

Legal Entity Frameworks to Start Manufacturing Operations in Mexico

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In this eBook we talk about some of the differences between operating in Mexico with your own legal entity next to working under a Shelter Program's legal entity.



- Find a Joint Venture Partner
- Acquire an existing operation
- Stand Alone operation
- Contract Manufacturing

- Shelter Program

The ***Shelter Program*** is the easiest way to start up and operate as a foreign company in Mexico, this program will allow it to focus on its core business: manufacturing/distribution, while the Shelter provider manages the administrative and legal functions required for its business to succeed in Mexico.

Operational frameworks under the Shelter Program

Incorporated

- *The Shelter provider helps the foreign company to incorporate its own Mexican legal entity from start*
- *This is obligatory if its operation is required to invoice in Mexico*

Not Incorporated

- *The foreign company operates under a Shelter Company's legal entity*
- *It is invoiced for the expenses of the Mexican operation by the Shelter provider (cost center)*

Mexico is a country with different laws, language, culture, and working environment.

Let's compare two of the options to setting up operations in Mexico.

In this case, you will see that depending on the option, you will assume different administrative risks and liabilities:

	Stand Alone Operation	Under a Shelter's Legal Entity
Registration with Authorities	You will be responsible for filling all paperwork with the following government authorities ensure your operations are in compliance: Secretariat of Economy, IMSS, INFONAVIT, SAT, SIEM, and other local state and federal authorities. Just one mistake can keep you from starting up or continuing operations.	The Shelter company takes care of the entire administrative start-up process, and ensures your operations remain in full compliance. The Shelter company assumes all risks and liabilities in the event of any non-compliance regarding administrative issues and possible fines.
Legal	<ul style="list-style-type: none"> • Foreign investment registry • Powers of attorney • External audit 	The Shelter company takes care of all this for you.



You can sell your products and services in Mexico in both frameworks; however, invoicing will be different:

Stand Alone Operation	Under a Shelter's Legal Entity
You will be able to invoice from your Mexican legal entity with tax and duties implications	You will invoice from your parent company and deliver in Mexico through virtual pedimentos



Under both frameworks, you retain ownership of your machinery, equipment, raw materials and finished goods.

The only difference is the way the goods are consigned.

Stand Alone Operation	Under a Shelter's Legal Entity
All goods are consigned to your own Mexican company enrolled in the *IMMEX program, transaction which is guaranteed through a bailment agreement <i>*Mexican Maquiladora Program</i>	All goods are consigned to the Shelter Company and are guaranteed through a bailment agreement

One of the biggest differences between the two frameworks is the way value-added tax on cash flow and profit sharing are handled:

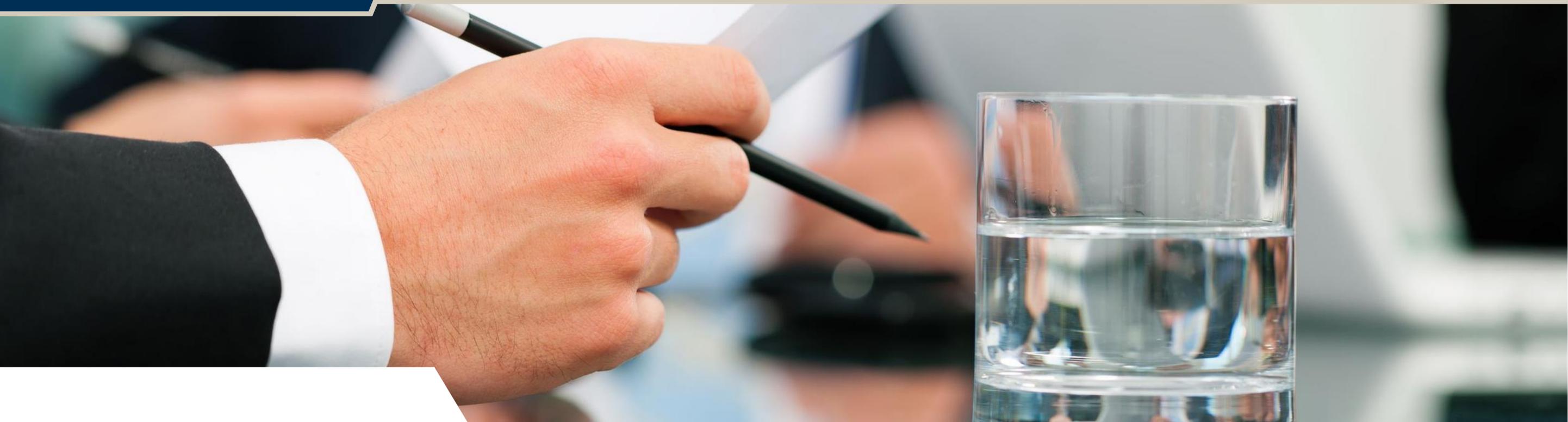
	Stand Alone Operation	Under a Shelter’s Legal Entity
<i>Value Added Tax</i>	<ul style="list-style-type: none"> • 16% • Reimbursable in 90-120 days after filing • Cash flow basis 	Not applicable (as a Shelter Company, <i>American Industries</i> ® is able to offer this through its AAA certification)
<i>FIT</i>	<ul style="list-style-type: none"> • 30% 	Under the non-incorporated model, foreign companies pay this tax under the safe harbor methodology

