ID and online access of the individual who should attend a meeting at SAT (IRS)	It will be necessary to get a Tax ID and online access of the individual who should attend a meeting at SAT (IRS) or appoint a tax representative	It can be appoint a tax representative of the company

**Note:** In the case, if you are Foreigner Tax Resident (USA, Canada, Spain, etc.) and Mexico has an international tax agreement to avoid double taxation, the income tax paid in Mexico could be credited in your country where you are tax resident.

# Digital Platforms

Another point to consider is the digital platform since June 2020 will withhold the taxes mentioned above (income tax, value-added tax, and local lodging tax).

## Income tax

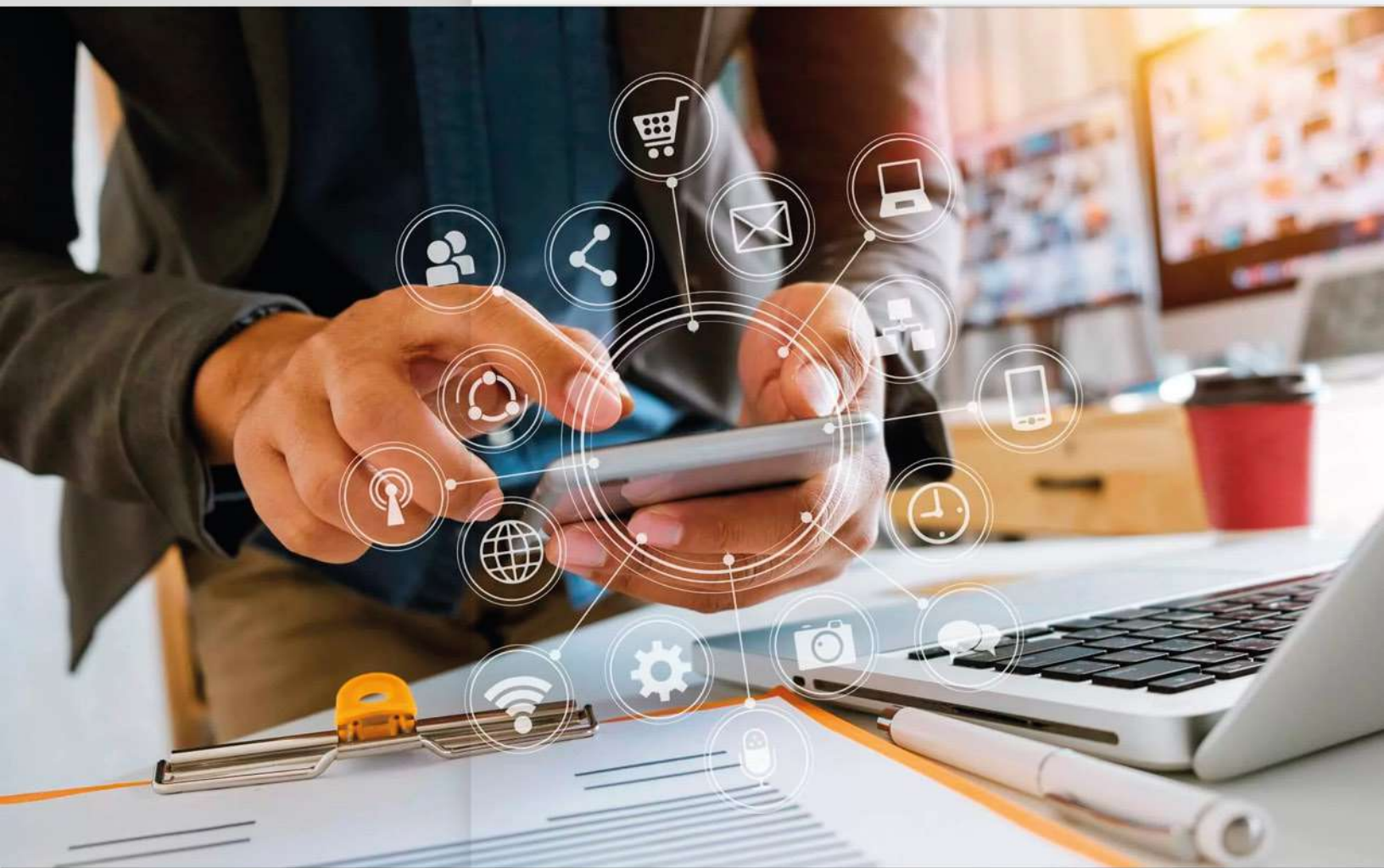
These withholding tax will be credited against the monthly tax payment, the withholding rate it will depend on the kind of tax as an example the income tax withholding will be in accord with your monthly incomes earned through the digital platform:

Incomes at 5,500 pesos the rate is 2%

Incomes at 15,000 pesos the rate is 3%

Incomes at 35,000 pesos the rate is 5%

Incomes up 35,000 pesos the rate is 10%





## Value Added Tax (VAT)

As you can see in the chart above related to the tax bracket options, two taxes are charging directly to the guest one is the VAT and the other Local Lodging tax.

Once you are providing the Mexican tax id (RFC) information to the digital platform, the withholding rate will be the 50% Value Added tax collected, considering the VAT rate is 16%, so the withholding rate is 8%.

In this case, if you are not providing the RFC, so the withholding rate will be 100% of the VAT collected.

## Local Lodging tax

The rate for the local lodging tax is 3%, and the digital platform will withhold and paid the full amount of this local tax.



## Digital Platforms tax obligations

There are digital platform tax obligations will affect to the owner is as follows:

1. It is obliged to withhold and paid federal and local taxes above mentioned.
2. To issue an electronic document where inform all the incomes and the Mexican taxes paid in favor to the owner. This document is a requirement to credit that tax paid by the digital platform.
3. To prepare and submit an informative filling where will include the following owner sensitive information:
  - a. Name.
  - b. Tax address.
  - c. Property address.
  - d. And the lodging income earned through that digital platform.

# Conclusions

Mexico, as other countries like the USA, Canada, etc., is part of international organizations like OECD and G20 looking to fair economies, then agreed to create tax mechanisms to avoid the tax evasion on their domestic tax law.

And one of those is the electronic business tax regulations mentioned above.

I understand the critical decision is to know what is the best way to run your Mexican business as an individual or through Mexican Corporation considering the economic, legal, and tax advantages and disadvantages.

Please don't hesitate to contact me if you need my advice over this matter.

Sincerely

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