Doing Business in Mexico 2023

June 2023

A guide to assist the business executives obtain basic relevant information required when considering an investment in Mexico.

Foreword

This Guide has been prepared to assist those interested in doing business in Mexico. It is not intended to cover exhaustively the subjects it highlights, but rather to answer some of the important broad questions that may arise in your investment process.

When specific questions occur in practice, it will often be necessary to refer to the laws, regulations and other guidelines prevailing in the country and of course to obtain appropriate business, accounting and legal advice.

The material contained in this Guide was assembled as of February 2023 and, unless otherwise indicated, is based on information available at that time.

Introduction

We trust that this latest edition of our Information Guide for Doing Business in Mexico will be a useful tool to assist business executives who are seeking information from a general reference guide. This Guide has been structured in a way that we believe will make it easier for you to obtain the basic relevant information you require when considering a direct or indirect investment in Mexico.

Mexico is currently one of the countries with the widest network of trade agreements, joining the group of the largest and most open economies in the world, with only a handful of strategic sectors or industries not yet open to private investment. To facilitate business, Mexico has also negotiated an equivalent number of tax treaties, tax and information exchange agreements, and several investment protection agreements.

For 2023, Mexico is forecasting an economic growth rate between 1.9% and 3%. This reflects a healthy rebound after the setbacks from the COVID-19 pandemic, given Mexico's history of slow growth (estimated 2% per year between 1980 and 2018). Also, with the signing of many foreign trade agreements in the last few years, including the USCMA (replacing NAFTA) and CPTPP, the very significant cross-border commercial and investment interaction with the United States and the rest of the economies in the current post-pandemic environment may also allow significant opportunities to invest or trade with Mexico.

That is not to say that there are no obstacles ahead: Despite inflation rates hitting a 20-year high in September 2022, the Bank of Mexico raised interest rates in February 2023 to 11%. Meanwhile, most sectors have yet to return to their pre-pandemic level performance, although tourism has resumed, and exports and mining are showing acceleration in growth.

In fact, the Ministry of Economy reported that Mexico captured USD 35.3 billion in foreign direct investments (FDI) in 2022, which is 12% higher than 2021. And according to the UN World Investment Report 2022, for the second consecutive year, Mexico held 10th place among the top ten nations that attracted the most FDI.

Mexico is committed to continuing its recent reforms to open its doors to foreign investment in the last several years. In addition, most of the 32 states offer local incentives to promote job creation, economic development and social welfare across their jurisdictions.

PwC Mexico has a presence in the most important cities across the entire country. Our professionals will be happy to assist or refer you to the appropriate specialists who can help you navigate the challenges of doing business in Mexico. Using a single point of contact and service delivery approach, our wide range of services and specialist areas can support all aspects of your business initiatives, as you have come to expect from the PwC Network throughout the world.

We are excited and committed to bringing you the PwC experience and values, as further discussed throughout this publication in each Chapter's "Investor considerations" section. Rest assured that in this Guide, we have done our utmost to provide a valuable tool to plan your investment into Mexico.

Sincerely,

Ana Paula Jiménez
Mexico Senior Partner

Contents

PART I
Investment and business insights

Chapter 1

Mexico – A country profile

Investor considerations

- Stable government, with the President elected every six years for a single term
- Foreign investment rules in Mexico are liberal
- Strong government efforts to maintain low levels of inflation
- Trade barriers are substantially reduced, and free trade agreements are in place with 50 countries
- In-bond processing companies (*maquiladoras*) with high productivity and quality are available
- Extensive common border with the United States provides a large market for exports
- Leading foreign banks have subsidiaries or joint ventures in Mexico as a result of open foreign investment rules in all segments of the financial sector
- The total population of Mexico in 2020 was approximately 126 million people, providing:
  - Moderate cost, easily trainable workforce
  - Domestic consumer market
- Climate is generally mild to warm
- No exchange controls exist; exchange rates are determined by supply and demand; and foreign currency is freely available
- Tourist attractions include archaeological sites, colonial cities, typical towns and extensive coastlines with excellent beach resorts

Geography and climate

Mexico (officially the United Mexican States) has an area of 1,970,000 square kilometer (760,000 square miles). It is the 12th largest country in the world in size and occupies the southern part of North America. It is also the third-largest country in Latin America after Brazil and Argentina.

Almost 40% of Mexico, including the entire northern part of the country, is arid or semiarid. Annual rainfall increases toward the south where there are zones with the highest levels of rainfall in the world; the rainy season usually runs from May to October, with very little rainfall during the rest of the year, except in the coastal area near the Gulf of Mexico. Nevertheless, the climate varies widely, in part because of the wide variation in altitudes in the country and the effect of the Pacific Ocean and the Gulf of Mexico on the coastal areas. Mexico City and many other regions in the central part of the country have a semitropical climate. There are very few regions, aside from the higher mountains, where it snows regularly in winter. Most of the coastal regions have a humid, tropical climate.

Mexico's geographical features range from swamp to desert and from tropical lowland jungle to high alpine vegetation. The altitude of more than half of the national territory is more than 1,000 meters (3,300 feet). The central land mass is a plateau flanked by ranges of mountains to the east and west that lie roughly parallel to the coast. The southern part of the plateau includes Mexico City— the political, economic and population center of the country— located at an altitude of about 2,240 meters (7,500 feet), one of the highest cities in the world. The northern part of the plateau is arid and thinly populated, occupying 40% of the total area of Mexico.

The Mexico City metropolitan area has an average mean temperature of 17°C (63°F), with occasional lows of around 0°C (32°F) in December and January and highs near 30°C (86°F) in April or May before the beginning of the rainy season.

In relation to climate change, the Center for Studies for the Sustainable Rural Development and Food Sovereignty estimates that average temperatures have raised 0.85°C (34°F) and winter temperatures 1.3°C (34°F) since the 1960s. Mexico is highly vulnerable to climate change as it is classified as a hot spot.

History

For more than 300 years Mexico was ruled as a tightly controlled colony of Spain. Independence in 1821 was followed by decades of struggle for political power and slow economic development, until the 30 years of internal peace achieved under Porfirio Díaz around the end of the 19th century. During this period, the great haciendas — huge areas of land used for cattle raising and farming — reached their peak, although with little improvement in the economic condition of the great majority of the people. The Mexican Revolution of 1910 was followed by more than ten years of civil war, which almost destroyed the agricultural economy of the country.

Accordingly, although Mexican cultural, social and political life reflects the cumulative development of more than ten centuries since the Spanish conquest and the earlier Aztec, Mayan and other civilizations, the economy of modern Mexico is only some 100 years old, originating in the late 1920s.

Political system

Mexico is now a federal democratic republic divided into 32 states. The federal government is the sole collector of the most important taxes — corporate income tax and value-added tax (VAT). Even though states have their own taxes and contributions, most of their revenue comes from transfers from the federal government. The chief executive is the President, who is elected for a period of six years and cannot be re-elected. There is a bicameral legislature as well as a judicial branch.

The mayor of Mexico City has been elected by popular vote for a single six-year term since 1997.

The Legislature of the Mexico City is elected every three years. This assembly is empowered to issue ordinances regarding the day-to-day administration of the City. In view of the size and economic importance of Mexico City, its annual budget is considerably larger than any of the other states. For the last five years, Mexico City has been governed by *MORENA*, a leftist socially focused political party.

The state governments are headed by popularly elected governors, who also serve for single six-year terms. The states have their own legislatures and judicial systems.

Regarding the Federal Congress, Congressmen used to stay in their positions for three years and Senators for six years. The Mexican Constitution was amended to allow the re-election of legislators: Congressmen can be re-elected for up to four consecutive terms, while Senators for up to two consecutive terms. A new legislature began in September 2021; this was the first time re-election was applied to the new composition of Congress.

Legal system

In general, legislation follows the pattern of codified law originally based on the Napoleonic Code, with separate federal and state civil and other codes, in addition to separate laws and decrees covering specific subjects. Corporate law, as well as foreign investment, intellectual property protection and income and VAT laws, among others, are federal laws.

Population and social patterns

Population

According to the Mexican Government , the total population of Mexico in 2020 was approximately 126 million people. Mexico is the most populous country in Latin America after Brazil. Mexico's total population has more than quadrupled since 1940.

There has been a substantial movement of people from rural areas to towns and larger cities. Since 2020, the urban population has represented well over 80.7% of the total population.

Average population density is 64 people per square kilometer. However, population density across Mexico varies widely, from about 11 people per square kilometer in Baja California Sur to nearly 6,163 people per square kilometer in Mexico City.

Mexico City and its surroundings continue to be the largest and most concentrated population center, with a disproportionate share of economic activity. However, some efforts have been made by both the federal and local governments to decentralize industry and to foster the growth of other regional population and business centers.

Language

Spanish is the national language of Mexico, understood and used by all but a few indigenous tribes in the interior. In certain areas, a fairly large number also speaks local languages. English is also understood by many members of the business community in Mexico City and the larger cities, as well as in regions bordering the United States and places with strong tourism activities.

Religion

Mexico enjoys full religious freedom. While Roman Catholicism was for a long time the state religion, the influence of the church has been greatly reduced since the separation of church and state in the 1860s. However, most of the population still consider themselves active members of the Roman Catholic Church.

Education and labor force

The Mexican federal and state governments provide universal free education through six years of primary school, three years of secondary school and three years of preparatory school, as well as preschool. The federal government also provides the funds for the three largest universities in Mexico City, even though they operate as autonomous entities. These universities also have established their own preparatory schools that provide education before the university level. Many state governments also finance schools and universities. Students are charged small fees at the public preparatory schools and universities. Many private schools and colleges, as well as full-fledged private universities, some operated by religious orders, have also been licensed by the Ministry of Education.

The tremendous increase in population has resulted in an enormous demand for new school facilities at all levels. According to a transparency report on the use of budgetary resources for 2021 issued by the Ministry of Finance and Public Credit (SHCP, for its acronym in Spanish), the federal government spent MXN 836,400 million on education. Illiteracy has been reduced substantially in recent decades. However, according to the population and housing census of 2020, there are still 4.7 million illiterates, particularly in rural areas where many children are unable to attend school regularly.

Labor pool and workforce availability

As in most developing countries, the distribution of wealth between different segments of the population is uneven. The standard of living of those in upper- and middle-management positions is more or less on par with that of persons occupying similar positions in companies of comparable size in more developed countries. However, the earnings of office, skilled, semiskilled and unskilled workers are considerably below those of their counterparts in the more developed countries.

One of Mexico's biggest challenges is to find gainful employment for its population. Government officials have estimated that more than 1,000,000 new jobs should be provided each year.

Unemployment and underemployment levels are considerable and is suspected to have increased in recent years, although no comprehensive reliable statistical information is available.

The unskilled labor pool is very large in many parts of the country, particularly outside Mexico City, where the labor force has proven to be easily trained for semiskilled and skilled jobs. The in-bond processing plants throughout the country often achieve productivity rates that are 20% to 30% higher than those in the United States. This is especially evident along the US border where the in-bond industry started.

Cultural and social life

Mexico City is considered the most important center of Mexico's very active cultural life, particularly regarding art museums, theaters, musical organizations, book publishers and libraries. Similar facilities, although less numerous, are also available in the other principal cities and state capitals.

There has also been an increasing trend toward participation in many types of sports and facilities for spectator sports are widespread.

National tourism by automobile, bus and airplane has become a major part of the overall travel industry, particularly during school vacation periods. The many resorts on the coastlines and in the interior, as well as Mexico's numerous colonial cities, typical town and archeological sites are the preferred destinations.

According to the World Tourism Organization (UNWTO), foreign tourism has also been increasing, with Mexico becoming one of the world's most preferred tourist destinations in 2021, despite COVID-related travel interruptions.

The Economy

General description — mixed economy, industry and foreign investment

Mexico has a mixed economy, with the government, its agencies and government-owned or controlled companies expected to reduce their traditionally dominant position in the areas of telecommunications, public utilities and petroleum. This will be more evident as Mexico is gradually changing with the energy reform.

Private enterprise is the principal factor in manufacturing, mining, commerce, entertainment and service industries such as construction and tourism. During the 1980s and 1990s the government sold to private enterprise a number of its holdings in what are classified as non-strategic industries.

Foreign investment is found most frequently in the manufacturing, mining and financial sectors.

The economy is fairly broad-based and dedicated mainly to supplying the needs of the large and rapidly increasing domestic population. Proximity to the United States also provides a large market for the export of manufactured and semi-manufactured goods as well as substantial influx of income from foreign tourists.

Federal taxes on oil production and export provide a substantial portion of the total resources of the federal government. During the months of March and July 2022, the price of the Mexican barrel exceeded USD 100 (as in 2011–2014). According to the 2023 National Budget price of barrel will be USD 69.

As stated by the World Bank, the foreign debt in 2021 is quite significant, amounting to approximately USD 467,511 billion. The public portion of the debt has been renegotiated several times, and Mexico is current with payments of interest and principal on the debt. Moreover, Mexico has sufficient resources in its international reserves (USD 201,276 million as of February 8, 2023) to cover its external debt due in future years.

The COVID-19 pandemic has had a significant effect on the economy. In contrast to other countries, the government has not implemented measures to counter this situation.

Inflation

In recent years, several steps have been taken to control inflation levels, and the inflation rate has dropped to one digit, comparable with Mexico's main commercial partners (i.e., the United States and Canada.)

Table 1. Mexico inflation rates 2016–2022

Year	Inflation rate
2016	3.36%
2017	6.77%
2018	4.83%
2019	2.83%
2020	3.15%
2021	7.36%
2022	7.82%

Source: Bank of Mexico.

However, inflation significantly increased in 2022 due to the world economic environment including COVID-19 pandemic and the Russia-Ukraine war.

In September 2022, inflation hit its highest level in two decades. Nevertheless, the Bank of Mexico kept increasing its reference interest, reaching 11% in February 2023, the highest level since Mexico began its current monetary policy in 2008.

Industries

Mexico has a variety of modern industries that continue to thrive. The contributions of various sectors to Gross Domestic Product (GDP) are shown in Table 2.

Table 2. GDP by sectors, 2019–2021 (in MXN million)

Sector	2019	% of total	2020	% of total	2021	% of total
Agriculture, fishing, livestock, forestry	830,021	3.61%	887,229	4.05%	917,652	3.79%
Mining	1,056,673	4.59%	917,665	4.19%	1,311,756	5.42%
Electricity water and gas services	530,146	2.30%	483,052	2.21%	493,663	2.04%
Construction	1,725,822	7.50%	1,490,548	6.81%	1,773,373	7.32%
Manufacturing	4,216,824	18.32%	4,027,336	18.40%	4,633,355	19.13%
Commerce	4,545,193	19.74%	4,355,410	19.90%	4,859,996	20.07%
Transportation, freight and storage	1,520,304	6.60%	1,279,109	5.84%	1,485,773	6.14%
Mass media	378,637	1.64%	355,710	1.63%	381,335	1.57%
Financial services and insurance	989,528	4.30%	983,644	4.49%	996,814	4.12%
Other	7,230,445	31.40%	7,104,326	32.46%	7,363,980	30.41%
Total	**23,023,594**	**100.00%**	**21,884,029**	**100.00%**	**24,217,698**	**100.00%**

Source: National Institute of Statistics and Geography.

Mineral and energy resources

In 2020, Mexico became the world's eleventh most important exporter of crude oil. However, proven reserves have been decreasing in recent years, mainly due to lack of exploration. Recent new discoveries have been announced that may catapult Mexico again into one of the most important oil producers and exporters in the world, although substantial investment will be required. Production of crude oil in the third quarter of 2022 was 1,764 million barrels per day. Moreover, *Petróleos Mexicanos* (Pemex), the government-owned oil company, has been obligated to reduce its rate of drilling new wells in line with the general reductions in government expenditures.

The principal benefits to the country from the oil industry under the pre-reform system were its export earnings and the very substantial amounts transferred to the federal government as excise tax payments, which accounted for a considerable portion of total tax collections.

With the 2013 energy reform, the expectation is that production will increase and that additional investments in both upstream and downstream activities should bring new employment and economic growth.
It is worth noting that the current government is heavily promoting Pemex, in particular Pemex gas stations, to counter the effects of the energy reform.

Mexico is also endowed with other mineral resources, including substantial quantities of silver (one of the world's largest producers), copper, lead, zinc, gold, sulfur and fluoride, as well as deposits of coal, iron ore and manganese. The mining industry is one of the oldest in Mexico, having become important in the Spanish colonial era; however, local risk capital for this industry has been in short supply. Accordingly, exploration work is sometimes financed by foreign investors, who then seek local partners or make direct investments in the mine construction when a likely commercial ore body is located.

The production and distribution of electric power in Mexico are controlled by the Federal Electricity Commission (CFE, for its acronym in Spanish), which has been forced to increase its generating capacity to keep up with increasing demand. According to data from CFE for February, 2022, 38% of its capacity comes from renewable technologies, but the balance remains largely from gas- or oil-burning plants.

Agriculture, livestock, fisheries, forestry

A relatively large segment of the total working population (about 12.3% in the third quarter of 2022) continues to be employed in agriculture, cattle raising, forestry and fishing, although the percentage is decreasing. Direct foreign investment in these areas has been very limited due to former constitutional and other restrictions. Only a small portion of the land can be considered first-class agricultural land, especially because of the lack of rainfall in the northern part of the country. However, irrigation has considerably increased the amount of land under cultivation, and in a normal crop year Mexico is self-sufficient in food, except for deficiencies in wheat and corn. The principal agricultural exports have been tomatoes, broccoli, onions, mango, peppers, avocados and other vegetables.

