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Skirting law in Mexico

In famed arts town, many expats skip taxes, overstay visas

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SAN MIGUEL DE ALLENDE, Mexico — On a Thanksgiving visit in 1997, Deb Turpin fell in love with this Mexican town, with its cobblestone streets and colonial architecture, and invested in two vacation rentals, Casa del Sol and Casa Vista. She rents out the houses — with cook and maid — on the Internet.

Turpin, who lives in Kansas City, Mo., is one of thousands of North Americans who are doing business or living in Mexico without the proper documentation. The number of foreigners who are running underground businesses in tourist areas is a growing concern for local officials because they often skirt paying fees and taxes.

"It's not that we do not want them doing business," said Christopher Finkelstein Franyuti, San Miguel de Allende's coordinator of international relations. "We want them doing business but paying the duties."

In San Miguel, a midsized city on a hillside in central Mexico, 18th-century colonial houses crowd narrow streets gridded around a town square and a towering church with a Gothic tower. The vistas are tranquil, and the cost of living is low. The town has attracted U.S. retirees and artists for some 50 years, but in the last decade a younger crowd has discovered it, too.

Foreign architects, musicians, engineers, accountants and others work in the town without permits, Finkelstein said. "They know that they are not paying taxes, and that is why they don't advertise exactly."

He's estimated that unlicensed business in the city costs the local government about 4 million pesos a year — more than \$360,000 — in lost taxes and fees.

Finkelstein recently discovered some 600 San Miguel rental properties on the Internet, all displaying U.S. or other international phone numbers.

The city used pictures of properties posted on the Internet to identify the owners of about 100 of the rentals and turned over the information to Mexican immigration, tax, utility and social-security officials. The agencies didn't do much with the data, except to levy a few fines against rental-property owners who didn't pay into their local workers' social-security accounts, Finkelstein said.

Turpin said she'd heard that tourist destinations all over the world were starting to find ways to rein in Internet-based vacation rental businesses, and that she was willing to fork over some local taxes when Hacienda, the Mexican IRS, came knocking.

"We have a nice little gig, so to speak, and I don't want to do anything to mess it up," she said by phone.

According to 2000 Mexican census data, 1,345 Americans are living in San Miguel de Allende, but locals put the number at 10,000 to 25,000 in the high season.

Undocumented Americans occasionally are caught working in restaurants, bars and clothing shops in San Miguel and can be kicked out of the country, but the numbers are low. Mexico deported nearly 1,000 Americans last year, according to data from the National Migration Institute, the federal immigration agency. The United States sends 10

times as many Mexicans home every month.

More than 5 million Americans visited Mexico's interior in 2005, and most were granted automatic six-month stays.

Mexican immigration agents aren't interested in going after tourists who overstay their visa or retirees who forgot to fill out the proper forms, said Hipolito Trevino Lecea, the commissioner of the National Migration Institute.

Trevino said undocumented residents on both sides of the border were basically an administrative problem, not a criminal problem. Americans who are targeted for deportation probably were involved in some criminal activity, he said.

"The fundamental difference in economic terms is, in general, when a North American comes to Mexico to live he is making an investment," the Harvard-educated economist said.

In San Miguel, the hottest investments are in real estate.

Julio Olvera, a University of Texas graduate, is the only Mexican agent at an American-owned real-estate office. He said he lived illegally in the United States for 13 years, and didn't mind undocumented Americans in town as long as they tried to speak some Spanish and weren't serial killers.

"Mexican society," he said, "is very welcoming."

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