Below are some of the incentives you might be eligible for, depending on your business size, CAPEX and impact in job generation in the community.

Incentives Examples

(these varies depending on the Mexican State you will establish)

- Up to 50% discount in payroll tax
- Technical training scholarships for new job positions for up to 60 days
- Property tax exemption
- Quality certifications incentives: up to 70% of the certification cost
- Technology transfer incentives: up to 50% of the operating expenses of the project



- Regarding financial statements, under your own legal entity you be required to prepare these just like any other Mexican company.
- When operating under a Shelter’s legal entity, all your financial statements and balance sheets are prepared for you and delivered in your own chart of accounts.

Stand Alone Operation	Under a Shelter’s Legal Entity
<ul style="list-style-type: none"> • Financial statement (P&L, BS) <ul style="list-style-type: none"> -Taxes: FIT (federal income tax), VAT (value added tax), profit-sharing -Fixed asset control -Banks reconciliation statement • Additional personnel 	<ul style="list-style-type: none"> • Expense reports • Account payable (using client’s chart accounts)
<p>You will need to pay for software licenses for: accounting, purchasing, payroll, customs</p>	<p>All software licenses are included (Oracle, Zoe, Meta 4 - only the Shelter provider <i>American Industries</i>® offers this)</p>



Working under a Shelter’s legal entity will give you immediate access to the following benefits of AAA customs certification:

Stand Alone Operation	Under a Shelter’s Legal Entity
<p>Customs certification requirements:</p> <ul style="list-style-type: none"> • Have operated for at least 7 years under the same regime as the certification being applied for; or • Have an average over the last 12 months of at least 2,500 workers registered with the IMSS (Mexican Institute of Social Security); or • Own equipment and machinery with a value greater than MXN 100,000,000 (one hundred million Mexican pesos). 	<p>As a Shelter provider, American Industries® has AAA customs certification that is extended to its clients:</p>
<p>Without customs certification, all merchandise crossing the border (for both imports and exports) must undergo inspection without exception.</p>	<p>Between 10 to 15% of the merchandise listed on the customs declaration (pedimento) must be unloaded and inspected at the border. This revision is carried out with the aid of customs’ non-intrusive methods when possible.</p> <p><i>*However, customs authorities may require that the entire shipment be unloaded if any irregularities are found with the merchandise.</i></p>
<p>Regular line imports (without customs certification)</p>	<p>Express line imports (only available for <i>American Industries®</i> shelter clients)</p>
<p>You cannot perform virtual exports in Mexico</p>	<p>You can perform virtual exports in Mexico</p>

A man in a dark suit stands on a high-rise building, looking out over a city at night. The city lights are visible in the background, and the man's silhouette is prominent against the sky. The overall tone is professional and forward-looking.