Efforts to improve productivity and standards of living in many agricultural areas have been hindered by a lack of modern agricultural equipment and know-how. Privately owned farms have usually been small because of former strict limitations in the Mexican Constitution on the maximum area that could be owned by a single individual (in the case of irrigated land, for example, 100 hectares). During the first half of the 20th century, much of the arable land was expropriated for the establishment of cooperative farms (*ejidos.*)

However, because of a sweeping amendment to the country's constitution and the enactment of a new agrarian law in 1992, the legal framework governing land ownership has been significantly liberalized. The most important features of this legislation are the following:

- *Ejidatarios*, i.e., farmers who merely had the right to use cooperative farms (ejidos), may, in certain cases and following legal procedures, own the land outright. The ejidos may also be leased, sold or otherwise transferred
- *Ejidatarios* may enter into many kinds of business associations with other *ejidatarios* or third parties
- Corporations may own farm, grazing or timber land up to 25% of the maximum area allowed for individual farmers (*ejidatarios*), subject to certain limitations
- Foreign investment is permitted in these corporations up to 49%, represented by series "T" shares, i.e., shares representing the contribution or acquisition of land
- Expropriations to distribute land among the landless will no longer be decreed

Manufacturing

The principal manufacturing industries include automobile and auto parts producers, electronics, steel manufacturers, textiles, food processing, breweries, glass, chemicals and petrochemicals as well as cement and other materials for the construction industry.

Many companies are improving their products and quality control to be able to export. Competition from foreign manufacturers for consumer goods has increased because of the reduction in import duties and the elimination of requirements for prior import permits for most products currently prevailing in the Mexican open economy environment.

Because of the above-mentioned lowering of import duties, along with the reduction of non-tariff barriers in Mexico, manufactured goods have increased in significance and have surpassed oil as the principal export item.

In-bond processing industry

Mexico's in-bond processing industry, also known as the *maquila* companies or *maquiladoras*, may have shown the highest growth rates of any industry in recent years. These companies are usually wholly owned by a foreign corporation with which the *maquiladora* contracts to produce subassemblies, semi-finished or finished goods for shipment to the foreign company. The latter provides most of the necessary machinery and equipment and furnishes the principal raw materials or parts to be processed or assembled, all of which are usually imported duty-free and remain the property of the foreign company.

The principal advantages of this method of operation, referred to as "production sharing," arise from the favorable labor market in Mexico, with its lower wage rates (in US dollars), compared with those in the more industrialized countries. These companies assemble or finish a wide range of different products, the most important of which are electric and electronic materials, along with automotive equipment and supplies. The incentives available to these companies are discussed under "In-bond processing industry" in Chapter 4.

Service industries

The service industries form a major part of the economy, with the commercial sector alone accounting for a large percentage of GDP.

The commercial banking system was nationalized in 1982. However, it was reprivatized eight years later. Many foreign banks have since established Mexican subsidiaries since the signing of the North America Trade Agreement (NAFTA, now USMCA) and owned some entities with limited activities. Currently most banks and all stock brokerages and insurance companies are privately owned.

Several major telephone companies have obtained concessions from the federal government to operate long-distance telephone and wireless communication services.

There is growing foreign ownership in the wholesale and retail trades. Although a few of the largest wholesale and retail trade companies are listed on the Mexican Stock Exchange, most are closely held by family corporations.

Tourism

Mainly because of its many lovely bays and beaches on its extensive coastlines, its numerous archeological sites, and its tropical and semitropical climate, Mexico has developed a substantial tourist industry. In fact, the Ministry of Tourism reported that more than 38 million foreign tourists visited Mexico in 2022.

Substantial foreign investments have been made in properties in the resort areas.

Transportation

The system of paved highways in Mexico has been expanded considerably. Concessions to private enterprise to build and operate modern toll roads greatly expanded the system, which connects all major cities in the country and most of the smaller urban areas, as well as several points on the borders with the United States and Guatemala. Considerable amounts of freight are carried by the many licensed truck lines, a business limited by law to Mexican nationals operating as individuals or cooperatives. Many intercity bus lines now carry many passengers, and large modern bus terminals have been opened in Mexico City and other locations.

Privately owned Mexican airlines offer numerous flights connecting most of the cities. These and many of the larger international airlines maintain regular service between Mexico City, some of the other large cities and principal resorts, and many cities in the United States and the rest of the world.

The national railroad network was operated by the federal government for many years and was the largest freight carrier in the country. In 2001 the privatization process started, and now the railroad network is operated by private companies.

The government is currently constructing the Mayan Train, which goes from Palenque in Chiapas to Cancún in Quintana Roo. It is a 1,525 kilometers (948 miles) intercity railway that will traverse the Yucatán Peninsula and is expected to promote tourism.

Foreign trade and balance of payments

Foreign trade is essential for Mexico to service the large external debt and obtain the machinery and equipment needed for industrial development. See Table 3 for merchandise exports and imports, respectively.

Table 3. Merchandise imports and exports, 2019–2021 (in USD million)

Merchandise imports and exports	2019	2020	2021
Total exports	460,604	416,999	494,225
Petroleum products	25,794	17,484	28,926
Non-petroleum products	434,810	399,515	465,299
Total imports	455,242	382,986	505,716
Petroleum products	47,207	31,408	53,851
Non-petroleum products	408,035	351,578	451,864
Total balance of payments	5,362	34,013	-11,491
Petroleum products	-21,413	-13,924	-24,926
Non-petroleum products	26,775	47,938	13,435

Source: National Institute of Statistics and Geography.

Revenue from exports of crude oil and natural gas increased substantially up to 2008 due to the rise in world prices for petroleum, even though export volumes have not changed materially. However, this revenue trend has changed in recent years due to falling oil prices. Also, volumes have decreased because of insufficient investment in new wells.

Exports of non-petroleum manufactured goods, particularly automobiles, motors and parts, have increased substantially in recent years because of very significant investments made by most international organizations in this industry.

Mexico's principal trading partner continues to be the United States, which normally receives between 70% and 85% of Mexican exports and is the source of a similar percentage of imports, as well as even larger percentages of border transactions, tourist expenditures and income from the in-bond processing industry. Other important trading partners include Spain, Japan, Germany, the United Kingdom, France, Canada and the Netherlands. As a result of the opening of the economy, trade has increased in recent years and currently the balance of trade deficit has been significantly reduced, as shown in Table 4.

Table 4. Balance of trade, 2021

Account	December 2021 USD million	December 2021 Annual variation %	Jan-Dec 2021 USD million	Jan-Dec 2021 Annual variation %
Total exports	47,692.8	10.8	494,224.5	18.5
Oil exports	2,802.1	41.6	28,925.6	65.4
Non oil exports	44,890.7	9.3	465,298.9	16.5
Agricultural	1,859.5	8.3	19,668.2	7.6
Extractive	799.1	17.4	9,554.8	29
Manufacturing	42,232.1	9.2	436,075.9	16.7
Automotive	12,592.5	-4.6	139,841.6	13.8
Non-automotive	29,639.5	16.3	296,234.3	18.1
Total imports	47,102.5	27.7	505,715.6	32.1
Oil imports	5,285.4	64.8	53,851.4	71.5
Non-oil imports	41,817.1	24.2	451,864.2	28.5
Consuming goods	6,159.7	32.5	62,017.6	34.9
Oil imports	1,697.2	73.7	15,748.6	48.2
Non-oil imports	4,462.5	21.5	46,268.9	30.9
Intermediate goods	36,927.9	27.7	403,163.7	32.7
Oil imports	3,588.1	60.8	38,102.7	83.4
Non-oil imports	33,339.8	24.9	365,060.9	29.0
Capital assets	4,014.9	21.5	40,534.3	21.8
Balance of trade	590.3	-90.4	-11,491.1	

Source: National Institute of Statistics and Geography.

The United States also provides the major portion of the income of the in-bond processing companies as well as net income from tourism. The annual balance of payments for 2021 is shown in Table 5.

Table 5. Balance of Payments, 2021

Accounts	2021-Q1	2021-Q2	2021-Q3	2021-Q4	Annual
Current account	-8,996	5,823	-4,651	2,958	-4,866
I. Credit	130,037	146,440	146,858	160,278	583,613
II. Debit	139,033	140,617	151,509	157,320	588,479
Capital account	-6	-10	-19	-13	-48
I. Credit	60	47	69	44	220
II. Debit	66	57	88	57	268
Financial account	-6,027	8,752	-2,551	2,912	3,086
Net acquisition of financial assets	2,453	4,418	1,206	-5,489	2,587
Current liabilities incurred	8,480	-4,335	3,757	-8,401	-499
I. Direct investment	-13,477	-5,112	-5,224	-8,526	-32,338
II. Portfolio investment	5,637	6,889	14,570	14,460	41,557
III. Financial derivatives	737	331	228	786	2,083
IV. Other investments	-737	6,919	-25,038	352	-18,504
V. Reserve assets	1,812	-276	12,914	-4,161	10,288
Errors and omissions	2,975	2,939	2,119	-34	8,000

Source: Bank of Mexico.

External debt

Mexico's external debt amounted to approximately USD 467,511 billion as of 2021. It is current in its payments and its credit rating has remained high.

Economic trends

Several drivers will continue to help shape the Mexican economy: 1) recent administrations' policies to continue to open the Mexican economy to private domestic and foreign investment, 2) major reforms in the energy industry, 3) the need to create jobs and 4) the international oil prices. As a result, we expect to see the following economic trends:

- Increased participation of private investment in new projects, including innovative approaches in sectors such as telecommunications, oil and gas, infrastructure such as highways and railroads, air transportation, petrochemicals, auto parts, and power generation and utilities

  Particularly, the opening of the oil and gas sector has begun through bidding processes called Rounds, which are entering into license agreements for the exploration, prospecting, and extraction of oil and gas (hydrocarbons)
- Consistent increases in the export of manufactured and semi-finished goods as a percentage of total exports
- Consistent growth of the in-bond processing industry
- Growing demand for skilled workers and for trained managerial and professional people
- Control of inflation, keeping it at manageable levels

Hints for the business visitor

Visitors' visas

Business visitors traveling to Mexico to plan, supervise or carry out business operations should enter the country with a non-immigrant visa as a visitor employed by a foreign company or self-employed, and are prohibited from receiving remuneration from Mexican sources. Such visas can be readily obtained from Mexican consulates in foreign countries.

A simple tourist card or tourist visa in a valid passport does not authorize a foreign visitor to engage in business operations. For further information about immigration requirements for foreigners desiring to work in Mexico, see the "Foreign personnel working in Mexico" section in Chapter 10.

Currency exchange

Transactions involving foreign currency are not subject to any kind of exchange controls, and all currencies may be freely held, transported or traded by anyone; however, certain reporting requirements apply to travelers and to the financial sector.

International time

Most of the country is generally on the equivalent of US Central Time. The far northwest of Mexico is on US Mountain Time and the peninsula of Baja California is on US Pacific Time, one and two hours earlier, respectively. As of October 2022, Mexico will no longer be on daylight savings time during summer. From April to October, the clock will not be advanced one hour throughout the country.

Business hours

Business offices normally open at 8:30 a.m. or 9:00 a.m. for an eight-hour working day, with one or two hours for lunch. The two-hour lunch period is almost universal outside Mexico City. Most banks are open from 9:00 a.m. to 4:00 p.m., and some bank offices in commercial malls open on Saturday.

The official working hours for government offices are 8:00 a.m. to 2:30 p.m. but have been extended to 7:00 p.m. in many departments. All these hours are for a five-day week.

Factories usually open at 7:00 a.m. or 8:00 a.m. and work eight-hour shifts, with a half-day's work on Saturday.

Statutory holidays

The federal labor law establishes the following obligatory holidays throughout the country: January 1, February 5, March 21, May 1, September 16, November 20, and December 25.

December 1 is an obligatory holiday every six years for the inauguration of a new president. Some of these dates are moved to the nearest Monday.

Religious holidays are also observed by most business offices, banks, and large stores, including the Thursday and Friday of Easter week, November 1 and 2 (Day of the Dead), and December 12 (Virgin of Guadalupe Day.) These and other holidays are often agreed on in collective labor contracts.

Weights and measures

The use of the metric system is compulsory in Mexico.

Dates and numbers

In writing dates, the day is usually placed before the month, and Roman numerals are often used to indicate the month, i.e., 31/V/14 for May 31, 2014.

A decimal point is used to denote fractions of the monetary unit which is normally represented by the "$" sign; commas indicate thousands, millions, etc., as in $3,000.92.

Business information services

See Appendix XVI for a listing of the addresses of various agencies providing information services to persons interested in doing business in Mexico.

Local customs

Business relationships tend to be somewhat more formal than in other countries, and the use of first names, particularly in the northern border zone, is not as widespread. Meetings with customers and advisors are often held at breakfast or lunch; the latter can sometimes be quite lengthy although this trend is changing.

Chapter 2

Business environment

Investor considerations

- Mexico belongs to international trade blocs in North America, the European Union, Asia, Latin America and more, and they have substantially reduced tariff and non-tariff barriers to free trade between Mexico and those regions
- Mexico has also signed over 50 free trade agreements including:
  - The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), signed in 2018 with 11 countries and more to join
  - The United States-Mexico-Canada Agreement (USMCA), signed in 2020 (replacing NAFTA)
- Foreign investment has a lot of opportunities, but there is a perception of lack of legal certainty
- Inflation closed in September 2022 at its highest level as a result of worldwide events
- Mexico has a common border with the United States, one of the largest markets in the world
- Government policy encourages exports and establishment of in-bond processing operations
- Abundant availability of young, skilled, moderate-cost labor force
- Opportunities for public/private sector cooperation

Industrial climate

Private investment, which represents almost 88% of investment in Mexico, had begun to lag around 2018 (due to the lack of legal certainty in the country for companies because of the actions promoted by the federal government); it further declined with the pandemic and disruption to supply chains.

Mexico began to recover from the pandemic mainly through remittances and exports, helped by its close trade relation with the United States, which had implemented COVID-19 economic recovery plan, as well as reorganization of supply chains worldwide. To promote even more international trade, Mexico has signed free-trade agreements and tax treaties with many countries.

Mexico continues to encourage higher levels of investment in all industries (manufacturing, in-bonding, mining, telecommunications, commercial services and more.) Foreign investments that improve public works, education and social welfare are particularly in line with President Andrés Manuel López Obrador's economic development plan.

According to a report issued by the National Institute of Statistics and Geography (February 2023), Mexico grew by 3% for 2022.

Industry framework

Most domestic small businesses are operated as unincorporated units, although many of the larger units are organized as family-owned corporations. A few of the larger businesses have gone public by listing on the Mexican Stock Exchange.

The main government investments have focused on infrastructure projects such as the Felipe Ángeles Airport, the Mayan Train and the Dos Bocas Refinery, as well as allocating resources to social programs for the vulnerable population and public health services.

Focus of government policy

During the administration of Andrés Manuel López Obrador, the expenditure policy has focused on social programs oriented to older adults, people with disabilities and students.

The administration also focused on labor reform: In the first three years, outsourcing was eliminated. The union issue was also a key feature of the 2020 USMCA, providing greater freedom to workers in the election of union representatives, increasing the transparency and accountability of unions, and streamlining the system for administering labor justice.

Economic development plans

In 2018, President Andrés Manuel López Obrador's plan to have constant economic growth was to increase the consumption capacity of the poorest, making Pemex more productive and, with it, finance public investment and direct cash transfers to the poorest.

The federal government has carried out actions to encourage the internal market, employment, sectors and regions, international trade, such as strengthening of the 2022 Economic Reactivation Plan through regulatory improvements like digitization and simplification of procedures that facilitate the business climate of micro–, small– and medium-sized companies.

Additionally, in December 2021, the Mexican Government presented the United States government with an economic plan that includes, among other aspects, the following:

- Strengthening of supply chains
- Cooperation between Mexico and the United States on environmental technologies, telecommunications networks and information technologies
- Improvement of border conditions to facilitate legal bilateral trade and the transit of people
- Association for trade facilitation for medical equipment
- Strengthening cooperation on cybersecurity
- Support for economic growth through innovation and creativity
- Technical training programs in priority sectors

Regional/special industry development

Some state governments grant incentives to attract new industries to specific areas within their borders, often in the form of reduced prices for land for industrial use and reductions in property and payroll taxes.

Free trade / limited duty-free zones

There are no free trade zones, per se, in Mexico. However, limited duty-free zones are maintained in the entire states of northern and southern Baja California, the city of Agua Prieta, a triangular area in the state of Sonora, and certain areas in the southern part of Mexico. Materials and goods, with certain exceptions, may enter the zones free of duty unless they are to be shipped to other parts of Mexico.

In December 2020, Chetumal, capital of the state of Quintana Roo, was declared a free zone, so that companies in the region can enjoy different tax benefits in foreign trade operations (see Chapter 4 “Investment incentives”.)

Special economic zones

In November 2019, President Andrés Manuel López Obrador issued a decree that eliminated the Special Economic Zones (ZEE) — located in Puerto Chiapas, Chiapas; Coatzacoalcos, Veracruz; Lázaro Cárdenas-La Unión, in Michoacán and Guerrero; Progress, Yucatán; Salina Cruz, Oaxaca, as well as in Campeche and Tabasco — that were created during the previous administration with the aim of developing southern Mexico.

Trade agreements and Foreign Investment Law reforms have significantly reduced limitations on foreign investment in the financial services industry. Thus, the Mexican banking system is now operated mainly by international financial corporations, such as Citibank, HSBC, BBVA, Santander and more.

Public/private sector cooperation

As part of the participation of the public sector in the local economy, the government-owned and operated development banks, such as *Nacional Financiera*, S.N.C. and *Banco Nacional de Comercio Exterior*, S.N.C., have been acting as a complement to the private financial sector to promote savings and investments, the development of the financial system and the growth of industrial and infrastructure projects.

Under the Financial Reform enacted in 2014, the mandates of the development banks broadened, with special focus on providing financial assistance to Small and Medium Enterprises (SMEs) and lower income population

Foreign investors receive full cooperation from the National Commission on Foreign Investment, and those wishing to establish or expand in-bond processing companies can find support from the Division of Foreign Trade, which together form part of the Ministry of Economy.

Labor/management relations

Due to the fast-growing population in the last century, Mexico has a young labor force. Most companies find that, with adequate training programs, inexperienced workers can be readily upskilled to produce high-quality work, sometimes with more on-the-line supervision than is customary in more industrialized countries. In-house training is used at skilled and managerial level.

For many years, Mexican labor law has clearly favored employees in their relations with management. National labor unions have become quite strong in a number of industries, particularly petroleum, telephone, electricity, mining, airline and entertainment. The labor law grants the right to form a union for collective-bargaining purposes to groups of 20 or more employees.

With the union reform of 2019, workers were guaranteed the right to belong or not to a union and to organize themselves in different types of unions; to exercise their free, personal, direct and secret vote; to view detailed rendering of accounts of the patrimony of the unions; and to choose to refusal to pay union dues, among others.

