

# Legal Landmarks for Investing & Doing Business in Mexico

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# Mexico...

With a population of almost 130 million and a surface of just under 2 million square kilometers, Mexico is home to an estimated million expats.

You can find miles of beaches and quaint little towns or state-of-the-art cities and a few megalopolis. Mexico has it all.

Particularly, Puerto Vallarta has the best of both worlds: a small but vibrant downtown, beaches (the third largest bay in the world, by the way), world-class cuisine, award-winning residential developments, and an international airport with connections to get you here from almost anywhere in the world.

# Why invest in Mexico?

According to the World Investment Report 2019 published by the United Nations Conference on Trade and Development (UNCTAD), in 2017, Mexico ranked 12th place as foreign direct investment recipient, and 6th among developing economies. This report includes a survey applied to major corporations worldwide that place Mexico as the 9th destination within their investment perspectives for the period 2017 – 2019.

# Investing in Mexico

There are a few ways for you to invest in Mexico.

Real Estate has been a stable trend for the past few decades.

People purchase property for rental purposes or with the intention of developing it.



# Investing in Mexico



The Mexican Constitution states that only Mexicans can own property within 50 km of the coastline or 100 km along the borders.

This area is known as “The Restricted Zone”.

It also states that non-Mexicans can own property within the rest of the country.

# Investing in Mexico

As Mexico's Real Estate Industry has been in a "boom" since the 1960s, our *Ley de Inversión Extranjera* (Foreign Investment Law) regulates all foreign investment and circumvents our Constitution.

That law regulates foreign investment in 2 main categories:

1. Participation in Mexican Corporations
2. Purchase of Real Estate

# Mexican Corporations

- ✓ A foreigner can be a shareholder in any Mexican Corporation.
- ✓ While we have several types of corporations or entities the 2 most common for investments are the “Sociedad Anonima” which would be the equivalent to a US Corporation and the “Sociedad de Responsabilidad Limitada” or equivalent to an LLC.
- ✓ There is no requirement for a Mexican to be a partner. Even another MX or Foreign Company can be a shareholder or partner.
- ✓ A Mexican corporation is considered a legal person under Mexican law. Currently, the “corporate veil” cannot be easily pierced.

# Mexican Corporations

- ✓ Setting up a corporation is easy and cost-effective. It takes approximately 3-4 weeks and the current cost is \$20,000 MXN (\$900 USD or \$1,400 CAD).
- ✓ A corporation can do any legal activity.
- ✓ When purchasing real estate, a Mexican corporation or entity is not bound by “The Restricted Zone”.
- ✓ When selling real estate, Mexican corporations or entities calculate their taxes and pay them directly to the Mexican Federal Government.



# Mexican Corporations

- ✓ Mexican corporations are somewhat similar to US corporations.
- ✓ Ideal for purchasing large properties, hotels, developing or if your plan is to invest in multiple properties.
- ✓ It can also be a vehicle for work permits, tax deductions and benefits.

However, it is important to note that it requires annual legal, fiscal and accounting maintenance this increasing overall costs and it is subject to Probate regulations under current Mexican Law.

# Investing as an individual

Mexico regulates individual foreign investment through the mentioned laws and the figure of the “Mexican Restricted Zone Bank Trust”.

This is a legal vehicle where a Mexican bank holds property in favor of the foreign citizen.

It is an easy process to purchase property with legal certainty within “The Restricted Zone”. The trust agreement regulates the contractual relationship between the bank and the foreign citizen.

In practicality, it is very similar to Trusts in the US and Canada.

# Investing as an individual

These trusts are renewable every 50 years. The annual cost is roughly \$500 USD.

The trust is an efficient legal vehicle to own property in Mexico (close to the borders and coastline) with the following particular advantages:

- ✓ As opposed to a Mexican entity or corporation, it does not require annual legal, fiscal or accounting maintenance thus reducing overall costs.
- ✓ One can own property individually.
- ✓ It eliminates probate. It contains a designation of substitute beneficiary to whom the property will be passed on with minimum expenses and process.

# Investing as an individual

The closing process to set up a bank trust takes approximately 4-8 weeks.

When selling property as an individual there are several options to legally reduce capital gains and/or become eligible for partial or total tax exemptions which are not available to entities.

Mexico, particularly the area of Puerto Vallarta and the Bay of Banderas have worked to refine the closing process to meet international standards of legal certainty and service.

# Final thoughts on investing in Mexico

Mexico has a strategic geographical position, be it for investment in Real Estate or other industries.

It has competitive costs, with a young and talented population.

It has a considerable size and strength in its internal market while macroeconomic and political stability are sought after.

Mexico has an open economy that ensures access to the most important markets worldwide through a network of free trade agreements.

For more information or to find out how you can invest in Mexico today contact us!

The information as relied today is current. However, please note information is subject to change without notice.



## Sources:

WHO

Constitución Política de los Estados Unidos Mexicanos

Ley de Inversión Extranjera

Ley General de Sociedades Mercantiles

Proyectos Mexico ([proyectosmexico.gob.mx](http://proyectosmexico.gob.mx))

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