Mexico's Industrial Shelter Program

The easiest way for your company to start up operations in Mexico

By operating under American Industries® Shelter Program, you obtain the following benefits:

- Trouble-free access to operating in Mexico
- The ability to focus 100% on your manufacturing operation
- Lower start-up cost than a stand-alone operation
- Quick start-up
- Minimal liability in fiscal, customs, and human resources matters
- Minimum supervision required from headquarters for administrative functions
- Full compliance with Mexican laws and regulations
- Indirect purchasing: Maximize savings by taking advantage of our economies of scale
- Ongoing consulting services (human resources, fiscal and customs) included
- Robust IT platform
- ISO 9001-2015 certified

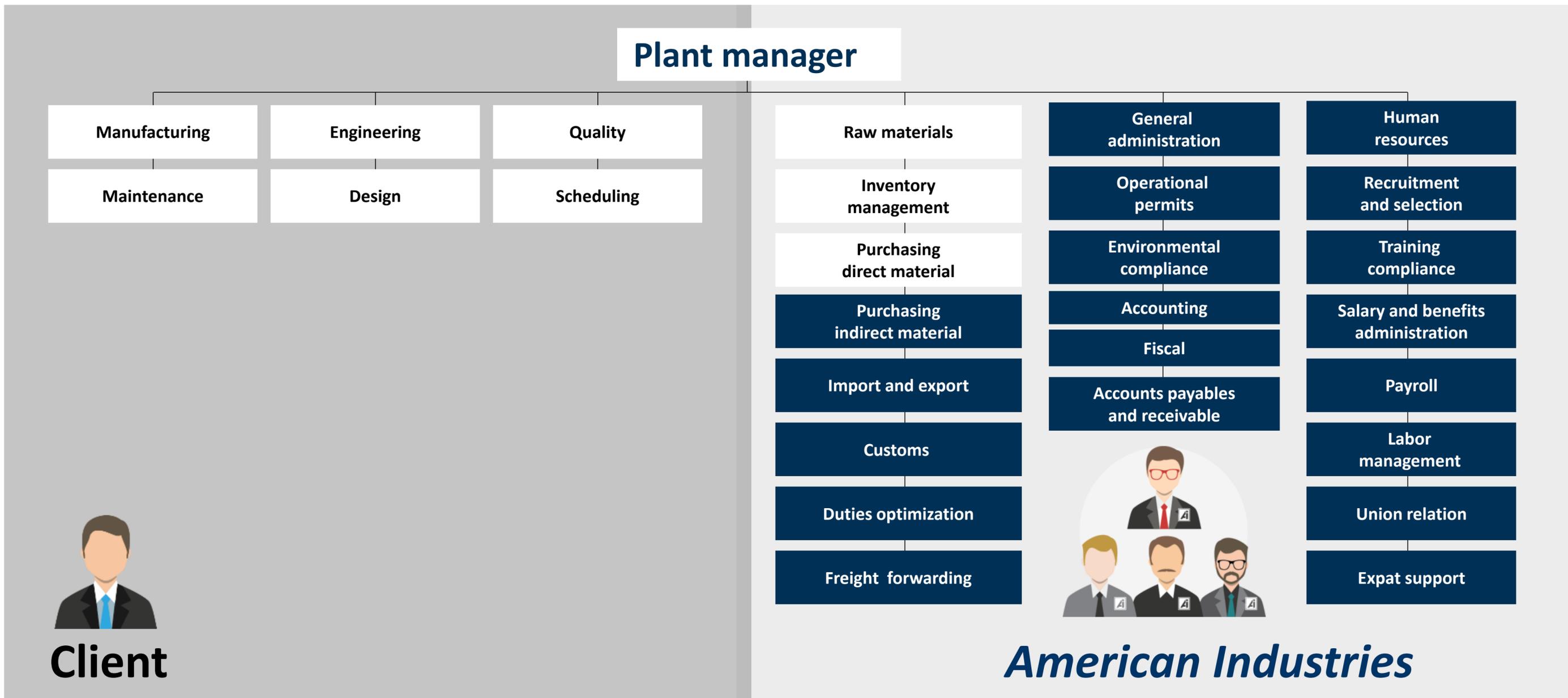
With the Shelter Program you will not have to worry about:

- Optimizing or handling duties and taxes on raw materials, machinery, or equipment
- Customs clearance (northbound, southbound, or in-bond)
- Obtaining permits from government agencies or certifications (FCC, FDA, USDA, HAZMAT) or handling audits
- Freight forwarding
(Consolidating and warehousing)
- Finding Mexican or US customs brokers
- Purchasing customs software (required by law)
- Compliance with regulations (permits)
- Filling of legal documentation
- Labeling control system for equipment
- Proper account reconciliation to save on duties
- Obtaining C-TPAT certification



Among other benefits, the Shelter Program allows you to leverage Mexico's numerous free-trade agreements to lower costs to your customers.

The Shelter Program takes care of all legalities so you can import and export materials to and from your Mexican manufacturing plant.



The boxes in white above show the functions you will be in charge of for your new operation in Mexico to meet your customers' needs. The blue boxes show all the duties a full Shelter Program covers.

One of the many advantages of this program is that you will start operating in Mexico entirely focused on sales, customer service, and production or have to worry about legal or administrative risks and liabilities during your start-up stage.



- ✓ You will receive a custom evaluation and roadmap to start operations in the regions with the most potential for your business to grow in Mexico.
- ✓ You will receive a custom cost model simulation where you will be able to compare the total cost of **your operation** per hour in each region.

- ✓ At this point, the Shelter provider will prepare custom business meeting agendas in the selected regions for your operations in Mexico.
- ✓ The agenda will include site visits to the Shelter Company's real estate facilities and others that are available and suitable for your operations.
- ✓ Additionally, the Shelter Company will provide a presentation outlining the supporting services included in the Shelter program and you will have the opportunity to meet with government officials, industrial associations and clusters.

- ✓ At this stage you will get all permits for your operations.
- ✓ You will get your human resources hired and organized (including payroll management).
- ✓ You will install your machinery and equipment.
- ✓ You will get all your customs & logistics set up.
- ✓ You will get all paperwork and administrative tasks done so that you can start serving your clients from your new location.

Now that you have an idea of the various expenses that will affect the total cost for your manufacturing operation, you will want to begin estimating the specific cost for your operation, which requires more than just adding up numbers.

You might find numerous hidden costs based on “small picture” assumptions, such as starting up in a location that has a labor force with the wrong type of skillset, suppliers, or infrastructure to support your operations, or differences in employee benefits depending on the region.

We suggest you request a **Complimentary Cost Model Simulation** to compare the total cost of doing business in key industrial regions in Mexico.

This cost model tailored to your project in Mexico will include direct costs of:

- Direct and indirect labor
- Real estate and utilities
- Customs and Logistics
- Administrative, legal, and other indirect costs