Collective labor contracts are signed by almost all industrial companies. Nevertheless, satisfactory labor relations are maintained at most companies.

Companies are obligated to offer fringe benefits, including mandatory profit sharing to employees and social security premiums to cover current medical expenses and retirement pensions, which usually make up significant portion of labor costs (often about one-third of the total.)

In 2014, a limit was established on deductions of payments made by employers to their employees, which qualify as exempt income for employees, such as welfare benefits. Deductions for tax-exempt benefits to workers, such as Christmas bonus, vacation premium, and overtime, were limited to between 47% and 53%. (See Chapter 10 for a more detailed discussion.)

Overseas trade relations

Membership in trade blocs and free trade agreements

Mexico joined the GATT (currently WTO) in 1986. This membership, adopted in 1988 as part of the effort to control internal inflation, reduced import duties and formalities as well as increased the volume of merchandise imports/exports to and from Mexico.

Mexico is also a member of the Latin American Integration Association (LAIA), which provides reductions in duty rates on merchandise imports from members of the Association.

In 2020, USMCA went into effect (replacing NAFTA), strengthening the trade bloc between Mexico, the United States and Canada. Other international trade blocs in which Mexico participates include the Asia-Pacific Economic Cooperation Mechanism (APEC), the European Union and more.

Mexico has also signed over 50 free trade agreements, including the CPTPP in 2018 in which 11 countries agree to provide greater investment and employment opportunities by reducing trade barriers and establishing common standards for member countries. The agreement proposes to eliminate barriers in public sector purchases and establishes standards for labor rights, intellectual property and environmental protection. (For a more detailed list of free trade agreements, see Chapter 4 “Investment incentives”.)

Exports

The Mexican economic development plan provides significant benefits to promote the export of manufactured goods; they are available to all entities, regardless of size and degree of foreign ownership, and include both tax and non-tax incentives.

A series of executive decrees, general application rulings and government communications have been issued both to establish the entities entrusted with the task of promoting export activities and to grant the related incentives to exporters.

Mexico provides some incentives for exporters. The main tax incentive is the zero rate of value-added tax (VAT) applicable to exports and the consequent right to the refund of VAT charged by Mexican suppliers on materials, supplies and services used in the production of exports. A summary of the existing export incentives and the official entities involved is given in Chapter 5 on the five Ministry of Economy programs (IMMEX, AEO, etc.)

Trade barriers

Mexico's entrance into GATT, its free trade agreement network, its efforts to reduce inflation by facilitating imports since 1988 and the improvement in Mexico's balance of payments have all resulted in reductions or elimination of trade barriers, and this trend is expected to continue.

With the energy reform of former President Enrique Peña Nieto, private companies with foreign capital could participate in the bidding processes of the oil and gas industry; however, the current administration with Andrés Manuel López Obrador canceled the exploration licenses that involve fracking and has not granted new concessions for the exploitation of hydrocarbons, with the objective that Pemex and CFE (productive state companies) have a majority stake in both the exploration and production of oil, as well as in the production of electricity and fertilizers.

Chapter 3

Foreign investment and trade opportunities

Investor considerations

- Mexico is one of the most important growing markets in Latin America and ranked 9th in worldwide FDI inflows in 2020
- Foreign investment is restricted only in certain strategic activities reserved to the state or Mexican investors
- Due to law reforms, 100% foreign ownership is now allowed in:
  - Telecommunications
  - Satellite communications
  - Television broadcasting
- 49% foreign participation is now allowed for:
  - Radio broadcasting (with certain reciprocal requirements)
  - Public airports (prior authorization needed from the Foreign Investment Commission)
  - Railroad service (prior authorization needed only if more than 49% is desired)
- The current energy legislation establishes a legal framework for oil and gas and electricity activities, effectively opening these markets to private foreign and local investors to engage in drilling, transport, storage, distribution, import and export activities
- Trade policy is wide open, with over 50 free trade agreements with developed and developing countries and more in the process of negotiation
- Local businessmen and the labor force are favorably disposed toward working with foreign investors
- Some years ago, laws were updated or reformed with the purpose of modernizing the legal system to facilitate international trade activities. The changes include entering into a free trade agreements, as well as agreements to protect foreign investments
- Recently, the Law on General Import and Export Taxes was approved to adapt the tax rates to the current flows of international trade. Provisions of the Customs Law were also reformed

Investment climate

Government attitude toward foreign investment

The current Federal Government stated that both public and private investment is necessary. Since coming into office in 2018, President López Obrador has prioritized infrastructure projects such as airports, the Mayan Train, the Transisthmian Train and one refinery (in the southeast of the country.)

The President also signed in November 2020 an agreement with the private sector to promote ten projects, with the following four criteria for project selection:

- Projects have to develop the energy, communications and transport, water, sanitation and environment sectors
- Private investment would be greater than 50% of the total investment of each project
- Projects have to clearly define the social benefits, the scope of the infrastructure, cost and implementation time
- No impact on public debt

Foreign investment restrictions

In general, the government's attitude is to encourage foreign investment.

It continues to support the manufacturing industry to provide employment and skill-learning opportunities (especially from investors who bring new technology) and increase industrial production in Mexico for export and a growing domestic market. Thus, no performance restrictions are imposed, such as local content targets or export quotas, as a condition for the establishment, acquisition, expansion, management, conducting, or operation of an investment.

The government has also introduced reforms to open more industries to 100% foreign investment. These industries include automotive, aerospace manufacturing, most oil and gas, infrastructure, and construction. Telecommunications and satellite communications and television broadcasting have recently been added.

Some fields are still reserved to the government or Mexican nationals. The Foreign Investment Law (*Ley de Inversión Extranjera*) specifies which activities are reserved or restricted and, in the latter case, the maximum percentage of foreign investment allowed. It also specifies those activities that require prior authorization from the Foreign Investment Commission to increase foreign participation levels. (See Chapter 5 “Restrictions on foreign investments and investors”.)

Legal protection for foreign investors

Foreign investors receive the same treatment under Mexican law as domestic investors. Investors are protected by Mexican laws in the event of expropriation, regulatory seizure and/or disputes regarding their investments.

Mexican Law also strongly protects intellectual property rights such as trademarks, patents, trade secrets and copyrights. (See Chapter 6 “Regulatory environment”.)

No exchange controls

Mexico does not have exchange controls. The transferability of their investment is guaranteed under Mexican Law without delay and using a market rate of exchange. Exchange rates are determined by supply and demand, and foreign currency is freely available. (See Chapter 5 “Restrictions on foreign investments and investors”.)

Business entity formation

Foreigners may operate in Mexico in many ways, including through licensing agreements, by exporting goods to Mexico or through local manufacturing. Joint venture contracts can also be used for minority investments in short-term projects (see Chapter 9 “Business entities”.)

Any company, regardless of the nationality of its owners, must obtain written permission from the Ministry of Economy to use a specific corporate name. Companies with foreign investment have the obligation to register with the National Foreign Investments Registry, regardless of the foreign investment percentage.

Trade policy

Mexico has kept a progressive trade policy and has made substantial reductions in import duties and trade barriers. This trend has continued to facilitate the export of Mexican manufactured products, as evidenced by the signing of free trade agreements with many countries and by ongoing negotiations to conclude free trade agreements with other nations.

Mexico was a founding member of the Latin American Free Trade Association (LAFTA) and its successor organization, the Latin American Integration Association (LAIA). In accordance with LAIA, the USMCA and the other trade agreements signed by Mexico, many Mexican-source products can often be shipped to other member countries at reduced or no import duty cost.

The USMCA entered into force on July 1, 2020, replacing the North American Free Trade Agreement (NAFTA). The USMCA seeks to benefit workers, farmers, ranchers and businesses.

It will support mutually beneficial trade leading to freer markets, fairer trade and robust economic growth in North America.

The COVID-19 pandemic caused damage to the world economy; however, with the entry into force of the USMCA, the Mexican government is betting on foreign trade as an essential factor for an economic recovery in 2022.

Taxation policy

The Mexican tax system has been significantly reformed. Corporations are taxed at the rate of 30% on taxable income, while foreign investors and resident individuals are subject to tax on their dividend income at the rate of 10% (or lower tax treaty rate.)

This system is relatively competitive when compared with Mexico's major trading partners and with developing countries seen as competitors for attracting foreign direct investments (FDI). There are some tax incentives specifically designed to attract foreign investment, mainly around the in-bond manufacturing (*maquiladora*) industry.

With more than 60 double-tax conventions in force and broadening its treaty network, Mexico can resolve taxation issues with all of its significant trading partners, providing an effective instrument to solve differences in tax treatment among foreign investors and their governments.

Local businessmen's attitude toward foreign investment

Most local businesspeople tend to favor foreign investment in Mexican industry as strengthening the private sector and react very favorably to opportunities to invest in joint ventures with established foreign companies. Successful Mexican industrialists generally prefer joint investments with foreign companies that can make modern technology available and act as technical partners, with local marketing and administration supervised by the local industrialists.

Labor attitude toward foreign investment

Organized labor does not oppose foreign investment, and in fact, they may prefer to deal with the management of companies that have substantial foreign capital on the grounds that such companies tend to be more amenable to the collective-bargaining process.

Special investment opportunities

Moderate labor costs (when expressed in US dollars) have made the establishment of in-bond processing plants to handle labor-intensive operations increasingly attractive to foreign investors. Moreover, foreign investors are also finding it advantageous to utilize their knowledge of world markets to organize Mexican companies to export locally manufactured goods, not only to the United States and other trading countries, but also to customers in other parts of the world.

Nevertheless, Mexico's large and still increasing population has resulted in considerable demand for all types of consumer goods, including durable goods and, in particular, basic necessities. As the formerly high rates of inflation have been reduced, the volume of effective local demand has increased substantially. This environment, combined with the previously mentioned reductions in customs duties and other trade barriers, offers an attractive market and trade opportunities for exports to Mexico and local production.

The two largest unsatisfied local markets are probably those for agricultural equipment and housing, particularly low-cost units. There may also be an improved market for importing machinery and equipment to Mexico.

Pandemic recovery and FDI

Due to geographical characteristics such as its proximity to the United States, as well as its participation in multiple trade agreements and the availability of natural resources, Mexico is an attractive destination for foreign direct investment (FDI.)

According to data from the Mexican Institute for Competitiveness A.C. (*Instituto Mexicano para la Competitividad,* IMCO, in Spanish), in 2020, Mexico was ranked the top 9th country to receive foreign direct investments, sharing 2.9% of total flow of investment worldwide.

The stoppage in economic activities, induced to control the COVID-19 pandemic, affected the flow of foreign direct investment in the world, and Mexico was no exception.

During third and fourth quarters of 2020, the sectors most affected by the reduction in FDI were manufacturing and mining. Next was the service sector, led mainly by declining investments in financial services.

Only the agricultural sector recorded increases in FDI received in that period.

Recovery began in the first half of 2021, with FDI coming mainly from the United States (51%), Spain (9%), the United Kingdom (6%), Germany (6%) and Luxembourg (5%.)

The National Commission for Foreign Investment points out that between January and September 2022, the main destination sector for FDI was the manufacturing industry, followed by transportation and storage, then communication and financial services.

The manufacturing industry captured 41% of the FDI received so far in 2022 (USD 7.48 billion, albeit 14% lower than in the first half of 2020 (USD 8.72 billion), according to the Mexican Institute for Competitiveness.

Meanwhile, the Mexican Mining Chamber forecasts USD 5.539 billion in investments in 2022.

The export manufacturing and mining sectors are projected to recover the fastest and will help the Mexican economy the most in 2022.

Despite the impact on Mexico's economy in the first year of COVID-19, the overall Mexican economy had been showing consistent signs of recovery. The economy grew in line with the estimate of 3% per year in 2022, reported by the National Institute of Statistics and Geography. Remittances and exports had been key to the initial recovery. Still, the government also plans to strengthen support to sustain domestic consumption, maintain fiscal discipline and boost public spending on infrastructure to close the gaps between the country's regions.

In addition, the Organization for Economic Co-operation and Development (OECD) has recommended that Mexico implement a comprehensive strategy with the aim of promoting financial inclusion, reducing informality, and improving tax revenues by reinforcing subnational taxes to have greater availability of social spending for health and education; while also maintaining its priority to strengthen investment and increase competitiveness.

Chapter 4

Investment incentives

Investor considerations

- 100% foreign ownership is permitted in labor-intensive in-bond processing entities (herein *maquiladoras* or IMMEX companies, for its acronym in Spanish) and in most other activities
- No free trade zones exist in Mexico. However, efforts are being made to support less-developed Southern region with a new economic development program known as Chetumal's Free Zone, through which entities that comply with specific requirements can apply for duty-free tax benefits in foreign trade operations
- Specific duty deferral programs allow temporary imports (under the IMMEX program), besides strategic bonded warehouses, which bring additional benefits
- A special tax regime is granted to agriculture, livestock, fishing, and timber industries as well as truck freight service and land transportation
- Non-tax incentives are available for tourism, and science and technology industries
- Incentives are not offered for establishing international financial center operations
- Mexico is not a tax-haven country; however, its tax rates are comparable to those of both developed and developing countries
- The Mexican government has policies and procedures that aim to simplify the setting up of a company, including the reduction of formalities and time for issuance of authorization resolutions

Investment policy and foreign investment strategy

It has been the general policy of the Mexican government to eliminate tax incentives and to grant them only on a selective basis.

However, with respect to foreign investment, the current trend is toward welcoming it, especially when it contributes to increasing Mexico's employment levels, exports and technological development.

Tax concessions

No special tax concessions are offered to encourage foreign businesses to locate in Mexico. However, special tax incentives are granted to taxpayers who are involved in the agriculture, livestock, fishing, or timber industries as well as truck freight service and land passenger transportation; and to taxpayers that wish to contribute to qualified film and theatre projects.

Regional incentives

While most regional incentives available have gradually been repealed, certain state and local governments may still be authorized to grant certain incentives or benefits within their jurisdiction. For example, on December 31, 2020, a new Decree for Chetumal's Free Zone was published, granting certain duty-free benefits to foreign trade operations including:

- A reduction of 100% of the General Import Duty to different goods permanently imported into the region, or their reshipment to the rest of the country
- A credit consisting of 100% of the Customs Processing Fee to different goods permanently imported into the region, or their reshipment to the rest of the country

Individuals and legal entities in the region may apply for these benefits if they are engaged, according to the classification of the Ministry of Economy, in one of the following economic activities:

- The commercialization of clothing, costume jewelry, clothing accessories
- The commercialization of pharmaceutical products, glasses and orthopedic articles
- The commercialization of construction materials, machinery and equipment
- Restaurants and other establishments related to the preparation of food and beverages
- The hospitality industry; educational services
- Medical and hospital services
- Recreational, entertainment and sports services
- Automobile maintenance
- Leasing of immovable property and machinery and equipment

Some of the Ministry of Economy's requirements to request registry into Chetumal's Free Zone region include:

- Having a General Importer's registration
- Performing sales within Chetumal's border region
- Paying all other applicable taxes, different from the General Import Duty and Customs Processing Fee
- If applicable, sending notification of the change of domicile

Tax incentives

While regional tax incentives are very limited, a few states may grant a temporary reduction in real property or state payroll taxes to new industries established within the state.

Income tax on earnings

There are no state or local income taxes on corporate earnings.

Non-tax incentives

No regional non-tax incentives are granted at the federal level; however, certain states donate land for plant sites or sell industrial sites at reduced prices, and guarantee the availability of public services, including electricity, water, transportation, etc.

Industrial parks

Industrial parks have been established in several areas all over the country to provide the needed infrastructure. Land is usually available in these areas on relatively favorable terms. Some states have donated land for new industry or sell it at relatively low prices.

Industry incentives

The industries discussed below enjoy special incentives, regardless of the size and with no restrictions as to their location or the foreign ownership of their capital.

Agriculture, livestock, fishing and timber; truck freight service and passenger land transportation

Taxpayers engaged exclusively in these industries are subject to a special tax regime that provides certain exemptions based on the number of shareholders (i.e., individuals). Specifically:

a. Entities will have an exemption of an amount equivalent to 20 times the yearly the unit of measurement and upgrade (UMA, for its acronym in Spanish) calculated per year for each member, not to exceed 200 times such unit.
b. Entities with income of up to an amount equivalent to 423 times yearly the UMA will have the aforementioned exemptions, as well as a reduction of tax on the excess of 30%, that is to say, they will apply the effective tax rate of 21%.

Tourism

The government has undertaken measures to stimulate expansion in the tourism industry in Mexico.

Foreigners purchasing residential real estate are now allowed to own all rights, except the bare title to land in the coastal areas or along the country's borders. No restriction applies in the case of non-residential real estate in these areas, provided the real estate is acquired by a Mexican legal entity (regardless of the nationality of the shareholders/partners) and notice is given to the Ministry of Foreign Affairs within 60 days after the acquisition takes place.

A government trust, FONATUR, has made substantial investments in the infrastructure necessary for the development of a number of resorts. FONATUR sells beneficial rights to land in its resort areas for use for hotels, condominiums, shopping centers, etc., on relatively favorable terms and provides expert advice in planning such projects.

Science and technology

The National Council of Science and Technology (CONACyT in Spanish) is the governmental entity in charge of promoting research and development of technology (R&D) in Mexico. It has been operating several programs with this purpose, such as the "Program to Incentivize Innovation."

Program to Incentivize Innovation

This national program covers micro, small and medium enterprises (MIPYMES) as well as big companies and individuals with business activity, provided they are duly registered with the RENIECYT (CONACyT's internal registry) with R&D projects focused on the creation of specialized jobs, green projects, competitiveness and innovations that add value.

