
EXPLANATORY NOTE

(This note is not part of the Order)

The Convention with Mexico is set out in the Schedule to this Order.

The Convention provides for business profits not arising through a permanent establishment to be taxed only in the country of the taxpayer's residence. Profits attributable to a permanent establishment may be taxed in the country in which the permanent establishment is situated (Articles 5 and 7).

Income from immovable property, including income from agriculture or forestry, may be taxed in the country in which the property is situated (Article 6).

Shipping and air transport profits are generally to be taxed only in the residence state of the operator (Article 8).

The Convention includes rules for determining taxable profits when a company in one country is related to a company in the other (Article 9).

Dividends paid by a resident of one state to a resident of the other are generally taxable only in the recipient's country (Article 10).

Depending on the nature of the interest flow concerned, after a transitional period of three years, the rate of tax imposed in the country of source on interest derived by a resident of the other country is not to exceed 5 per cent, 10 per cent or 15 per cent respectively of the gross amount flowing to the other country. Certain categories of interest (e. g. interest paid to the Government of the other country) will be exempt from tax in the source state (Article 11).

The rate of tax imposed in the source country on royalties is limited to 10 per cent where the beneficial owner is a resident of the other country (Article 12).

Each country may generally tax capital gains in accordance with its domestic law, although gains from the alienation of ships or aircraft operated in international traffic shall be taxable only in the country of residence of the operator (Article 13).

The earnings of temporary business visitors and some other individuals are, subject to certain conditions, to be taxed only in the country of the taxpayer's residence (Articles 14 and 15). Fees received by a resident of one country in his capacity as a director of a company resident in the other country may be taxed in that other country (Article 16). Income derived from the activities of artistes and sportsmen may be taxed in the country in which those activities are performed (Article 17).

Occupational pensions, other than those paid in respect of Government Service, and annuities are to be taxed only in the recipient's country of residence (Article 18) while Government Service remuneration and pensions are normally to be taxed only by the paying Government (Article 19).

Certain payments made to visiting students and business apprentices are generally exempt from tax in the country visited (Article 20). Other income (excluding income from trusts or estates) will generally be taxed only by the country of which the beneficial owner is a resident (Article 21).

Where income continues to be taxable in both countries, credit will be given in the taxpayer's country of residence for tax imposed by the other country. The credit to be given in the United Kingdom for tax imposed in Mexico includes credit for tax spared under certain provisions of Mexican law. In the case of dividends, the United Kingdom will give credit for the underlying tax paid in Mexico where the shareholder is a United Kingdom company which controls at least 10 per cent of the voting power in the company paying the dividends (Article 22).

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

There are provisions whereby the United Kingdom ensures that it retains its right to tax a United Kingdom resident member of a Mexican resident partnership (Article 23) and which limit the relief available in certain circumstances (Article 24).

There are also measures safeguarding nationals and enterprises of one country against discriminatory taxation in the other country (Article 25), for consultation to resolve difficulties in the application or interpretation of the Convention (Article 26), for exchanges of information between the taxation authorities of the two countries (Article 27) and for the treatment of diplomatic or consular officials (Article 28).

The Convention will enter into force on the date of the later of the notifications by each country of the completion of its legislative procedures. It will take effect in the United Kingdom from 1st April 1994 in respect of corporation tax and from 6th April 1994 for income tax and capital gains tax. The date of entry into force will in due course be published in the *London, Edinburgh and Belfast Gazettes*.