

# 0% VAT TAX LAW FOR MEXICO

**VAT tax exemption, is it worth it?** Here is what we know.

By now, most of you have heard about the 0% VAT tax law that has been passed for the country of Mexico. There have been many questions and misconceptions, so we would like to share with you what we know, some tips on how to make the process more manageable and bring to light some of the ins and outs of this new law. As of January 1, 2004, foreign meetings that are operated in the country of Mexico are exempt of VAT (Value Added Tax). In our areas of Cancun and the Riviera Maya, that is 10% of the total 12% room tax that is added to room rates. The 2% city tax does remain and is charged in full. This exemption also applies to rooms booked 2 days prior to and 2 days after your main program dates.

**What is defined as a meeting in order to qualify for the VAT exemption?** A Meeting is defined by the Mexican government in article 29 (VII) of the VAT law as one of the following:

- **International Congress:** *Any professional meeting to discuss and exchange professional, cultural, sports, religious, social, governmental or academic points of view on items of interest.*
- **Convention:** *Any association or business meeting held for the purpose of discussing commercial matters among the participants with respect to a market, product or trademark.*
- **Exhibition:** *Any commercial or cultural event gathering members of a business, professional or social sector organized for the purpose of showing products or services.*
- **Fair:** *Exhibition of products or services which takes place in a specific area for the purpose of marketing them and promoting business.*

**Is Incentive travel and Award trips exempt from VAT?** At this time, Incentive group and Award trips are NOT exempt from VAT. There have been discussions about the government considering extending this promotion to incentive and award programs, although nothing has been confirmed, so the exemption is only valid for Meetings as defined above.

**What is defined as an Incentive or Award trip?** Incentive and Award travel is defined by the Mexican government in article 29 (VII) of the VAT law as the following:

- *Travel and lodging granted as Prizes, Incentive or Awards to individuals for the performance of their work or otherwise, regardless of the designation or name given to them.*

**What is required to obtain 0% VAT?** In order to qualify for the exemption, your event must be coordinated and paid for by a foreign Event Organizer located outside of Mexico. In addition, the government requires copies of the following documents from all group participants:

- *Copy of the signed tourist card participants receive on their flight which is stamped in immigration upon arrival to Cancun, and,*
- *Copy of their official identification (passport, or drivers license together with birth certificate).*

**What does the Mexican government define as an Event Organizer?** An Event Organizer is defined by the Mexican government in article 29 (VII) of the VAT law as the following:

- *Any foreign institution, association, body or company, in whose name the convention, congress, exposition or fair is carried out, regardless of whether they will be assisted by local service providers in carrying out such events.*

**Are copies of the above mentioned documents optional?** These requirements are not optional, and are non negotiable.

**How can obtaining the required documents be made easy?** Hotel and DMC staff are happy to assist our clients with obtaining these documents from participants upon arrival. We are not however responsible for insuring that all documents are handed in, or the costs of supplying copy machines, this is the clients responsibility. In our experiences, it is better to make copies of documents upon check-in to the hotel. As your participants will need these documents to leave the country, we understand how important it is to them that they are not misplaced, so the best way is while they are checking in at the hotel to have copy machines available to make the respective copies. Most programs will have a pre-registered group check-in area assigned to them, so this just takes a few seconds more of their time and their documents are returned to them immediately. If you have not considered a group check-in area for your program and are planning on taking advantage of the 0% VAT, we highly recommend you program one with your hotel in order to make this process easier and less time consuming.

**When do documents need to be presented to the hotel?** The hotels group auditor will require all documentation as soon as possible. At the end of the group arrival day is best as they must verify with the government tax officials all of the above mentioned copies along with the hotel contract and rooming list in order for the exemption to be approved.

**How can this process be simplified?** It is very helpful to hotel and DMC staff to have the final flight manifests and rooming lists for your program as soon as possible so we can start to plan. The more time we have to plan and know exact numbers of participants and arrival patterns, the easier it will be for us to provide a smooth check-in experience, therefore, giving you and your client the quality and service that you deserve. Normally, we request manifests/rooming lists 30 days prior to group arrival date. An email or mail blast to your group participants advising ahead of time that copies of these documents will be required during their check-in so that they are prepared is also very helpful. We have found that this is truly the most effective and painless way to handle this transaction of documents for all parties.

**How does this affect your hotel contract and services?** Properties in our area each have their own corporate contract verbiage in regards to the 0% VAT tax exemption because the required documents which are needed in order to qualify cannot be obtained until group arrival to our destination. It is still unclear if other hotel services are indeed exempt from 0% VAT, so please make sure that you discuss and verify with your hotel any information or questions and if your program qualifies prior to confirming and booking. Typical inclusions are lodging, contracted food and beverage at the hotel, audiovisual and translation services.

**How does the exemption work for all-inclusive hotels?** All inclusive properties have their own bases for the exemption. Remember that an all inclusive rate includes all gratuities for hotel staff and daily food and beverage, so these amounts are backed out before calculating the exemption.

**Does the VAT Tax exemption apply to DMC's?** Unfortunately the 0% VAT law does not apply to DMC services.

**Is there an expiration date for the exemption?** As far as we know, there has not been any time limit put on this exemption law. The 0% VAT tax law is currently in effect, but can change or expire at any time by the Mexican government.

**Benefit or Hassle?** Our government has created this exemption for Meetings traveling to Mexico with the hope of making our beautiful destinations more attractive than others, so, this is definitely a savings plus for any client as long as they qualify. It takes just a bit of extra work upon arrival day, but overall you are saving 10% on the room rate allowing you and your company to show some value for your dollar, and offer more to your clients.