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## RENTING YOUR MEXICAN PROPERTY

*by Linda Neil*

Everyday more and more foreigners, including people from the U.S., Canada, Asia and Europe, are acquiring Mexican property for rentals and enjoyment. The market for rentals is huge.

Many newcomers prefer to rent or lease a house or an apartment while they shop for the ideal location and home for purchase. *Others simply prefer to rent a home or condominium for a super vacation, rather than stay in a hotel!*

This increase in demand for housing and lodging has made the acquisition of rental properties an increasingly attractive investment. These rentals can be either long-term for those checking out the area prior to purchase, or short term for those extra special vacations. What better and more secure income can be found than a house or apartment complex which will produce rental income for many years? Especially when it is most likely increasing in value at the same time!

Investors can pay all cash, use funds from IRA accounts or even, possibly, negotiate seller financing to establish solid long-term gains.

Rental contracts can be simple and should always contain an arbitration clause. Just as in a rental in the U.S. or Canada, a security deposit is a good idea.

For the real estate investor who has rental properties or is thinking of acquiring properties for rental an important consideration is how to declare and pay taxes on income.

### **PAYING TAXES:**

Mexican newspapers are full of headlines about the growing problem of foreigners who are renting their homes or condominiums and failing to pay Mexican taxes. Not only is this a violation of the terms of most bank trusts (*fideicomisos*), but also it is a violation of Mexican tax law and reprisals are severe.

**FOREIGNERS ARE OBLIGATED TO PAY TAXES ON INCOME GENERATED IN MEXICO.** Mexico's tax law is patterned after those of the United States and Canada and requires that any person, foreign or national, who owns property in Mexico must declare that income in Mexico as well as in the owner's native country.

**Tax authorities in the U.S., Canada and Mexico are working together and share information. Everyday there is more cooperation between the countries due to tax treaties. It is no longer possible to own a property in one country, enjoy income from that property, and not report it in BOTH the country where the property is located, and the country where**

**the owner lives. Failure to comply means the owner is subject to double taxation and heavy penalties when the omission to file and declare is discovered.**

In the past, there was only one way to pay tax on income and that method is complicated. The owner is required to obtain a taxpayer identification number and to make monthly declarations whether a tax is due or not. To further complicate matters, in order to obtain the taxpayer identification number the foreigner who owns property and declaring income has to obtain an FM3 resident permit from the Mexican government which permits the rental of property. This system is cumbersome and may require a lengthy stay in the country and regular renewal of immigration documents. This option however permits deductions of legitimate and authorized deductions from gross income.

In February of 2010, new Mexican regulations were published which offer a simplified payment option in which the foreigner who owns property may pay the tax without obtaining an immigration document. No deductions for expenses are permitted against the tax paid in Mexico. This is however considered to be a great advance in assisting foreigners to comply with tax obligations in Mexico and the ideal way to obtain valid and legitimate receipts for the taxes paid which can be presented to tax authorities in the owner's home country as a credit against income and to offset expenses there. This method avoids double taxation.

Owners of rental properties in Mexico can now consider both options and elect the option which will work best for their individual situation.

If you own a property in Mexico and rent it often or even only occasionally, it is advisable that you make arrangements to declare income and pay the tax. You can *SLEEP EASILY KNOWING YOU HAVE COMPLIED WITH TAX LAWS!*

It has never been simpler to enjoy a return on investment, monthly income and pay taxes in accordance with the law!

For additional information about how to take care of tax obligations in Mexico, please contact The Settlement Company® at [info@settlement-co.com](mailto:info@settlement-co.com).

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*about the author:*

**LINDA NEIL** is the founder of The Settlement Company®, which specializes in real estate transfers, escrows, and consultations. Settlement® also prepares tax declarations, files them and performs additional essential landlord accounting services.

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