

US Tax Issues for Foreign Capital Gains and Rental Income

Tax Scenarios for Capital Gains

Mexican Tax Law	MXN	US Tax Law	USD
Sale value**	5,700,000	Sale value**	\$300,000
Purchase value*	4,250,000	Purchase value*	\$250,000
Commission***	456,000	Commission***	\$24,000
Other expenses	15,000	Other expenses	\$789
Net Capital Gain****	646,363	Net Capital Gain	\$25,011

*Exchange Rate \$17 **Exchange Rate \$19 ***8% Commission ****Pesos/Exchange Rate at Date of Sale

	Non-Resident (Rental Property)	Resident (no exemption)	Resident (Primary Residence Exemption)
Mexican Tax Paid - PESOS	227,277	92,139	9,130
USD Equivalent	\$11,962	\$4,849	\$481
US Tax Obligation on \$25,011:			
Capital Gain –15%	\$2,250	\$3,750	\$0
Recapture (Rental only)–25%	\$2,500	\$0	\$0
Total US Tax	\$4,750	\$3,750	\$0
Less Mexican Tax Credit	(\$4,750)	(\$3,750)	\$0
Amount Due US Tax	\$0	\$0	\$0

Tax Scenarios for Rental Income

	USD
Rental Income	\$95,000
Allowed Deductions*	\$50,000
Taxable Rental Income	\$45,000

**deductions will vary between US and Mexican tax law

	Non-Resident	Individual (general regime)	Individual (RIF – YR 1)	Individual (RIF – YR 2)	Individual (RIF – YR 3)	Individual (RIF – YR 4)	Individual (RIF – YR 5)
	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos	Pesos
Mexican Tax Before Discount	451,250	256,500	205,013	205,013	205,013	205,013	205,013
Discount	0%	0%	100%	90%	80%	70%	60%
	USD	USD	USD	USD	USD	USD	USD
Actual Mexican INCOME Tax**	\$23,750	\$10,790	\$0	\$1,079	\$2,158	\$3,237	\$4,316
US Income Tax Obligation - 22% rate	\$9,900	\$9,900	\$9,900	\$9,900	\$9,900	\$9,900	\$9,900
Less Mexican Tax Credit	(\$9,900)	(\$9,900)	\$0	(\$1,079)	(\$2,158)	(\$3,237)	(\$4,316)
Amount Due US Tax	\$0	\$0	\$9,900	\$8,821	\$7,742	\$6,663	\$5,584

** VAT and Hospitality Tax are not deductible – Pass thru to your renter as you would US Sales Tax