The most important issues to consider related to this program are:

- Companies will be able to request financial support for the projects developed during the current business year. It is important to consider that this support is subject to budgetary guidelines
- In addition to the information requested in the application, companies must have a feasibility study, a plan of activities, and an annual and per project budget, a strategy for the appropriation of the intellectual property and copyright, a description of the impact and benefit derived from the project, as well as an action plan for the exploitation of its results
- Companies must be in full compliance with its tax obligations
- If funds are granted, such amount must be exclusively and only used to pay the expenses and budget previously approved by CONACyT

Schemes and characteristics

The application could be filed under three schemes:

- INNOVAPYME focuses on high value-add technological innovation for R&D projects filed by micro-, small- and medium-sized companies (MIPYMES), with an important impact on their competitiveness. Under this scheme the company may file its project individually or linked jointly with at least one research center or university, and this alliance should represent at least 10% of the total budget. Linked projects will have priority
- PROINNOVA focuses on the development and innovation of precursory technologies for R&D projects which are filed by MIPYMES or by large companies in a network that is integrated at least by one company and two research centers and/or universities. This alliance should represent at least 10% of the total budget
- INNOVATEC supports technological innovation for the competitiveness of R&D projects filed by large companies which cause productive chains regarding research and development of technological activities and which bring about investment in infrastructure (foundations and human resources) as well as the creation of new specialized jobs. Under this scheme the company may file its project individually or jointly with at least one research center or university. This alliance should represent at least 10% of the total budget a linked project will have priority

Tax incentives

In March 2020, tax incentives for R&D activities also were granted. This tax incentive is equivalent to 30% of incremental expenses and investments in technology research and development (maximum amount of MXN 50 million). It is creditable against Mexican Income Tax and may be exercised over a period of up to ten years once obtained.

In-bond processing (maquiladora)

The Mexican Government, to create more employment opportunities, has adopted specific policies that allow the establishment of 100% foreign-owned companies that process or assemble temporarily imported materials into finished goods or components for export as well as IMMEX Services modality (such as shared service centers, back-office services and international IT Services). Such companies were first created in the border area between Mexico and the United States and may now be established anywhere within the country.

One of the requirements of a *maquiladora* is to have an authorized IMMEX program approved by the Ministry of Economy (*Secretaría de Economía,* SE). The program will specify, among other things, the machinery and equipment that will be temporarily imported; the types of materials, components, etc., to be brought into the country for processing, assembly or supplying services during specified periods; and the technical and other types of assistance to be provided by the foreign contractor.

The main regulations for the operation of an IMMEX program are contained in the Decree to Promote Manufacturing, Maquila and Export Service Companies (IMMEX). (See the “Export Incentives” section below for more details.)

Substantial savings are achieved by carrying out manufacturing processes in Mexico at substantially lower wage rates (which adds value), while the initial and, possibly, the final operations are handled in the United States or any other country. These companies make extensive use of the procedures for temporary duty-free imports mentioned above and do not pay VAT when the company is registered as a VAT Certified Company, and fees for assembly services charged to non-residents are subject to the zero-rate tax under the VAT law.

These companies can process or assemble temporarily imported materials from several countries, not only the United States.

Strategic bonded warehouse

The strategic bonded warehouse regime consists of introducing, for a limited period, national or imported goods into authorized warehouses, with the purpose of being stored for safekeeping, exhibition, distribution or transformation or to be repaired. Authorized warehouses must be established next to a customs facility.

The main benefits of this regime are:

- Neither import duties nor countervailing duties will be paid on temporary imports, except for certain machinery and equipment
- The scrap and waste resulting from a manufacturing process will not trigger the payment of customs duties. In the case of scrap, it must be properly destroyed

Export service incentives

The most significant benefits under the Mexican economic development plan (described in Chapter 2 “Business environment”) are precisely those provided to promote the export of manufactured goods. These export benefits apply to all entities, regardless of size and degree of foreign ownership; they are also available in both tax and non-tax forms.

A series of executive decrees, general application rulings and government communications have been issued both to constitute the entities entrusted with the task of promoting export activities and to grant the related incentives to exporters. Below is a summary of the five existing export incentives, as well as the official entities involved.

Ministry of Economy (SE) export programs

1. IMMEX program

As mentioned above, the Ministry of Economy (SE) created the Decree to Promote Manufacturing, *Maquila* and Export Services Companies (IMMEX), which is an import duty-deferral government program that provides benefits to authorized companies that **engage in the manufacturing or *maquila* operation scheme in Mexico.**

The IMMEX Program grants administrative facilitation measures and tariff incentives to manufacturers. Some of these benefits include:

- Temporary importation of goods (raw materials, supplies, packaging materials, fuels, spare parts, among others) into Mexico, deferring the payment of import duties, and antidumping and countervailing duties where appropriate
- Temporary importation of raw materials, supplies, packing materials, fuels, spare parts and other consumables used in the production of goods to be exported within an 18-month period
- Temporary importation of machinery and equipment for an indefinite period or until the IMMEX program is still in place
- Transfer temporarily imported goods or the final manufactured products to other IMMEX companies

To enroll in this program, companies must be incorporated in Mexico, present a viable export project and comply with the following obligations:

- Perform annual export sales that amount to at least USD 500,000 or their billed exports must represent at least 10% of its total turnovers
- Export or return the goods temporarily imported within the legal timeframes
- Exclusively use the temporary import regime for the goods authorized in the IMMEX program and use said goods for the authorized purposes
- Keep the temporarily imported goods in the registered addresses
- Keep an automated inventory control system (Annex 24)
- Submit electronically an annual IMMEX report
- Maintain permanent compliance with customs and tax obligations
- Notify of any changes in the tax address or domiciles

As of January 2015, temporary importations trigger VAT at a general rate (16%). However, IMMEX companies can apply for the “VAT and Excise Tax Certification” to obtain a tax credit, which means that no cash is disbursed upon the importation.

The life of an IMMEX program is indefinite as long as the company complies with the obligations described above.

IMMEX status is also **granted under the Services modality** to perform repairing, cleaning, quality control testing, packing, painting, greasing activities and technological support services (e.g., international shared services with certain conditions, back-office services.)

Footwear, apparel, textiles, steel and aluminum are considered **“sensitive” products** and are subject to additional regulatory control. IMMEX companies are required to file for a “Program Extension” to import temporarily sensitive goods.

2. Import duty drawback

Import duty drawback refers to the refunding of duties paid upon the importation of certain merchandise into Mexico that was later exported in its same condition or after undergoing a manufacturing process.

The direct or indirect exporters must submit a request to the Ministry of Economy, during the 12 months following the date on the customs importation documents. Likewise, direct or indirect exporters have 90 working days from the date of exportation to request drawback of the import duties.

3. Authorized Economic Operator (AEO)

Mexico's AEO is a program promoted by the World Customs Organization (WCO), designed for various actors who participate directly or indirectly in activities related to international trade operations.

The program seeks to strengthen the security and facilitate trade of international supply chains operating in Mexico by establishing (along with the private sector) minimum security standards.

Companies must satisfy the general certification requirements established in the General Foreign Trade Rules, as well as the following specific requirements to obtain the AEO Certification:

- Prove to have carried out international trade operations during the last two years before the application. (An exception may apply to new companies of a group or those resulting from mergers or divisions)
- Designate its authorized transport companies for imported/exported goods
- Comply with a “Security Profile” consisting of several security standards and processes in each of the facilities where foreign trade operations are carried out

Some of the benefits are the following:

- Expand the legal stay period regarding goods imported under temporary customs regime (IMMEX) to 36 months
- Avoid transmitting or providing the “Manifestation of Value” (Customs value worksheet)
- Use the exclusive “express” lanes for the customs clearance for imported goods
- Implement measures to facilitate the regularization of merchandise that was not declared
- Enable the issuance of virtual declarations or pedimentos to transfer temporarily imported inventory to Mexican residents (V5 operations.)
- Reduce number of customs inspections
- Reduce time on merchandising crossing

4. Sectorial relief programs (SRPs)

The SRPs benefit companies with preferential import tariffs on goods intended for production, regardless of the country of origin. The rates vary from 0% to 5% depending on the type of industry. The SRPs' authorizations are granted to companies that import goods under a permanent and temporary regime.

Another benefit of the SRPs is the facilitation of non-tariff regulations' compliance since some Mexican Official Standards (NOM, for its acronym in Spanish) can be exempted during the importation of goods.

It should be noted that the PROSEC preferential tariff rates exclusively apply to the importation of goods pertaining to a specific productive sector; for example, PROSEC preferential duty rates may not be applied to a good included in the textile sector to produce an electronic good that is included in the electronics sector.

Companies may also be approved under a Sectorial Relief Program (SRP) to enable manufacturers to import raw materials, machinery or equipment, applying reduced import duty rates regardless of their origin and with certain conditions.

Companies in the following authorized industrial sectors are eligible to receive the SRP benefits:

1. Electricity
2. Electronic
3. Furniture
4. Recreational toys, sports articles and sporting goods
5. Footwear
6. Mining and metallurgy
7. Capital goods
8. Photographic
9. Agricultural machinery
10. Sundry
11. Chemical
12. Rubber and plastic goods
13. Steel
14. Pharmaceutical products and medical equipment
15. Transport, except the automotive sector
16. Paper and cardboard
17. Lumber
18. Leather and fur
19. Automobile and auto parts
20. Textile and apparel
21. Chocolate, sweets and candy
22. Coffee
23. Food
24. Fertilizer

Finally, it is worth mentioning that SRP may also apply to IMMEX companies for purposes of benefitting from its specific preferential duty rates; for instance, when IMMEX companies are required to calculate and pay importation duties upon the temporary importation.

5. Financial assistance

The Foreign Trade Bank (*Banco Nacional de Comercio Exterior*, Bancomext) is the Mexican export development bank and is primarily engaged in all aspects of export support. The bank is authorized to offer:

- Financial assistance to direct exporters
- Loan guarantees
- Promotional assistance domestically and overseas
- Financial assistance to indirect exporters (those selling to ultimate exporters)
- Assistance in the development of export policies and programs
- Performance as fiduciary for trusts and funds engaged in export development activities

***Nacional Financiera*, S.N.C. (Nafinsa),** a large government-owned development bank, takes an active part in stimulating new industry in Mexico. It operates a number of services and trust funds that offer assistance, ranging from feasibility studies to direct investment in capital stock and long-term financing. The bank is particularly active in arranging joint ventures of foreign and Mexican investors in companies to produce capital goods.

Incentives for international trade

Free trade agreements

To reduce import duties and trade barriers, and to facilitate the export of Mexican manufactured products, Mexico has signed free trade agreements with many countries including:

1. USMCA (the United States and Canada)
2. European Union (Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden)
3. EFTA (Iceland, Norway, Switzerland, and Liechtenstein)
4. CPTPP* (Australia, Canada, Japan, New Zealand, Singapore, Vietnam, Peru, Malaysia and Vietnam)
5. Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua)
6. ACE 67 (Peru)
7. ACE 66 (Bolivia)
8. ACE 60 (Uruguay)
9. ACE 41 (Chile)
10. Israel
11. Japan
12. United Kingdom
13. Colombia
14. Panama

*Please bear in mind that for the case of Brunei and Malaysia, CPTPP will enter into force once each country concludes its internal procedures.

International financial center operations

There are no tax concessions or treaties available to foreign corporations or their employees that establish regional, offshore or holding company activities in Mexico. Accordingly, Mexico should not be deemed a tax-haven country or a viable site for establishing an international financial center. However, its tax rates are comparable to many developing and developed nations.

Incentives to invest in other countries

Mexico offers no incentives, tax or non-tax, to invest in other countries. Additionally, it discourages the investment in tax-favored jurisdictions (i.e., tax havens) by requiring the immediate recognition of undistributed earnings in some cases.

Chapter 5

Restrictions on foreign investment and investors

Investor considerations

- There are no exchange controls
- Capital and earnings can be freely remitted abroad
- The Foreign Investment Law allows foreign investors and Mexican companies controlled by foreign investors to own 100% of the capital stock of Mexican companies
  - 100% foreign ownership is permitted for most economic activities, including in the commercial and services sectors.
  - The banking industry is almost 100% private, and majority foreign ownership of banks is allowed. In addition, NAFTA (formerly) and currently the USMCA permits 100% US and Canadian participation in other financial activities, with special requirements
  - Private and direct foreign investment at 100% is now permitted in telecommunications and satellite communications, and television broadcasting
  - Regarding the Energy industry, the Secondary Law establishes that exploration and production can now be carried out by contractors (private companies). In addition, other value-added activities of the oil and gas industry — such as refining of oil, processing of natural gas and importation and exportation of hydrocarbons and oil products, transportation, storage, distribution, compression, liquefaction, regasification, commercialization and sale to the general public of hydrocarbons, oil or petrochemical products — is now non-restricted and can be conducted under permit and/or authorization
- However, the Foreign Investment Law reserves certain activities to the Mexican Government or to Mexican nationals and limits foreign ownership to a specified maximum minority percentage of Mexican company shares in certain cases. The varying levels of restrictions are grouped into five categories

Regulatory climate

Regulatory authorities

The Central Bank

The government-owned Central Bank (*Banco de México*) is charged with the responsibility of providing the country's economy with the Mexican currency (MXN or *Peso*), along with the priority to maintain the stability of the purchasing power of such currency through monetary policies. The *Banco de México* is independent from the government; it has the autonomy to exercise authorizations and manage its administration, in accordance with the Political Constitution of the United Mexican States and the Law of the *Banco de México*.

National Foreign Investment Commission

The National Foreign Investment Commission (*Comisión Nacional de Inversión Extranjera*) is the central authority that approves foreign investment in new or existing companies where required under the Foreign Investment Law (*Ley de Inversión Extranjera*.)

The Commission is responsible for issuing policy guidelines on foreign investment matters and designing mechanisms to promote investment in Mexico; these include issuing general resolutions on the terms and conditions of foreign investment participation in economic activities, authorizing specific regulations on acquisitions, and establishing criteria for the application of legal and regulatory provisions on foreign investment in accordance with Foreign Investment Law and its Regulations.

The Commission is chaired by the Secretary of Economy and composed of ten Secretaries who may appoint an Alternate Secretary each. An Executive Secretary and a committee of representatives are responsible for the operational aspects of the Commission.

National Registry of Foreign Investment

The Foreign Investment Law establishes a National Registry of Foreign Investments (*Registro Nacional de Inversiones Extranjeras*), which is maintained by the Ministry of Economy (*Secretaría de Economía*) and is under the direction of the Executive Secretary of the Commission.

In accordance with the Foreign Investment Law and its Regulations, the following must be registered in the National Registry of Foreign Investments:

- Mexican companies with participation of (even through a trust): (i) foreign investment, (ii) Mexican nationals who have or acquire a different nationality and who have their domicile abroad, (iii) neutral investment; and (iv) branches of foreign investors or entities established in Mexico
- Those who regularly perform acts of commerce within Mexico, provided they are: (i) foreign individuals or legal entities; or (ii) Mexican nationals who have or acquire a different nationality and who have their domicile outside Mexico
- Trusts owning shares (or other equity) of Mexican companies or real estate in Mexico, and "neutral investment" trusts which benefit foreign investment or Mexican nationals who have or acquire a different nationality and who have their domicile outside Mexico with foreign beneficiaries

When the National Registry of Foreign Investments is provided with the necessary information, it will issue the corresponding registration certificate, which must be renewed on an annual basis. For this purpose, it is necessary to complete and submit an economic-financial questionnaire, provided certain thresholds are met in terms of the Foreign Investment Law, its Regulations and what is stated by the Commission within its corresponding resolutions.

The parties referred to in the first and second categories above and the trustees of the trusts referred to in the third category above are responsible for registering before the National Registry of Foreign Investments within 40 business days following the occurrence of any of the following:

- Incorporation of the corresponding company or of the initial date of participation of the foreign investment in an existing company
- Formalization or notarization of the documents related to the Mexican branches of foreign companies
- Formation of a trust or the granting of trust rights to foreign investors as set forth above

Penalties for foreign investment violations

In case of violations of the Foreign Investment Law and its Regulations, offenders may be penalized with fines ranging from 30 to 5,000 times the corresponding Standardized Penalty Unit (SPU), which since 2016 is used instead of the prior penalty measure that was equal to general minimum salary in force in Mexico at the time of the violation.

In cases of violations relating to the use of real estate in the restricted zones, the fine could be up to the amount of the transaction involved.

In certain cases, the Ministry of Economy is authorized to declare null and void any transaction made in violation of the Foreign Investment Law as well as to revoke any granted authorization.

When it comes to determining the fines, the authorities consider the nature of the violation, the economic capacity of the offender, the time elapsed between the time when the obligation should have been satisfied and the time of compliance or regularization, and the total value of the transaction.

Regulatory legislation

As a general rule, the Foreign Investment Law allows foreign investors and Mexican companies controlled by foreign investors to own 100% of the capital stock of Mexican companies.

However, the Foreign Investment Law reserves certain activities to the Mexican Government or to Mexican nationals and limits foreign ownership to a specified maximum minority percentage of Mexican company shares in certain cases, as detailed later in this Chapter.

Fast track approval

The Foreign Investment Law and its Regulations provide expeditious application processing procedures by requiring that an application for authorization by the Foreign Investment Commission be approved or rejected within 45 business days after it is filed. If no reply is received within this period, the application will be considered automatically approved.

Exchange controls

The Mexican Peso (code: MXN; symbol: Ps $) is freely convertible into all other currencies, and there are no restrictions on the remittance of profits abroad or the repatriation of capital.

Foreign currency liabilities payable in Mexico

Obligations specified in foreign currency but payable within Mexico, whether contracted in a foreign country or in Mexico, may be paid in MXN in accordance with the exchange rate applicable in the date of payment. In case such obligations are specified in USD, the applicable exchange rate will be that published by the Mexican Central Bank (*Banco de México*) in the Official Gazette of the Federation (DOF, for its acronym in Spanish) on the day prior to the date of payment. In case such obligations are specified in a currency different from MXN and USD, conversion should be made from such foreign currency to USD, in accordance with applicable exchange market rates with USD and thereafter with MXN in accordance with the applicable exchange rate in the date of payment.

Registration of foreign capital

There are no requirements for registering direct investment in Mexico when made with foreign currency. Accordingly, no proof of registration or of having brought foreign currency to Mexico is necessary at the time of purchasing foreign currency with MXN for repatriation purposes.

Currency accounts

No special currency accounts are required for foreign investors or traders.

Repatriation of capital and earnings

There are no exchange control limitations on remittances in foreign currency for repatriation of capital investments and repayments of intercompany loans or for remittance of dividends, intercompany interest or branch profits. However, all corporations are required to set aside from their net profits a legal reserve amounting to 5% of their yearly earnings until an amount equal to 20% of the capital stock of the entity is reached.

