

NEWS ALERT

December, 2013

To: Clients and Friends

Re: Mining Tax Reform

The 2014 Tax Bill (the "Tax Bill") has been passed by Congress and becomes effective starting as of January 1st, 2014. The Tax Bill substantially amends Mexico's mining taxation system applicable to concessionaires, following the trend of other countries to impose new taxes on mining activities. Below is a summary of the Tax Bill's features impacting the mining industry.

A New Special Mining Duty will increase the operational cost of mining activities. Mining concessions/allotments holders ("MCHs") will be subject to a new 7.5% special governmental mining duty ("Royalty Fee") calculated on the excess of the total income arising from the sale of minerals over the total deductions for corporate income tax. Investments, interest and inflation adjustments will not be deductible, but capital expenditures on prospection and mining exploitation will be. Payment of the Royalty Fee will be made on or before the last business day of March. A tax credit equal to the total payment of the Additional Fee (as defined below) will be allowed to reduce the resulting cash payment of the Royalty Fee.

A Penalty for Undeveloped Mining Areas will have to be paid by MCHs failing to carry out works in concessions during 2 years. The penalty works as an additional Fee (such penalty, the "Additional Fee") and will be equal to 50% of the current maximum mining fee. The Additional Fee payment term will extend to an 11-year period. If failure to carry out works remains unchanged, starting in year 12, the Additional Fee will be doubled. The Additional Fee will continue being payable until the MCHs evidences to the authority that works have been carried out for 2 years in the relevant undeveloped areas. Payment of the Additional Fee shall be made on a semi-annual basis within the months of January and July. Note that the imposition of this Additional Fee may be inconsistent with the current provisions of the Mining Law, that allow MCHs to defer development of mining areas in certain justified cases.

A 0.5% Super Royalty Fee is now imposed. An additional "extraordinary" mining fee ("Super Royalty Fee") is imposed to the MCHs on the income arising from the sale of gold, silver and platinum. This Super Royalty Fee is calculated on the gross income derived from the sales of such metals (without deductions), of the previous calendar year and shall be paid annually on or before the last business day of March.

Creation of the Mining Fund. A Sustainable and Regional Development Fund for Mining States and Municipalities is created to fund the development of schools, roads, water deposits and other public works of the communities surrounding mining areas with the proceeds from the Royalty Fee, the Additional Fee and the Super Royalty Fee.

Other Tax Amendments affecting mining activities:

(i) **Corporate Income Tax Deductions** of tax exempt benefits to employees are limited to 53% of the value of the tax deduction.

(ii) **A New 10% Withholding Tax** is imposed on dividends distributed from Mexican companies to foreign residents and Mexican individuals in addition to any corporate tax imposed on such distributions.

Although Mexico is amongst the world's largest metal producers, a leader in Latin America, and while the mining industry in Mexico represents an important stake of the gross domestic product, the Tax Bill brings new operating and business model challenges to this industry. Field players should perform an in-depth analysis to determine the best strategy to address the challenges this system will bring.

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