Request yours today at start@americanindustriessgroup.com



American Industries[®] Group

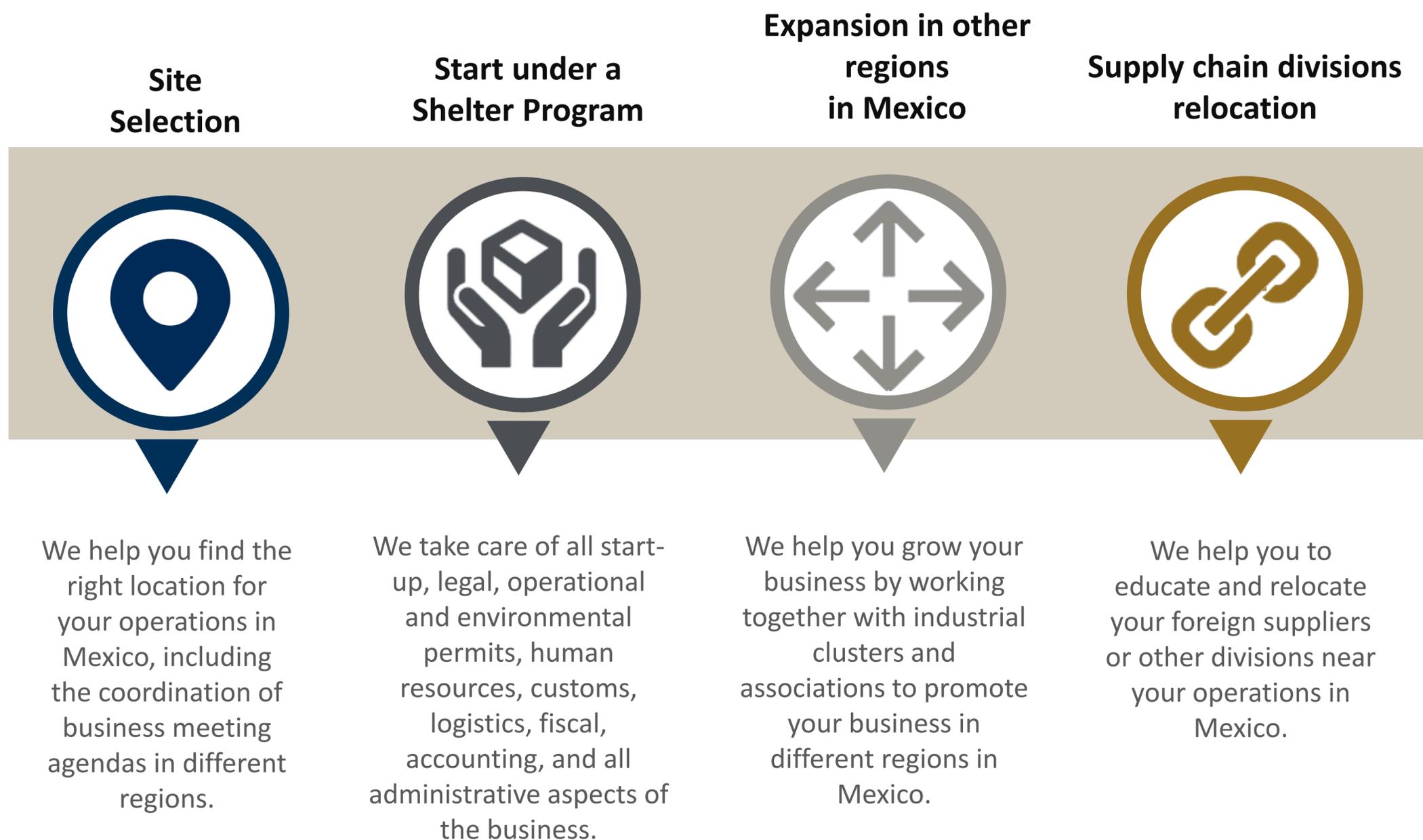
American Industries[®] is a private Mexican company established in 1976 that has helped over 250 international companies successfully start up and grow their manufacturing and distribution operations in Mexico through Shelter Administrative Services and Industrial Real Estate solutions.

Value Proposition Why a Shelter?



We team up with the arriving company as their day-to-day administrative solutions provider, including human resources, accounting, fiscal, customs, and logistics services, so that you can focus on key aspects of your business such as quality, productivity and on-time delivery.

We accompany you throughout the entire process, handling all your industrial business needs in Mexico:



Aerospace

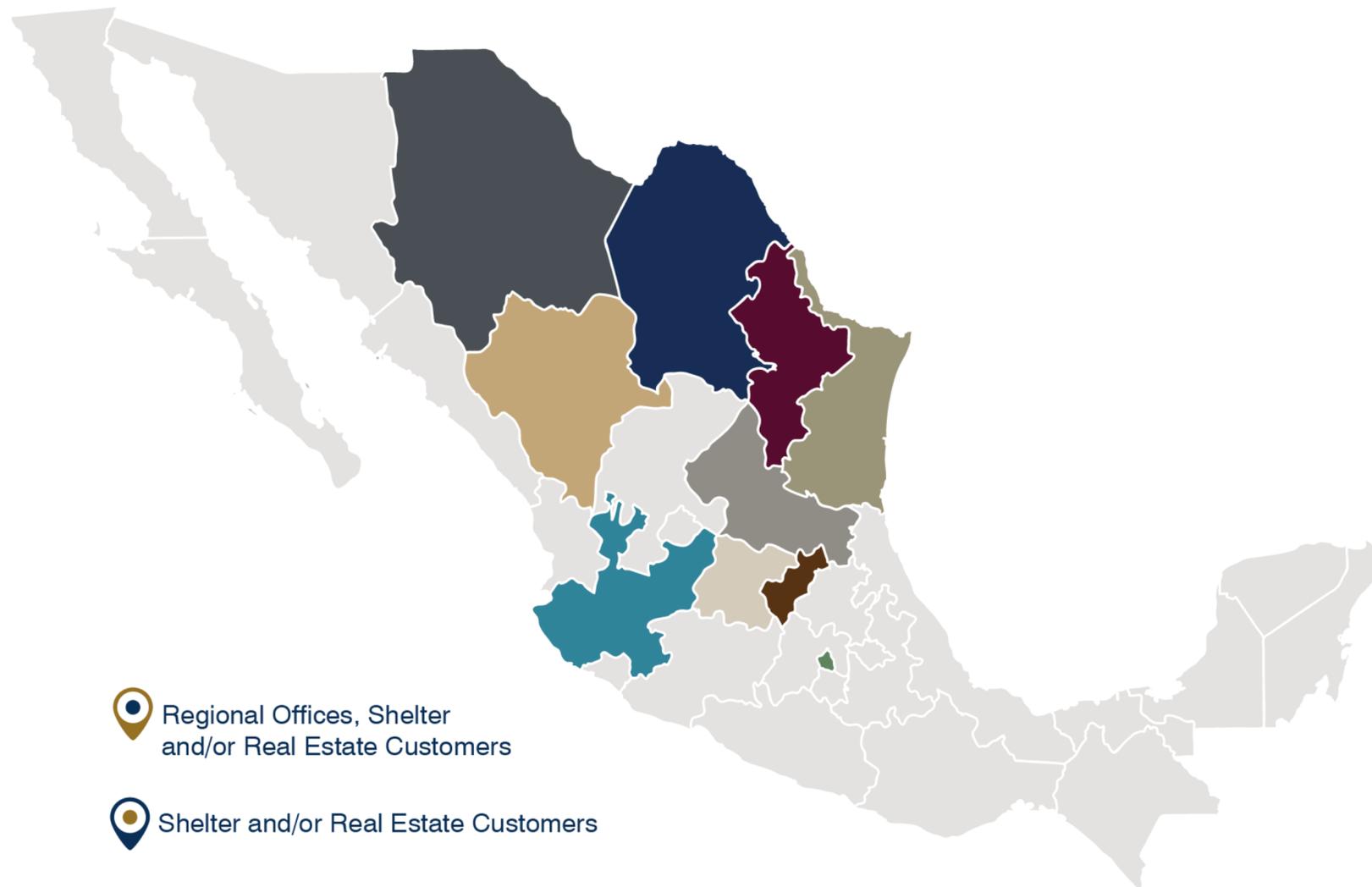


Automotive



Others





United States
 • El Paso
 • Laredo

Tamaulipas
 • Matamoros
 • Reynosa

Jalisco
 • Guadalajara

Chihuahua
 • Juarez
 • Chihuahua
 • Delicias
 • Camargo

Queretaro
 • Queretaro

San Luis Potosi
 • San Luis Potosi

Guanajuato
 • Silao

Mexico City
 • Mexico City

Nuevo Leon
 • Monterrey

Coahuila
 • Saltillo
 • Torreon

Durango
 • Gomez Palacio

Shelter and start-up services

- Over 60 clients from more than 13 countries
- Over 17,000 employees' headcount from our clients
- Over 30,000 trouble-free import /export transactions per year

Real Estate

- Over 140 buildings built and leased (20 M sq. ft. / 1.8 M sq. m)
- Class A new buildings
- Presence in more than 17 Industrial Parks
- More than 160 tenants

You can count on American Industries®' expertise to start and maintain a successful operation by avoiding unnecessary problems and costly mistakes, while maximizing savings as much as possible.



American Industries[®]

Site Selection - Shelter Administrative Services - Industrial Real Estate

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Partner for Success[®]