Foreign currency for remittances of royalties and technical assistance fees, as well as payments for imported merchandise, may be freely obtained in the exchange market.

Guarantees against inconvertibility

There are no guarantees against inconvertibility, and all transactions in the exchange market depend on the availability of foreign currency funds.

Rules on prior authorization of foreign investments

In accordance with the Foreign Investment Law, foreign investors may, as a general rule, invest in Mexico without any prior authorization or restriction, except as provided in such law.

Specifically, the law establishes that foreign investors may do the following:

- Participate in any proportion in the capital stock of Mexican companies
- Acquire fixed assets
- Participate in new fields of economic activity or manufacture new product lines
- Open, operate, and expand or relocate existing establishments, except in the cases described in this Chapter

Categories of foreign investment restrictions

Definition of foreign investment

The following activities are considered foreign investment for the purposes of the Foreign Investment Law:

- Participation by foreign investors, in any percentage, in the capital stock of Mexican companies
- Investments by Mexican companies in which foreign investors have a majority interest
- Participation by foreign investors in activities and acts described in the Foreign Investment Law

Note that the Foreign Investment Law provides that foreign individuals who are residents in Mexico with the status of permanent immigrants (*inmigrados*, as defined by the Immigration Law) will be considered domestic investors, except in regard to those activities reserved to Mexicans or to Mexican companies that prohibit ownership of shares by foreigners, or in the cases of investments involving ownership of residential real estate in the border or coastal areas.

In general, there are five categories of restrictions for foreign investors.

Category 1.

Activities exclusively reserved to the Mexican state

I. Exploration and extraction of oil and hydrocarbons
II. Planning and control of the national electric system as well as the public service of transmission and distribution of electricity
III. Generation of nuclear energy
IV. Mining of radioactive minerals
V. Operating of telegraph service
VI. Transmission of radiotelegraphy
VII. Operating of postal service
VIII. Issuance of paper money
IX. Minting of coins
X. Control, supervision and surveillance of ports, airports and heliports
XI. Any other activity set forth expressly by the applicable legal provisions

Category 2.

Activities exclusively reserved to Mexican nationals and to Mexican companies in which foreign investment cannot participate

I. Land domestic passenger, tourism and freight transport, excluding courier or packaging services
II. Development banks, under the terms of the law governing these entities
III. Certain professional and technical services reserved expressly by applicable legal provisions

Foreign investment may not participate directly in the activities mentioned above nor through trusts, contracts, partnerships or by-law agreements, or other mechanisms granting any control or participation.

Category 3.

Activities in which foreign investment is limited to specified percentages, ranging from 10% to 49%

I. Up to 10% in cooperative companies for production

II. Up to 49% in

a. Manufacture and commercialization of explosives, firearms, cartridges, ammunition and fireworks, not including acquisition and use of explosives for industrial and extraction activities nor the preparation of explosive compounds for use in said activities.

b. Printing and publication of newspapers for circulation solely within Mexico.

c. Series “T” shares in companies owning agricultural, ranching and forestry land.

d. Fresh water, coastal and exclusive economic zone fishing, not including fisheries.

e. Integral port administration.

f. Port services for pilotage of ships to perform inland navigation operations in terms of the applicable law.

g. Shipping companies engaged in the commercial operation of ships for inland navigation and cabotage, except for tourist cruises and the exploitation of naval dredges and artifacts for construction, conservation and operation of ports.

h. Supply of fuel and lubricants for ships, aircrafts and railroad equipment.

i. Radio broadcasting. The maximum of foreign investment will be in accordance with the reciprocity that exists in the country in which the investor is incorporated.

j. Domestic regular and non-regular air transportation services, as well as non-regular international air transportation services as air taxi and specialized air transportation services.

As a general rule, the limitations set forth regarding this category may not be overpassed directly nor through trusts, agreements, corporate agreements or bylaws, pyramid schemes or any other mechanism that grants control or a participation greater than that already stated.

Category 4.

Activities requiring favorable resolution from the Commission to have more than 49% of foreign participation

I. Port services allowing ships to conduct inland navigation operations, such as towing, mooring and barging.

II. Shipping services by companies engaged in the exploitation of ships solely for high-seas traffic.

III. Operation of airfields for public service by concessionaire or permissionaire companies.

IV. Private education services of pre-school, elementary, middle school, high school, college or any combination thereof.

V. Legal services.

VI. Construction, operation and exploitation of general railways and public services of railway transportation.

Category 5. A favorable resolution from the Commission is required for foreign investment to participate, directly or indirectly, in a percentage higher than 49% of the capital stock of Mexican companies when the aggregate value of the assets of such companies at the date of acquisition exceeds the amount determined annually by the Commission (as of June 6, 2022, in accordance with the Official Gazette of the Federation, this amount is MX22,647,201,250.50.

Real estate in restricted zones

The Foreign Investment Law provides that Mexican companies with majority foreign investment may directly acquire real estate located within the restricted zones without the need of a trust, as long as such real estate is not intended to be used for residential purposes, but rather for industrial, commercial and/or tourism activities in general, and provided the acquisition is registered with the Ministry of Foreign Affairs (*Secretaría de Relaciones Exteriores*) within 60 business days following after the day the acquisition took place.

The acquisition by foreigners or Mexican companies with foreign owners of residential real estate located within the restricted zones must be acquired through a trust subject to the following rules:

- A permit is required from the Ministry of Foreign Affairs for Mexican credit institutions to acquire, as trustees, real estate in the restricted zones
- The beneficiaries of the trust may be Mexican companies with capital owned by foreigners, including individuals or legal entities, or foreign entities and individuals
- The trusts have a maximum duration of 50 years, renewable at the request of the interested party. In the case of such request, the Ministry of Foreign Affairs reserves the right to verify compliance with the conditions under which the trust was authorized or registered
- The Ministry of Foreign Affairs has the right to decide whether it will grant permission to form the trust, considering the economic and social benefits that the trust in question may bring to Mexico
- All applications to form trusts submitted to the Ministry of Foreign Affairs must be acted on by such Ministry within the following five business days after their filing with the central administrative applicable unit, or within 30 business days following the filing date of the application if such are filed before the state delegations of such authority. If the authority does not respond within the above-mentioned periods, the application will be considered approved

Neutral investments

To allow the participation of foreign investment in those activities which, in principle, are exclusively reserved for Mexican nationals or Mexican companies in which foreign investment is not allowed, the Foreign Investment Law permits a “neutral investment”, which is defined as an investment made in Mexican companies or in authorized trusts and which does not represent a percentage of foreign investment in the capital stock of Mexican companies.

Neutral investments instruments

The Ministry of Economy may authorize Mexican banking institutions (trustees) to issue neutral investment instruments, such as participation certificates, which will confer on the holder only certain economic rights. These instruments must also have limited voting rights in Mexican companies; i.e., the neutral instrument cannot provide the right to vote in the ordinary general shareholders’ meetings of Mexican companies.

Neutral investments represented by special series of shares

The Foreign Investment Law considers an investment to be neutral when the foreign investment is made in non-voting shares or in shares with limited voting rights issued with prior authorization of the Ministry of Economy. In the cases of companies whose shares are publicly traded, permission is required from the Mexican Banking and Securities Exchange Commission (*Comisión Nacional Bancaria y de Valores*.)

Neutral investments by international financial development companies

The Foreign Investment Commission may authorize neutral investments that international financial development companies intend to make in the capital stock of Mexican companies, in accordance with the terms and conditions to be set forth in its regulation.

Branches of foreign companies

Foreign companies wishing to engage in commercial activities in Mexico on a regular basis, where no foreign investment restrictions apply, must obtain prior authorization from the Ministry of Economy to establish and register a Mexican branch in the corresponding Public Register of Commerce (*Registro Público de la Propiedad y del Comercio*). Proper applications filed with the Ministry of Economy are required to be granted within 15 business days following their filing date.

However, due to the General resolution that broadens the criteria established for the application of Article 17 of the Foreign Investment Law, regarding the establishment of legal entities in Mexico, published on May 13, 2014, nearly 160 countries do not require authorization from the Ministry of Economy to establish and register a Mexican branch in Mexico in certain cases, but a simple notice.

Maquiladoras

The policy of allowing the establishment of wholly owned *maquiladoras* (in-bond processing companies), now IMMEX companies, by foreign investors without prior authorization and under virtually no restrictions, is continued and is extended to certain other export-oriented activities. This type of companies shall comply with specific Customs and Tax regulations to receive and maintain the corresponding authorizations.

Joint venture agreements

Joint venture agreements or contracts (*Asociación en Participación, A. en P.*), as opposed to joint venture corporations (incorporated entities), are not subject to the restrictions or requirements regarding percentage of ownership, registration, etc., since they do not constitute separate entities but instead are considered to be the activities performed by managing joint venturer (*asociante*.)

However, there is a criterion that if an A. en P. agreement results in a foreign participation of more than 49% of the total profits of the venture or if the foreigners have the right to manage or control its general activities, then the A. en P. agreement should be submitted for approval or, at a minimum, the Foreign Investment Commission should be informed of its contents.

Given the flexibility and ease of entering into A. en P. agreements, their use has been somewhat common for short-term ventures. For details on the characteristics and tax treatment of joint venture agreements under Mexican law, refer to the relevant sections of Chapter 9 "Business entities" and Chapter 19 "Taxation of partnerships and joint venture agreements."

Other restrictions

Depending on the potential investor's activity and desired location, other restrictions beyond the scope of this Guide may apply. Accordingly, competent counsel should always be sought during the planning stage for any investment.

Investment and trade agreements that ease restrictions

Mexico has signed bilateral investment agreements with several countries to protect and promote investments of their investors in Mexico and vice versa (Agreement on the Reciprocal Promotion and Protection of Investments or “APPRI”). Mexico is currently part of 30 APPRIs with different countries, such as Argentina, Austria, Australia, Bahrein, Belarus, Belgium, the Czech Republic, China, Cuba, Denmark, Finland, France, Germany, Greece, Hong Kong, Iceland, Italy, Korea, Kuwait, Luxemburg, the Netherlands, Panama, Portugal, Singapore, Slovakia, Spain, Sweden, Switzerland, Trinidad & Tobago, Turkey, the United Arab Emirates, the United Kingdom and Uruguay.

Mexico has also entered into 14 free trade agreements with 50 countries, among others, the United States and Canada (USMCA, formerly NAFTA), El Salvador and Honduras, Iceland, Norway, Liechtenstein and Switzerland (EFTA), Colombia (G2), Guatemala, Bolivia, Costa Rica, Chile, Israel, Nicaragua, Uruguay, Japan and the European Union. Some of these agreements also refer to investments between the signing countries, requiring non-discriminatory practices and most favorable nation treatment.

Chapter 6

Regulatory environment

Investor considerations

- The Mexican Government is moving toward deregulation in foreign investment, foreign trade, the telecommunications and energy sectors; at the same time, pushing for stricter regulation in ecological protection, urban development, consumer protection, governmental transparency and intellectual property rights
- However, with energy reform, the federal government has authorized the execution of oil exploration and production activities by means of granting assignments to State Owned Productive Companies or through contracts executed with private companies. Also, the Secondary Laws allow the participation of private companies in activities such as refining, transportation, storage and retail sales of fuels
- Patent protection is available for a non-extendable term of 20 years
- Trademark protection is available for a ten-year period, renewable every ten years
- Copyright piracy is severely punishable through criminal prosecution
- Private and direct foreign investment at 100% is now permitted in telecommunications and satellite communications

Regulatory climate

Regulatory authorities

The Central Bank

The government-owned Central Bank (*Banco de México*) is charged with the responsibility of providing the country's economy with the Mexican currency (MXN or *Peso*), along with the priority to maintain the stability of the purchasing power of such currency through monetary policies. The *Banco de México* is independent from the government; it has the autonomy to exercise authorizations and manage its administration, in accordance with the Political Constitution of the United Mexican States and the Law of the *Banco de México*.

National Foreign Investment Commission

The National Foreign Investment Commission (*Comisión Nacional de Inversión Extranjera*) is the central authority that approves foreign investment in new or existing companies where required under the Foreign Investment Law (*Ley de Inversión Extranjera*.)

The Commission is responsible for issuing policy guidelines on foreign investment matters and designing mechanisms to promote investment in Mexico; these include issuing general resolutions on the terms and conditions of foreign investment participation in economic activities, authorizing specific regulations on acquisitions, and establishing criteria for the application of legal and regulatory provisions on foreign investment in accordance with Foreign Investment Law and its Regulations.

The Commission is chaired by the Secretary of Economy and composed of ten Secretaries who may appoint an Alternate Secretary each. An Executive Secretary and a committee of representatives are responsible for the operational aspects of the Commission.

National Registry of Foreign Investment

The Foreign Investment Law establishes a National Registry of Foreign Investments (*Registro Nacional de Inversiones Extranjeras*), which is maintained by the Ministry of Economy (*Secretaría de Economía*) and is under the direction of the Executive Secretary of the Commission.

In accordance with the Foreign Investment Law and its Regulations, the following must be registered in the National Registry of Foreign Investments:

- Mexican companies with participation of (even through a trust): (i) foreign investment, (ii) Mexican nationals who have or acquire a different nationality and who have their domicile abroad, (iii) neutral investment; and (iv) branches of foreign investors or entities established in Mexico
- Those who regularly perform acts of commerce within Mexico, provided they are: (i) foreign individuals or legal entities; or (ii) Mexican nationals who have or acquire a different nationality and who have their domicile outside Mexico
- Trusts owning shares (or other equity) of Mexican companies or real estate in Mexico, and "neutral investment" trusts which benefit foreign investment or Mexican nationals who have or acquire a different nationality and who have their domicile outside Mexico with foreign beneficiaries

When the National Registry of Foreign Investments is provided with the necessary information, it will issue the corresponding registration certificate, which must be renewed on an annual basis. For this purpose, it is necessary to complete and submit an economic-financial questionnaire, provided certain thresholds are met in terms of the Foreign Investment Law, its Regulations and what is stated by the Commission within its corresponding resolutions.

The parties referred to in the first and second categories above and the trustees of the trusts referred to in the third category above are responsible for registering before the National Registry of Foreign Investments within 40 business days following the occurrence of any of the following:

- Incorporation of the corresponding company or of the initial date of participation of the foreign investment in an existing company
- Formalization or notarization of the documents related to the Mexican branches of foreign companies
- Formation of a trust or the granting of trust rights to foreign investors as set forth above

Penalties for foreign investment violations

In case of violations of the Foreign Investment Law and its Regulations, offenders may be penalized with fines ranging from 30 to 5,000 times the corresponding Standardized Penalty Unit (SPU or UMA per its acronym in Spanish),[1] which since 2016 is used instead of the prior penalty measure that was equal to general minimum salary in force in Mexico at the time of the violation.

In cases of violations relating to the use of real estate in the restricted zones, the fine could be up to the amount of the transaction involved.

In certain cases, the Ministry of Economy is authorized to declare null and void any transaction made in violation of the Foreign Investment Law as well as to revoke any granted authorization.

When it comes to determining the fines, the authorities consider the nature of the violation, the economic capacity of the offender, the time elapsed between the time when the obligation should have been satisfied and the time of compliance or regularization, and the total value of the transaction.

Regulatory legislation

As a general rule, the Foreign Investment Law allows foreign investors and Mexican companies controlled by foreign investors to own 100% of the capital stock of Mexican companies.

However, the Foreign Investment Law reserves certain activities to the Mexican Government or to Mexican nationals and limits foreign ownership to a specified maximum minority percentage of Mexican company shares in certain cases, as detailed later in this Chapter.

Fast track approval

The Foreign Investment Law and its Regulations provide expeditious application processing procedures by requiring that an application for authorization by the Foreign Investment Commission be approved or rejected within 45 business days after it is filed. If no reply is received within this period, the application will be considered automatically approved.

Regulation of business

The regulation of business enterprises is distributed among a number of government agencies operating under various cabinet ministries, the more important of which are referred to below. In some cases where foreign investment is involved, approval is granted only after authorization by the Foreign Investment Commission, a part of the Ministry of Economy (SE, for its acronym in Spanish) as described in Chapter 5. "Restrictions on foreign investments and investors."

1 In accordance with the National Institute of Statistics and Geography, the SPU is known in Spanish as Unidad de Medida y Actualización (UMA). It is an economic reference in Mexican pesos to determine the amount for the payment of certain obligations stated in federal and local laws as well as any other legal documents derived from them.

Competition policy

The antitrust law known as the Federal Law of Economic Competition (*Ley Federal de Competencia Económica*) prohibits monopolies, monopolistic activities and unlawful business concentrations. One of its main objectives is to prevent such monopolistic activities as price-fixing, selective distribution, anticompetitive practices and the elimination of competition.

Severe penalties are imposed on violations. A Federal Competition Commission (*Comisión Federal de Competencia*) imposes penalties or conditions, or subjects "concentrations" to total or partial divestiture. Its mission is to protect the process of competition and market access by eliminating monopolies, monopolistic practices and other restrictions on the efficient functioning of markets.

This legislation is consistent with US, Canadian and European antitrust principles.

Price controls

Article 28 of the Political Constitution of the United Mexican States (*Constitución Política de los Estados Unidos Mexicanos*) provides that Mexican laws will establish the basis for fixing maximum prices for items, materials or products considered as necessary either for the economy or for popular consumption. The law shall protect consumers and legally organize them to take better care of their interests.

The Federal Law of Economic Competition sets forth the rules for determining prices for products and services necessary for the economy or for popular consumption in terms of said Article 28.

A considerable number of products are still subject to what is considered variable price "controls". These include basic petrochemicals, certain chemical products for industrial use and the products of a number of basic industries including, among others, cellulose and fertilizers. The prices of these products may be changed upon authorization of the SE or the Ministry of Energy.

Pharmaceutical products

All pharmaceutical products must be authorized by the Ministry of Health (*Secretaría de Salud*) for their production, import and sale. Maximum selling prices must also be approved by the SE. Such prices have, in most cases, allowed for reasonable profit margins on products sold in what is considered the private market and to a lesser degree on the products included in the basic list of medicines for the public sector. A third significant market for generic products for the lowest income groups is supplied at the lowest possible prices.

The Mexican Government is interested in promoting the consolidation of companies in the industry, with a view toward increasing the participation of Mexican investors and reducing costs for both export and local market purposes. Increased production of raw materials for the industry is also desired. It is recommended to seek the advice of a competent specialist when considering a possible investment.

Mergers and acquisitions

Many foreign investors in Mexico prefer to purchase an interest in an established local concern rather than to form a new company that might enter the market at a competitive disadvantage.

However, it is important to note also that antitrust law could impose investment restrictions on market concentrations related with collusions, acquisitions and mergers for any foreign and domestic investor which may create barriers to fair competition. Therefore, it is advisable to contact a specialist for competent legal advice when considering an acquisition or a merger.

For a discussion of the tax consequences of mergers and acquisitions, see Chapter 17 "Taxation of shareholders."

Securities

Securities markets (stock exchange)

Public offerings of securities, the stock exchange, brokers and dealers are regulated under the Securities Exchange Law (SEL), which governs the operations of the National Securities Commission. Only securities approved by the National Securities Commission and included in its National Register of Securities and Intermediaries may be offered to the public.

The SEL establishes regulations in accordance with modern international standards governing the fundamental principles of the securities market. Among other objectives, the law aims to incorporate medium-sized corporations in the securities market, to establish minority shareholders' rights and corporate governance standards as well as the regulation of the conduct of the participants in the securities market, and ultimately to reduce the cost for the issuer.

Requirements for National Securities Commission approval

In addition to details and documentation of the organization of a company, information about its officers and a description of its business, a company desiring to have its equity or debt securities approved by the National Securities Commission is required to provide the Commission with, among other documentation, audited financial statements. Final approval can be expected to take from one to four months under normal conditions. Subsequently, audited annual financial statements must be published and provided to the Commission.

Mexican Stock Exchange

The Mexican Stock Exchange is operated by a corporation whose shareholders used to be the brokers and broker-dealers registered to do business through the Mexican Stock Exchange. The principal requirement for listing a company's securities is the prior approval of the National Securities Commission. Each listed company is required to provide annual audited financial statements as well as unaudited interim financial statements on a quarterly basis. No special rules exist for a foreign acquisition of an interest in a local publicly held enterprise, other than the restrictions that may still apply with respect to corporations engaged in certain activities where foreign ownership is limited or not permitted. (See Chapter 5 “Restrictions on foreign investment and investors” for details.)

Brokers and broker-dealers

The SEL establishes stringent rules for companies acting as broker-dealers and for individual securities brokers, who may not act as dealers or own shares in the companies registered as broker-dealers.

Broker-dealers must be Mexican corporations whose shares may not be owned by individual registered brokers, foreigners who are not permanent immigrants or corporations other than Mexican banks and finance companies. The managers and officials of such corporations who deal with the public must be registered brokers. All brokers and broker-dealers must be registered with the National Register of Securities and Intermediaries maintained by the National Securities Commission.

Consumer protection

All entities (including state-owned corporations) and individuals that manufacture, distribute or sell goods or render services are subject to the Federal Consumer Protection Law. This law provides consumers with adequate protection against merchants and service providers (including e-businesses) that do not comply with the minimum standards or specifications for products and services. The SE is empowered to impose fines and use other coercive measures to protect the consumer.

Data protection

Data protection acquired relevance in Mexico in 2009 with a constitutional guarantee that grants every person the right to the protection, access, rectification, blocking, erasure and destruction of personal data, as well as to opposition to its treatment in the terms stated in the Federal Law on Protection of Personal Data Held by Private Parties (*Ley Federal de Protección de Datos Personales en Posesión de Particulares*).

Infringements to the Law will be punished by a specific office (*Instituto Nacional de Transparencia, Acceso a la Información y Protección de Datos Personales* or INAI) with fines from 100 to 320,000 Standardized Penalty Units (SPU.)

Regarding infringements committed in processing sensitive personal data, sanctions may be doubled.

INAI will ground its decisions in law and fact by considering:

- The nature of the personal data concerned
- The evident inappropriate refusal of the data controller to perform the actions requested by the data subject
- The intentional or unintentional nature of the action or omission constituting the infringement
- The financial capacity of the data controller
- Recurrence

The following sanctions apply regarding crimes relating to the unlawful processing of personal data:

Three months to three years imprisonment of any person who authorizes the processing of personal data for profit, causing a security breach that affects the databases under his custody.

Six months to five years imprisonment of any person who, with the aim of achieving unlawful profit, processes personal data deceitfully, taking advantage of an error of the data subject or the person authorized to transmit such data.

Some of the general compliance obligations to ensure data protection include the following:

- Appoint a Data Protection Officer
- Create an inventory of the personal data collected by the entity (Data Controller)
- Elaborate matrices of personal data processing occurring throughout the entity
- Make readily available fair collection/privacy statements (considering the different purposes) to data subjects
- Formalize the process to attend to subject access requests as well as to exercise other data subject’s rights such as rectification, blocking, erasure and destruction of his personal data (in Mexico referred as ARCO rights)
- Insert privacy clauses in contracts
- Implement a privacy policy and the necessary proceedings and resources to enforce it
- Enable technical and organizational measures to prevent unauthorized or unlawful processing of personal data
- Develop business continuity and disaster recovery plans
- Provide training to promote data protection and privacy culture among employees

Electronic contracting: Private use and public trend; online consumer protection

In general, electronic and web contracts are valid in Mexico under the Commercial Code and the Federal Civil Code. Furthermore, legislation on advanced electronic signatures for commercial transactions have been in place since 2003.

While civil and commercial courts are obligated to acknowledge the validity of electronic evidence, certain courts (e.g., labor courts) are not specifically forced to accept such evidence. While it should be noted that certain documents must be presented in hard copy and with handwritten signatures to be valid in court (e.g., promissory notes), electronic signatures and advanced electronic signatures are widely used at the government level.

The usage of electronic signatures both in government-to-government communications and government-citizen communications (such as public bids, foreign investment reporting obligations, tax reporting/payment obligations, among others) are valid and accepted. The Mexican Government expects these technologies to improve government transparency, efficiency and accountability. The Consumer Protection Law offers considerable protection to online consumers (including advertising and data processing rules through underage or vulnerable protection rights, among others.)

Anti-money laundering

On October 17, 2012, the Ministry of Finance and Public Credit published the Federal Law for the Prevention and Identification of Transactions from Illegal Funds (Mexican AML Law). By July 17, 2013, the Law was in full effect. Both natural and legal persons executing any of the vulnerable activities.

Article 17 of Mexican AML Law establishes 16 different vulnerable activities, they include:

1. Activities related to gaming, games, contests, meets, raffles and lotteries conducted by decentralized entities.
2. Issuance or marketing of service, credit, prepaid cards and all stored valued cards that are not issued or marketed by the banking institutions.
3. Issuance of traveler's checks different from the ones issued by the banking institutions.
4. Granting of secured or unsecured credit, loans and acting as surety in transactions of this kind.
5. Construction or development activities or activities involving intermediation in title conveyance, the creation of liens and encumbrances over real estate, or purchases and sales transactions of property.
6. Marketing and brokerage of precious metals, gems, jewelry or watches.
7. Sales at auction or marketing of works of art.
8. Marketing of and dealership in new and used motor vehicles, aircraft or maritime vessels.
9. Provision of armoring services for new and used land vehicles and armored protection for premises.
10. Transportation and custody of cash and valuables in transit.
11. Rendering of independent professional services without labor relationship with the client.
12. Services rendered by a notary public or public attester.
13. Receipt of donations for non-profit organizations.
14. Services rendered by a customs agent with authorization granted by the Ministry of Finance and Public Credit (SHCP.)
15. Constitution of personal rights over real estate (e.g., timeshare or fractional.)
16. Offering or exchange of virtual assets by person or entity different from the banking institutions.

If any or several of the above-mentioned vulnerable activities are verified, in general terms, the following obligations should be considered by the obligated subject:

1. Appoint a legal representative, who will be in charge of compliance with all AML obligations in the AML portal, *Sistema del Portal en Internet* (SPPLD, for its acronym in Spanish), and to keep said appointment valid.
2. Both the obligated legal person and its legal representative should be registered in SPPLD.
3. Integrate "know your client" (KYC) files of the users and clients with whom the obligated legal person executes the vulnerable activity, and verify his/her identity with IDs or official documents as well as keep copy of said evidence.
4. In case a business relationship is established between the obligated legal person and the client/user, request the information related to his/her activity or occupation.
5. Ask the client/user if there is a controlling beneficiary, and if yes, then request the official documents to identify him/her.
6. File monthly notices according to Article 17 of the Mexican AML Law, or in some cases monthly reports according to Article 27-BIS of the General Rules, via SPPLD.
7. Draft an AML manual after registration in SPPLD, and within the next 90 days at the latest.
8. Keep all documentation related to the vulnerable activity, either physically or electronically, for a minimum period of five years.
9. Facilitate the verification visits of the tax authorities or the Unit of Financial Intelligence (UIF, for its acronym in Spanish.)

Sanctions

Mexican AML Law considers fines per breach, meaning per transaction in default, as follows:

a) Fine equivalent to 200 and up to 2000 units of measurement and upgrade (UMAs, which is an official reference linked to inflation for its acronym in Spanish) per each of the following breaches:
   - Failure to identify the user or client, including verification of identity and keep a copy of the documents established in the Annex of the General Rules, accordingly
   - Failure to request the client or user the information related to the controlling beneficiary and, in some cases, the delivery of a copy of his/her official ID
   - Failure to request the client or user the information related to his/her activity or occupation when a business relationship is established
   - Failure to preserve, protect, safeguard and prevent the destruction or concealment of information or evidence supporting the vulnerable activity. It is important to mention that the conservation should be either physical or electronic and at least for five years as of the execution of the vulnerable activity
   - Failure to file the monthly notices or reports, accordingly

b) Fine equivalent to 10,000 and up to 65,000 UMAs per each notice not duly and timely filed in SPPLD according to Articles 3 and 17 of the Mexican AML Law and Article 3 of the General Rules.

c) The previous without prejudice of the crimes typified according to Articles 400 BIS and 400 BIS 1 of the Federal Criminal Code, which considers penalties of five to 15 years of imprisonment and fines of 1000 up to 5000 UMAs.

Anti-corruption

In 2015, a decree was published in the Official Gazette amending and adding several dispositions to our Constitution in terms of anti-corruption. The National Anti-corruption System was created, and with it, the amendment of the liabilities' determination system for public servants, and the addition of sanctions to private entities and natural persons involved in acts of corruption.

Articles 24 and 25 of the Administrative Responsibilities General Law establish that legal entities will be sanctioned when it is determined that it has incurred major administrative offenses executed by natural persons acting in its name, on its behalf, or benefiting the legal entity.

Hence, it is advisable to perform a risk-based assessment to determine the type of risks and level of exposure; the results will be useful to develop an integrity policy and other corporate governance instruments, such as the Code of Conduct.

Although the existence of an integrity policy is not mandatory, it will be considered a mitigation mechanism while ascertaining liability of the legal entity.

As such, the minimum contents of the integrity policy, according to the law, should include:

- A clear and complete manual of organization and proceedings, which defines roles and responsibilities of each department, and clearly specifies the different command and leadership chains
- Code of conduct duly published and disseminated among all members of the organization, containing mechanisms and systems for effective implementation
- Effective and adequate control, auditing and surveillance systems, which constantly and periodically examine the compliance of integrity standards throughout the organization
- Adequate complaint systems within the organization as well as towards authorities. Likewise, disciplinary proceedings and concrete legal consequences for breaches to internal rules or Mexican legislation
- Adequate training systems and process
- Human resources policies related to avoid the incorporation of people who may pose an integrity risk. These policies shall under no circumstances promote discrimination, or cancel or undermine the rights and freedoms of the persons
- Mechanisms ensuring transparency
- In case participation in an administrative breach is confirmed, the sanctions might include fines, temporary disqualifications, damage compensations and even the dissolution of the legal entity

Imports and exports

In the 1990s Mexico liberalized most import restrictions. These actions included significant reductions of import duties and elimination of prior import permits for most merchandise listed in the General Import Duty Tariffs.

With respect to exports, Mexico has made significant efforts to encourage companies to export manufactured goods by developing certain government programs, including temporary duty-free imports to be integrated into exported goods, financing programs and simplification of official export procedures.

Trade agreements are in effect with the United States and Canada (USMCA), the European Union, EFTA countries (Switzerland, Iceland, Liechtenstein and Norway), Colombia, Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, Chile, Bolivia, Uruguay, Israel and Japan. Mexico is a member of the World Trade Organization (WTO) and, as such, is streamlining or eliminating trade barriers.

General import requirements

In the case of imports, the Ministry of Economy requires the importer to re-label the products to include in Spanish the relevant information about the contents of the product, name and country of origin of the producer, and information about the importer, port of entry, etc.

The minimum required information to be included on the labels is as follows:

- Description of the goods
- Importer's name and address
- Warnings or precautionary information in the case of hazardous products
- Instructions for use and storage
- Expiration date (if applicable)

Additionally, all imported merchandise should meet minimum sanitary and safety standards. Finally, a wide variety of products must comply with the Mexican Standards of Quality, referred to as Mexican Official Norms (NOM, for its acronym in Spanish.)

Also, certain imports and exports are subject to regulations by the Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*). Some imported products must receive sanitary or phytosanitary authorizations issued by the Ministry of Health. There are also rules establishing the classification of goods whose importation is subject to regulation by the Commission for the Control of Pesticides, Fertilizers and Toxic Substances.

Import requirements for food and drugs

In accordance with the General Law on Health and numerous specific regulatory decrees, all types of prepared or packaged foods, meat, beverages, medicines and related products must be approved and registered with the Ministry of Health (MH), which is authorized to make continuing follow-up inspections and to perform laboratory tests at its discretion. Products of the types requiring approval and registration may not be imported unless they were previously registered with the MH. In some cases, imports require specific authorization.

Environmental provisions

For many years, the Mexican Government exercised authority to control certain types of industrial pollution through the Ministry of Environment and Natural Resources (SEMARNAT, for its acronym in Spanish). The General Law of Ecological Balance and Environmental Protection provides for the imposition of substantial fines and even closure of the offending establishment in the event of non-compliance with the applicable rules and regulations. The law and regulations have been enforced on a broad scale by the National Institute of Ecology (INE) and by the Federal Public Attorney's Office for the Protection of the Environment (PROFEPA, for its acronym in Spanish), both units of SEMARNAT.

The Criminal Code introduced a chapter that regulates Environmental Crimes; the punishment for this type of crimes spans from six months to ten years of imprisonment, plus a substantial fine.

Furthermore, local and state environmental legislation exists, including in Mexico City.

Although very similar, they regulate activities not contemplated under the federal law.

Special industries

Special regulations govern the operation of certain industries, some of which have already been covered. Others are discussed below. However, this section discusses these restrictions only in broad terms. Accordingly, those interested in more specific information about a certain industry or activity should seek competent advice.

Insurance and banking

The Foreign Investment Law authorizes foreign ownership of insurance companies, while the National Insurance and Bonding Commission regulates insurance activity in Mexico.

Where the insured asset is situated in Mexico, the law provides that all insurance must be written with insurance companies authorized to do business in Mexico. Any person involved in the placing of insurance with companies not so authorized (entries in the Mexican company's books, among other things, being deemed to be involvement) is liable to criminal prosecution.

Similar provisions exist with respect to fidelity and other types of bonds. It should be noted, however, that substantial deregulation of both the banking and the insurance industries has been accomplished during recent administrations.

Mining industry

Subsoil and mineral rights

In accordance with the Mexican Constitution, the subsoil and any minerals found therein are the inalienable property of the nation. All mining activity requires a concession from the federal government. The mining law establishes the following:

- Foreign ownership of Mexican corporations must conform to the restrictions imposed by the Foreign Investment Law and is not specifically restricted by this law
- Exploration concessions will be granted for a non-renewable six-year period
- Exploitation concessions will be granted for a 50-year period, which can be extended for an additional 50 years
- Concessions will not be granted within areas that have been incorporated into the National Mining Reserves

All concessions in connection with mining activities neither include permission for exploration and extraction of oil and gas nor transmission and distribution of electricity.

Labor matters

Labor unions are usually quite strong in the mining industry, and the corresponding collective labor contracts tend to grant more substantial fringe benefits than the minimum required by the Federal Labor Law. Most mining labor contracts provide for substantial severance compensation upon voluntary retirement after a specified number of years. Mining companies (as all entities) are required to provide social security to their employees; however, if no public health services are available in the area where the mine is located, the mining entity will have to finance and provide medical services on its own.

Telecommunications industry

Direct foreign investment in telecommunications and satellite communications are 100% open to foreign investment. Radio broadcasting, previously closed to foreign investors, now allows up to 49%, subject to a requirement of reciprocity and potentially allowing for additional participation through limited voting rights. This offers foreign investors opportunities to participate in Mexico beyond existing entities. Current regulations also open the door to market consolidations and access to non-Mexican financial resources for network and service expansion.

Energy industry

Hydrocarbons in the subsoil are considered the property of the nation, and investors may take part in the following activities:

- Exploration and extraction of oil and gas (hydrocarbons)
- Refining, gas processing, transportation, storage and distribution and retail activities
- Generation of electricity under permit

Foreign investors will have opportunities to participate actively in the oil and gas and electric sectors. In the case of oil and gas refining, gas processing, transportation, storage and distribution, there are specific regulations that relate to permanent establishments, depreciation rates, among others, which should be closely evaluated for tax purposes.

Patents and trademarks

Industrial property is protected by the Industrial Property Law. This law regulates, among other things, patents, trademarks, trade secrets, industrial designs, licenses, slogans and franchises. It is not necessary to submit for prior approval and registration contracts for the use of patents, trademarks or trade names or for providing technical assistance or know-how. However, for due protection of patents, trademarks and copyrights, license agreements for these should be registered with the proper Mexican authorities, particularly to ensure their enforceability vis-a-vis third parties.

Patents

In general, patents are issued for a non-extendable term of 20 years from the date of issue, assuming the legal date of the patent will be the date on which the application was filed. Holders of Mexican patents are required to commence exploitation of their patents within three years after they are issued, except when the holder of the patent has been importing the patented product or a product obtained through the use of a patented process. Otherwise, unless technical or financial just cause can be proven, an obligatory non-exclusive license to use the patent may be authorized by the Mexican Institute of Industrial Property upon request. In this case, the amount of royalties payable and other terms for such a license will be specified by the authorities. This license will expire if two years have elapsed since it was granted, and the holder does not exploit it or prove reasonable cause for not exploiting it.

Trademarks

Under the law, trademarks may be registered for ten years, renewable every ten years. Proof of actual use of a trademark within at least three years after it was registered must be furnished to the Mexican Institute of Industrial Property; otherwise, the registration will be considered lapsed. PwC Mexico's legal practice is available to advise on any situation dealing with the protection, licensing or sale of intellectual property rights.

Copyright protection against video and audio piracy

To legally recognize authors or owners of exclusive rights to software programs, video and audio recordings, books and other intellectual or artistic works, registration of these works is strongly recommended with the National Copyright Institute (*Instituto Nacional del Derecho de Autor*). The protection of copyrights lasts during the life of the author and 100 years after his/her death. To exploit them commercially, those reproducing or exploiting the copyrighted material must demonstrate their legal right to do so, and the reproductions themselves should clearly state the entity's corresponding authorization through a copyright license. Piracy of these restricted-use properties duly registered in Mexico is severely punishable through criminal prosecution and confiscation of both the unauthorized copies and the equipment used to carry out this activity.

Chapter 7

Banking and finance

Investor considerations

- Local credit has increased and diversified in recent years with the participation of other financial entities, which in some cases mainly focus on medium- and small-sized companies
- Commercial credit provided by banks for long-term loans, credit cards, automotive loans and real estate mortgage loans, as well as for financing inventories and factoring have been growing
- Brokerage houses still have a significant participation in the capital markets
- The Bank of Mexico (*Banco de México*), the central bank, operates as an autonomous entity within the federal government, including autonomy in monetary policy issues
- The Mexican Derivatives Market (*Mercado Mexicano de Derivados, MexDer*) has been increasing its presence and operations within the Mexican market
- The Securities Exchange Law (*Ley de Mercado de Valores*) has been adapted to recognize financial and economic factors. The last modification was made in January 2019
- New niche banks have been participating in the local credit market, focusing on specific economic areas or clients with certain profiles as a complement to the services provided by the biggest banks
- There are around 50 approved financial institutions (commercial banks), most of them subsidiaries of foreign banks
- On July 24, 2018, a second stock exchange, The Institutional Stock Exchange (BIVA, for its acronym in Spanish) was authorized in Mexico
- Electronic money payment institutions and crowdfunding institutions have been regulated by the Financial Technology Institutions Regulation Law (*Ley para Regular las Instituciones de Tecnología Financiera*), which is an important step for the financial services industry

General note

The Mexican banking system is privately owned and managed. Foreign investment is fully allowed.

To reduce the risk of a banking crisis and to protect investors' savings in financial institutions, the Banking Savings Protection Law (*Ley de Protección al Ahorro Bancario*) has been in place to help resolve the banking system bad debt problem while protecting depositors.

There are several financial commissions that supervise and regulate the different segments of the financial sector. These commissions agencies of the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Púbico, SHCP*) include the National Banking and Securities Commission (*Comisión Nacional Bancaria y de Valores, CNBV*), the National Commission for Retirement Savings Systems (*Comisión Nacional de los Sistemas de Ahorro para el Retiro, CONSAR*), the National Insurance and Bonding Commission (*Comisión Nacional de Seguros y Fianzas, CNSF*) and the National Commission for the Protection and Defense of Users of the Financial System (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros, CONDUSEF*), as well as the Institute for the Protection of Savings (*Instituto para la Protección al Ahorro Bancario, IPAB*.)

Banking system

Central bank

The Mexican banking system is regulated by the central bank, *Banco de México*, which is operationally autonomous in setting monetary policy. The central bank is in charge of supervising the operation of the Mexican banking system to have an efficient payment system.

The National Banking and Securities Commission

The National Banking and Securities Commission is a government commission under the Ministry of Finance and Public Credit. Its main activities are to supervise and regulate financial entities to maintain stability and good performance and to protect companies' and individuals' interests. It has the authority to penalize financial institutions when they violate provisions of the laws regulating their activities. The Commission has adjusted accounting standards for banks, stock brokerage firms and other intermediaries to match internationally accepted accounting principles and standards.

Banking market

The banks are divided into three groups: development banks, commercial banks and niche banks.

Development banks

The development banks include those established by the government to develop specific industries based on the National Development Plan (*Plan Nacional de Desarrollo*) such as the export trade. Currently, there are seven development banks:

- *Nacional Financiera* focuses on the development of small- and medium-sized businesses through financing, training and technical assistance
- *Banco Nacional del Ejército, Fuerza Áerea y Armada*'s main activity is to provide banking services to the military population and to support the federal government as a depository bank
- *Bancomext* focuses on encouraging Mexican companies, namely small- and medium-sized firms, to trade in global markets by providing financing, training and technical assistance to drive foreign trade, promote regional growth and create jobs
- *Banco Nacional de Obras y Servicios Públicos* finances or refinances public or private projects focused on public services
- *Banco del Bienestar* focuses on providing financial opportunities to all the population, especially to low-income sectors
- *Sociedad Hipotecaria Federal* promotes the construction of houses for low-income sectors and provides mortgages
- *Financiera Rural* focuses on providing financial resources, technical assistance, training and consulting to the rural sector

Commercial banks

Commercial banks receive the majority of checking and savings deposits and provide most of the short-term credit. The largest banks (BBVA, Banorte, Banamex — currently in sale by Citigroup, Santander, HSBC and Scotiabank) operate throughout the country offering a full range of banking services. There are around 50 approved financial institutions (commercial banks), most of them subsidiaries of foreign banks.

Individuals and companies residing in border zones are authorized to maintain checking accounts denominated in US currency.

Niche banks (Bancos de nicho)

In February 2008, the Mexican Congress enacted several reforms to the banking law to allow the creation of "niche banks" within the banking system. Niche banks undertake limited operations without the burden of carrying out the whole set of operations covered by the banking law. With these modifications, for instance, it would be possible to have institutions focused only on trading or trust activities without performing credit activities.

Bank reserves

In 1999 the Bank Savings Protection Law was promulgated. The objective of this law is to protect the population's savings. For this purpose, commercial banks are obliged to pay 0.04% of the total amount of their liability operations annually to the Bank Savings Protection Institute (IPAB, for its Spanish acronym.)

The percentage of its credit operation reserves is determined based on the client credit scores of each particular bank.

Investment availability

The Ministry of Finance and Public Credit authorizes private and public companies to issue both private and public debt instruments placed with the general investing public through the Mexican Stock Exchange, which provide interest rates or discounts yielding higher returns to investors than those offered by commercial banks. Additionally, exchange coverage protection may be purchased, and peso futures are currently traded on the Chicago Mercantile Exchange, the Chicago Board of Options Exchange and the Mexican Derivatives Market (MexDer.)

Specialized financial institutions

Financial holding companies are usually formed to hold interests in banking, stock brokerage, insurance, bonding, financial leasing, and factoring companies. Separate legislation regulates each of these activities as well as the holding companies themselves.

Non-bank financial entities

An entity called *Sociedad Financiera de Objeto Multiple* (SOFOM, for its acronym in Spanish) was created as a result of amendments to certain mercantile laws. These entities are basically devoted to providing financing through direct loans, financial leasing and factoring, and do not need to obtain an authorization from the Ministry of Finance and Public Credit to carry out business operations. However, they are not allowed to obtain funds (deposits) from the general public.

There are two types of SOFOMs:

1. **Regulated SOFOMs.** According to the 2006 and 2014 Mexican Financial Services Reform, any SOFOM with patrimonial links to a credit institution, popular financial corporations, financial community corporations (Levels I to IV), cooperatives savings and loan (Levels I to IV), and those debt securities issued by their dependents and enrolled in the National Registry of Securities, will be considered as regulated.

   To be a regulated SOFOM, it is necessary that a Mexican financial group holding company that owns a bank participate in the capital stock of the SOFOM. Also, a SOFOM qualifies as regulated under any one of the following conditions:

   - 20% or more of its capital stock is owned by a bank
   - The bank effectively controls the SOFOM by any means
   - The SOFOM and a bank have common shareholders
   - A financial group holding company directly or indirectly holds 51% or more of both a SOFOM as a credit institution
   - A company has shareholders or members in common with any of the companies mentioned above and owns 50% of the two companies or controls the assembly or board of both companies

   These types of entities are regulated by the Banking Commission.

2. **Non-regulated SOFOMs** are those that do not have any capital link with a financial entity regulated in Mexico or a relation as mentioned before.

As part of the Financial Reform, both types must be registered with the National Commission for the Protection and Defense of Users of the Financial System (CONDUSEF, for its acronym in Spanish) to be considered as a SOFOM and must also be users of a credit bureau. New corporations should be authorized previously by CONDUSEF to operate as a SOFOM; otherwise the entities would not be able to operate as such.

SOFOMs could be considered part of the Mexican financial system for tax purposes and are subject to a similar tax treatment, providing that 1) at least 70% of its assets derive from portfolio or accounts receivable resulting from the main corporate purposes of the SOFOM (i.e, credit, factoring or financial leasing) or 2) that the company derives income from activities and the sale or administration of loan portfolio granted by the company representing at least seventy 70% of its total income.

Investment institutions

Mutual fund investment companies

Mexican mutual fund investment companies have been growing significantly in terms of the number of funds, their size and the volume of transactions. Three main types of funds are available:

1. **Fixed-income funds,** which direct their investments mainly to high-yield, fixed income securities denominated in pesos, such as Mexican governmental treasury certificates (CETES, for its acronym in Spanish) and corporate debentures or commercial paper.
2. **Variable-income funds,** which are authorized to invest a large proportion of their assets in shares of companies listed on the stock exchange.
3. **Risk-equity capital funds,** which are rarely used and are mainly focused on the promotion of small companies by placing them in the public market.

Investment and mutual funds are authorized by the Ministry of Finance and Public Credit and are usually operated and distributed by mutual funds manager, brokerage houses and banks. The Ministry authorization also contemplates the type of investor that may participate in the fund (e.g., individuals, corporate treasuries, nationals, foreigners, and employee savings and retirement funds). The investment institutions are regulated by the Investment Funds Law (*Ley de Fondos de Inversión*).

Insurance and bonding companies are authorized by the National Insurance and Bonding Commission to invest their technical reserves in certain instruments. These entities commonly invest in the money market.

Retirement fund managers (AFOREs)

The Law for Retirement Savings Systems regulates retirement savings systems and their participants by means of retirement fund managers. These organizations, known as AFOREs (*Administradoras de Fondos para el Retiro*), are financial entities that, as of July 1, 1997, are exclusively and continuously engaged in the management of individual savings accounts; they channel the resources of the retirement subaccounts of which they are composed under the terms of the Social Security Laws through companies specializing in the investment of retirement funds known as SIEFOREs (*Sociedades de Inversión Especializadas de Fondos para el Retiro*). The exclusive purpose of these SIEFOREs is to invest the resources of individual accounts entrusted to them, in accordance with the terms of the Social Security Laws.

Authorization is required from the National Commission for Retirement Savings Systems (*Comisión Nacional del Sistema de Ahorro para el Retiro*) to operate as an AFORE or as a SIEFORE.

The capital of AFOREs is controlled to reduce potential conflicts of interest, to assure the security of the operation of the system and to have better control over the investment of pension funds. It should be composed of Series “A” shares, which must account for at least 51% of the capital. The remaining 49% can be composed of Series “A” and Series “B” shares. Series “A” shares may be acquired only by Mexican nationals and Mexican entities majority-owned and controlled by Mexicans. Series “B” shares are unrestricted.

Foreign entities other than foreign government agencies may hold capital in AFOREs or participate in their management. Direct or indirect foreign participation of foreign financial institutions in the capital stock of AFOREs is regulated by the applicable international treaties and agreements; they are subject to the regulations issued by the Ministry of Finance and Public Credit concerning compliance with such treaties and agreements.

The only party permitted to participate in the fixed capital portion of a SIEFORE’s capital stock is the AFORE that requests its creation and its members. In no case may the participation of an AFORE in the capital stock of the SIEFORE it operates be less than 99% of the fixed portion of the capital stock of the SIEFORE.

In addition to AFOREs, only workers investing in the resources of the individual accounts contemplated in the Social Security laws may participate in the variable portion of the capital stock of SIEFOREs.

Insurance market

The Mexican insurance market is the second largest insurance market in Latin America, with more than 90 insurance companies authorized, of which more than 80% corresponds to subsidiaries of international insurances entities. It has grown steadily over the years; nevertheless, the Mexican insurance market still has one of the lowest proportion of insurance penetration in Latin America, accounting for less than 2.3% of GDP. While Mexico's potential for growth is one of the most promising in the world, insurance penetration is likely to see very slow growth, despite the introduction of the Insurance and Bonding Law as this does not incorporate any relevant changes to increase insurance penetration or distribution of insurance products.

In Mexico, as of Q3 2022, a high inflation level is maintained, which, together with geopolitical uncertainty, has negatively impacted the Insurance sector, causing stagnation in the placement of premiums and uncertainty as no clear trend is seen in the emission levels.

In particular, the negative impact on the Insurance sector in Mexico is reflected by a contraction of 1.7% (Insurance fell 2% and Bonds grew 12%). An important part of the drop is due to Pemex's biennial policy. However, if you exclude Pemex's effect, then the Insurance sector showed a growth of 0.3%.

Life insurance decreased during Q3 2022 due to job losses from the pandemic, decreased purchasing power and family savings, along with inflation that makes insurance with a savings component unattractive as it generates negative real returns.

For its part, **Medical Expenses insurance** has maintained sustained growth since the start of the pandemic. It should be noted that as of September 2022, 51,076 cases of people with Medical Expense insurance infected by COVID-19 were reported in Mexico, with an average cost for hospital care of USD 26,647, while for Life insurance there were 155,740 cases with an average amount of USD 11,680 TD, which makes it the most expensive claim in the history of the Mexican Insurance sector with an amount of USD 3.17 billion.

Regarding **Auto insurance**, although sales of new vehicles rebounded, they are still at low levels compared with the years prior to the pandemic, which has an impact on the slow growth.

Losses occurred in **Property and Casualty (P&C)** without Auto insurance grew due to policy renewals.

Annual behavior

The movements in issuance led to changes in the composition of the portfolio compared with the previous year. In this sense, the increase in the participation of Medical Expenses stands out. Also of note is the contractions in P&C and Life, the latter with a drop of 0.9 % to represent 38% of the market.

In terms of solvency, the Insurance sector maintains its strength: as of Q3 2022, it had 2.2 times more capital than the Solvency Capital Requirement (RCS, for its Spanish acronym) to face unexpected losses in a one-year horizon, 0.2% above the level observed during 2021. The RCS coverage is 1.6 times greater than the required capital in Health and Medical Expenses, and 1.8 times more in Life. Recovery is observed in both due to the drop in claims caused by COVID-19.

Liquidity remains at adequate levels: the Insurance sector has 90% more liquid assets than those required by the Liquidity Index.

The solidity of the Insurance sector is reflected in its levels of solvency and sufficiency, which is gradually returning to normal levels.

The Investment Base remains stable, which means that there are sufficient resources to meet the obligations related to expected claims duly invested in accordance with the investment regime issued by the Mexican regulator.

In Mexico, there is still much to be done to make the participation of the insurance industry on GDP be greater than 2.3%.

Bonding companies

The Bonding sector comprises approximately 16 companies, which are mainly used to meet compliance and contractual obligations.

During the 3Q of 2022, the Bonding sector grew 12%. Its year-on-year growth was 3.5%, directly related to the bonding policies that guarantee compliance of constructions and public constructions obligations.

During 2022 the regulatory requirements related to surety insurance have been released, opening the possibility of growing of these entities.

Financial markets

Securities market

The amount of local capital available for investment in new or expanding industrial enterprises has increased considerably in recent years. A number of factors including principally the rapid expansion of mutual funds (see "Investment institutions" above), which opened the market to small investors, created interest in equity shares traded on the Mexican Stock Exchange. In addition, the Intermediate Securities Market (*Mercado Intermedio*) was created to trade the capital stock of smaller- and medium-sized businesses.

Foreigners are authorized to participate (buy and sell) in the Mexican Stock Exchange or in special funds created specifically for this purpose.

The Securities Exchange Law (*Ley de Mercado de Valores*) establishes international standard regulations covering stock market activities.

See Chapter 6 "Regulatory environment" for further discussion of the securities market and the Mexican Stock Exchange.

Specialized financial markets

Investment interest in Mexico has soared in the past several years and Mexican equities have been some of the most actively traded in the world. Mexican peso futures and options are traded on the Chicago Mercantile Exchange, providing the means for investors to make the most of the opportunities in Mexico today. The addition of futures and options on the Mexican peso represents a significant advance in risk management for all investors in Mexico because they provide nearly limitless possibilities and combinations for trading and hedging.

Among some of the advantages are that 1) investors can trade forward foreign exchange on the Mexican peso, 2) profits and losses are denominated in US dollars and 3) there is an exchange of Mexican pesos for US dollars at delivery.

The Mexican Derivatives Exchange (MexDer) and the Mexican Clearing House (ASIGNA) are the result of the collaborative efforts of Mexico's Ministry of Finance and Public Credit (SHCP), the National Banking and Securities Commission (CNBV) and the Mexican Stock Exchange (BMV). MexDer and ASIGNA were designed to facilitate the modernization of the Mexican financial system and to ultimately turn Mexico into the major financial center of Latin America.

MexDer and ASIGNA, pursuant to regulations promulgated by the SHCP, CNBV and the BMV, are established as for-profit corporations with self-regulatory mechanisms to permit supervision of the operation and financial situation of their respective participants. These self-regulatory functions govern contract execution, regulation of members, enforcement and compliance issues, and dispute resolution and disciplinary measures. The specific role of ASIGNA is to liquidate futures and options contracts executed on the MexDer and to act as counterparty in the context of these operations.

Banks and investment banking firms are the only operating partners authorized to conduct operations on behalf of clients on the MexDer.

The MexDer offers futures and options with respect to a specific index, and dollar and interest rate futures. The intention is to permit trading in both dollar and interest rate options. The BMV developed the MexDer after consulting with the world's largest stock exchanges in an effort to ensure a solvent and competitive market that would facilitate broad participation, reduce transaction costs, increase liquidity and provide better risk coverage in the management of portfolios.

International financial market

Mexico provides the full range of international financial services to both residents and non-residents. Most major Mexican banks have full-service branches in the major international financial centers (including New York, Los Angeles, London and Tokyo.)

Some foreign banks (mainly the US, Spanish, British and Canadian) have opened subsidiaries in Mexico.

There is an active foreign exchange market. However, because of Mexico's proximity to the United States and because it is Mexico's principal trading partner, most foreign currency transactions (purchases, sales, remittances and futures) are carried out in US dollars.

Additionally, other foreign currencies (which are traded in very low volumes), including the euro, have fluctuated against the Mexican peso in similar proportions to the US currency as the Mexican peso is seen as pegged to the US dollar in the European market. Eurobonds are not traded in Mexico, but Mexican corporations and individuals may invest in such instruments in foreign markets.

Offshore financial services

Mexican companies are free to carry out offshore activities including banking transactions (deposits, borrowings, remittances and transfers). As mentioned above under "International financial markets," Mexican banks are authorized to open branches overseas and to carry out banking activities with both residents and non-residents of Mexico.

Mexican taxpayers are required to file an annual information return when their source of income is located in a country deemed to be a tax haven or preferential tax regime by Mexican law or in a country with a territorial tax system. More information on the taxation of investment income can be found in relevant Chapters in Part II "Tax issues and considerations" of this Guide, which deals with taxation of different types of investors.

Sources of funds

Short-term credit

Commercial banks provide most local-source financing. Short-term credit is furnished on a line-of-credit basis and may be supported by a pledge of inventories or by discounting customer financial assets.

Short-term commercial credit is available only at interest rates that would probably range from 11% to 36% a year for a bank loan in pesos to a Mexican subsidiary, even if repayment of the loan were guaranteed by a parent company having the highest credit rating abroad. Borrowers are also encouraged to maintain substantial compensatory balances on deposit with lenders.

Banks generally charge rates similar to those for short-term peso credits on discounts of customer financial assets of manufacturing and wholesale enterprises, although somewhat lower rates are available for loans secured by inventory or fixed assets and for industrial mortgages.

There are also entities called Savings and Popular Credit Entities (*Cajas de Ahorro Popular*) whose main function is to provide short-term credit to its members. The advantage of these entities is that their interest rate is lower than the market interest rate.

Local capital market

Obtaining long-term capital is expensive in Mexico. Debentures of industrial and large commercial corporations may be listed on the Mexican Stock Exchange for sale to the public, and 30-to-90-day commercial paper is also being issued through the market by listed companies.

Local private capital can usually be found to provide the majority ownership of Mexican companies; they often include minority shareholders from recognized foreign companies who provide technical assistance and know-how.

With the liberalization of passive interest rates and operational flexibility in the banking industry, the availability of lendable funds and related interest rates is determined by each major bank individually. Accordingly, company treasury officials should consult and possibly negotiate the terms and conditions of each entity's financing needs with several banks before deciding on the most favorable source of funds.

Availability to foreign investors

There are no restrictions on foreign investors' access to local sources of finance. However, foreign investors do not usually consider local sources of finance since the cost of financing is high.

Some restrictions apply to the ability to invest in government securities and in local public companies. Those interested in investing in Mexico are encouraged to consult with the international divisions of the Mexican banks and brokerage houses located in the major international financial centers and in Mexico.

Impact of the Foreign Investment Law and USMCA on the financial services industry

Because of Mexico's commercial opening some years ago, modifications were made to legislation applicable to the Mexican financial system. The aim of these modifications was principally to allow and regulate the participation of foreigners in the capital of financial entities in Mexico, as well as the establishment in Mexican territory of subsidiaries or subsidiary holding companies of foreign financial institutions based in countries with which an international agreement or treaty had been executed for this purpose.

Foreign participation in other entities of the financial system

The limit on foreign participation in the financial system is 49% for financial leasing companies, financial factoring companies, mutual insurance companies and institutions, bonding companies, brokerage firms, general deposit warehouses and retirement fund managers (AFOREs.)

However, Mexico has entered into commercial treaties with many countries and therefore we recommend that in each specific case, PwC Mexico should be consulted to determine whether Mexico has a commercial treaty with special provisions allowing a higher percentage of foreign participation in the desired type of entity within the financial services industry.

Foreign Account Tax Compliance Act (FATCA) — Implications for Mexico and the Mexican Financial System

The Mexican Ministry of Finance and Public Credit (SHCP), in conjunction with the Treasury Department and the Internal Revenue Service of the United States, signed on November 19, 2012, an agreement to adopt the automatic and reciprocal exchange of information between the two countries.

In Mexico, since January 2013, FATCA requires foreign financial institutions to exchange information, through a report to the IRS where the existence and details of accounts of US citizens are integrated. This was done in two stages: First during 2013 as a transition year for the banking and financial institutions to prepare the technological and operational infrastructure necessary to collect information from pre-existing accounts and to transmit it to the IRS. And the second stage, which began in 2014, involves the reporting of the new accounts.

Today, financial institutions in Mexico have an obligation to provide information to the Tax Administration Service (SAT, for its acronym in Spanish) regarding US citizens and residents who hold bank accounts that together exceed USD 50,000 by the end of each year, so that the Mexican government can automatically report to the US authorities information regarding its citizens (name, address, tax identification number, average monthly balance and detail of their accounts whether in custody or deposit.

Common Reporting Standard (CRS)

As part of the tax reform, which was enacted as from January 1, 2016, and in accordance with the standard for the automatic exchange of information regarding financial accounts as recommended by the OECD, the Mexican financial entities are required to identify high- and low-value pre-existing (until December 2015) and new (as of January 2016) “reportable financial accounts” opened by clients and to report them to the Mexican tax authorities on an annual basis. This is an obligation similar to FATCA and has to be reported by August each year.

Chapter 8

Exporting to Mexico

Tips for exporters to Mexico

Mexico's commercial conditions provide an excellent business environment and investment opportunity:

- Mexico is a member of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation Mechanism (APEC), the Organization for Economic Co-operation and Development (OECD) and the Latin American Integration Association (LAIA)
- Mexico is an excellent potential customer for exporters, with its developing economy and a current population of over 130.3 million
- Mexico lies in a strategic geographical location for international trade, sharing borders with the United States, providing easy port access from Europe and Asia, and representing an easy entry to the rest of Latin America
- Mexico has signed 14 Free Trade Agreements (FTAs), which provide preferential duty rates on foreign trade operations with 50 countries, plus 30 agreements to promote and protect foreign investment (Acuerdos de Promoción y Protección Recíproca de Inversiones, APPRIs) and nine Economic Complementation Agreements under ALADI
- FTAs signed by Mexico include USMCA, CPTPP, EFTA, European Union, Pacific Alliance, Central America (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua) as well as bilateral agreements with Panama, Peru, Bolivia, Japan, Uruguay, Israel, Chile and Colombia
- General import duty rates range from 0% to 75% according to the current Mexican Tariff Schedule (except for certain food products, cigars and cigarettes as well as used vehicles, which pay higher duties)
- Temporary imports are exempt from customs duties (except for fixed assets) and in some cases will pay import value-added tax (VAT) as of January 2015. However, if certain requirements are met, it is possible to obtain an automatic 100% tax credit for such import VAT
- Mexico offers information through official and private commercial delegates worldwide

Import restrictions

The Mexican government has continued its policy of progressive reduction of trade barriers to imports. However, prior import licenses from the Ministry of Economy as well as Mexican Official Standards (NOMs) Certificates are required only for specific description items or classifications in the customs tariff.

Currently, there are special requirements for importing products into Mexico that affect health, ecology, quality, and consumer protection issues. These requirements have different specific formalities, depending on the product to be imported, and are usually identified by the subheadings included in the Harmonized Commodity Description and Coding System (HS.)

The special requirements are managed by government ministries such as the Ministry of Economy; the Ministry of Health; the Ministry of Defense; the Ministry of the Environment, Natural Resources and Fisheries; and the Ministry of Agriculture and Livestock.

The importation of drug products or substances containing illegal drugs (acetylmorphine, coca leaf, corn poppy, cannabis indica, etc.) is banned.

Import and customs duties

Tariff classification

Since the late 1980s Mexico adopted the HS, making its import/export classification system compatible with those of most countries with which it commonly trades.

The General Import and Export Tariff Law has been in place since 2007, establishing the Mexican Tariff Schedule with some tariff code reclassifications and a general reduction in the duties. The current Mexican Tariff Schedule is based on the 6th edition of the HS Nomenclature, published by the World Customs Organization.

Customs law

The customs law, in effect as of 1996 was designed to provide legal certainty, promote investment and exports as well as to comply with the international commitments undertaken by Mexico. This law incorporates a number of tax rules and operational authorizations on specific international operations.

Customs valuation

The customs valuation of merchandise to determine its taxable base for import/export duty purposes is generally the transaction value of the goods; i.e., the value actually paid for the goods. In this sense, Mexico has adopted the valuation agreement approved by the WTO.

Consequently, if a financial, commercial or other type of relationship exists between the foreign supplier and the Mexican importer (related parties), free competitive conditions must be satisfied.

Rates

Import duty rates range from 0% to 35%; however, according to the current Mexican Tariff Schedule (except for certain food products, cigars and cigarettes, and used vehicles, which pay higher duties that go up to 75%.)

In addition, higher rates apply to different types of goods and to imports from certain countries, where countervailing duties apply. Examples of these goods include poultry, soybean oil, pencils, steel products, among others.

Special rates and preferential tariff claims

Mexico has signed 14 free trade agreements, such as the USMCA, Pacific Alliance, CPTPP, European Union, European Free Trade Association (EFTA), Central America Free Trade Asociation, as well as bilateral agreements with countries such as Colombia, Chile, Panama, Peru, Bolivia, Uruguay, Israel, the United Kingdom and Japan. These FTAs require Mexico to apply preferential duty rates to the importation of goods from more than 50 countries. Additionally, some preferences are provided in the form of import duty reductions pursuant to per-country bilateral commercial agreements signed under the LAIA.

Furthermore, Mexico signed economic cooperation agreements with Brazil, Argentina, Paraguay under MERCOSUR (South America Common Market.)

All preferential customs rates may be requested by the importer if a certification of origin is submitted before customs.

In addition, the Ministry of Economy has maintained Generalized System of Preferences (GSPs) since 2001. GSPs are designed to support domestic manufacturers by allowing them to import components, raw materials and equipment under a preferential import duty rate provided that such items are used in the production of goods authorized by the corresponding more-developed countries.

Other taxes

Merchandise imported within Mexico may be subject to other indirect taxes such as excise tax and value-added tax (VAT). Usually, the taxable base for the calculation of these taxes is the customs value (transaction value plus related expenses), plus import duties. The related expenses refer to those expenses paid abroad and related to the importation (i.e., freight, insurance.)

Most imports of tangible goods are subject to VAT at the same rate that applies to domestic sales (16%). Refer to Chapters 23 and 24 for more information on VAT and other indirect taxes.

Documentation procedures and requirements upon importation

The importer of record shall be incorporated in accordance with the Mexican legislation and shall hold an importers' registration or a specific sectorial importers' registration.

Aside from a customs declaration (*pedimento*) that is required for the customs clearance of goods, other documents shall be attached such as the commercial invoice, evidence of other expenses (freight and insurance), among others.

Any special import license or permit, when required, should be obtained before the arrival of merchandise at a Mexican customs office and submitted at the time of customs clearance. If the goods are imported from a country with which Mexico has free trade agreements, a "certification of origin" of the goods is required to apply for preferential duties.

Other charges

In addition to import duties, excise tax and VAT are payable on imports. There are some countervailing duties for certain goods. Also, a customs processing fee is payable along with the import declaration. This fee is calculated depending on the type of import; for example, in the case of permanent or definitive imports the fee is 0.8% of the customs value of the goods. Also, a "prevalidation" fixed fee per customs declaration of around USD 12 is applicable.

Review procedures

Customs authorities are empowered to review any import or export operation and to carry out physical inspections of merchandise wherever they are located within Mexican territory. Moreover, it is common for the authorities to request information or support of the legal status of any foreign merchandise (including machinery and equipment). Therefore, strict record keeping is recommended.

Fines and other penalties

Non-compliance with customs rules is strictly punished in Mexico. Penalties include seizure of the merchandise without the possibility of recovery in extreme situations, late-payment penalties and assessment of omitted customs duties, plus fines of up to 150% of the value of the goods may apply. Extreme cases could result in criminal prosecution.

Customs and storage

The customs handling system uses a computerized tracking and traffic control system including warehousing. Customs and storage facilities are adequate and secure.

Regular customs clearance should be made by the importer within two days up to two months,[1] depending on the type of good and arrival location.

Shipments are subject to being declared as abandoned after the deadline stated above. Customs authorities will grant an additional 15-working-day period for customs clearance. Once this second period expires, the property is automatically transferred to the Mexican Government.

Port of entry and inland transport

Ports of entry

The most important ports of entry, based on volume of merchandise handled, are as follows:

- **Gulf of Mexico (Atlantic coast):** Veracruz and Tampico-Altamira
- **Pacific coast:** Manzanillo, Lázaro Cárdenas and Acapulco
- **Northern border:** Nuevo Laredo in the northeast, Ciudad Juárez, and Tijuana in the northwest
- **Air shipments:** Mexico City, Guadalajara, Monterrey, and others

Inland transport

The Mexican railroad system serves ports of entry such as:

- **Northern border:** Nuevo Laredo, Matamoros, Piedras Negras, Ojinaga, Ciudad Juárez, Nogales, Mexicali and Tijuana
- **Gulf coast:** Matamoros, Tampico-Altamira, Veracruz and Coatzacoalcos
- **Pacific coast:** Mazatlán, Topolobampo and Salina Cruz

All major cities/destinations are served by privately owned trucking companies. Exporters should consult with their importer/customer ahead of time to determine the optimal logistics applicable, depending on the type of goods, volume and final destination.

1 For example: explosives; flammable materials; contaminating, radioactive or corrosive products; perishable goods and live animals (in which case the goods must clear customs during the three days commencing two days after the date of arrival.)

Bonded warehouses

Goods may also be held in bonded warehouses operated by private companies under a government authorization for a period of two years. Import duties are deferred and adjusted for inflation when goods are withdrawn from the bonded warehouse at the time of the importation.

Foreign tax residents are allowed to maintain goods in any bonded warehouse for local delivery without triggering a “permanent establishment” (see Chapter 16.)

Re-exports

Temporary imports

Mexican customs regulations contain special provisions for temporary importation of goods. Goods can be imported under temporary basis — allowing the deferral of import duties from one to 18 months — to return abroad in the same condition as imported as in the case of containers, exhibit merchandise, aircraft, ships and trailers. But also, goods can be imported under temporary basis to be transformed, processed or repaired under an IMMEX program. See Chapter 4 for a description of the incentive programs under which temporary imports are allowed.

Sales to the Mexican Government

The government procurement law establishes the rules with which companies must comply if they want to sell their products or services to government entities. USMCA provides less stringent rules for suppliers domiciled in the United States and Canada.

Free trade zones within Mexico

There are no free trade zones in Mexico as known in other countries. However, since December 31, 2020, Chetumal’s Free Zone Decree was published.

For other tax incentives in the Southern and Northern Border Region, please refer to Chapter 2. “Business environment.”

Local representation

Market surveys

Before starting any export sales to Mexico, it is essential to survey existing and potential markets. PricewaterhouseCoopers maintains a fully integrated international trade practice staffed with customs and trade specialists (World Trade Management Services) who can provide necessary information.

Local agent or customs broker

Although it is possible for a Mexican taxpayer to perform an import or export transaction, there is a threshold in the commercial value to be able to do this. When the transaction exceeds this threshold, it is mandatory to use the services of a licensed customs broker.

Employee/salesperson

The definition of what constitutes a “permanent establishment” (PE) for Mexican income tax purposes (i.e., whether a foreign corporation is deemed to be engaged in a trade or business in Mexico) should be considered. (See the “Permanent establishment for income tax purposes” sidebar in Chapter 16.)

A PE of a foreign corporation is deemed to exist if the corporation carries out activities through a representative who acts under detailed instructions or receives guaranteed remuneration, as well as when the representative has the authority to sign contracts or deliver merchandise within Mexico on behalf of the foreign entity.

However, if there is a tax treaty in effect between the country of the foreign corporation and Mexico, the definition of PE should be analyzed on a case-by-case basis. Under the definition of most treaties, merely having a limited activity through a representative who does not have the power to negotiate contracts may not give rise to a taxable PE in certain cases, although certain employee taxes and labor obligations may still apply.

Sources of information

Overseas

Parties interested in exporting to Mexico may consult with the commercial attachés of Mexican embassies around the world or the international trade specialists assigned to foreign branches of Mexican banking institutions in most major financial centers worldwide.

In Mexico

For general information on Mexico’s trade potential, you may approach the commercial attaché of your country’s embassy as a preliminary contact. Additionally, most of Mexico’s major trading partners (the United States, the United Kingdom, France and Germany, among others) have a specialized Mexico-related chamber of commerce. For more detailed information, see Appendix XVI. You may also contact the following:

- Ministry of Economy (SE, for its acronym in Spanish): www.gob.mx/se
- Mexican Foreign Trade Bank (Bancomext): www.bancomext.com
- Mexican Industrial Information Fund (INFOTEC): www.infotec.mx
- National Association of Importers and Exporters of the Mexican Republic (ANIERM, for its acronym in Spanish): www.anierm.org.mx

And, of course, you may also contact the PwC Mexico specialists: www.pwc.com/mx

Chapter 9

Business entities

Investor considerations

- Foreign and domestic investors can freely choose from various types of entities to conduct their business, professional or non-profit activities in Mexico. Regarding commercial activities, the most common type of companies in Mexico are the Stock Corporations (*Sociedad Anónima* or S.A.) and Limited Liability Companies (*Sociedad de Responsabilidad Limitada* or S. de R.L.) due to certain benefits and the flexibility around corporate rights and obligations of the shareholders/partners
- Prior governmental authorization is only required for a limited number of activities regardless of the type of entity that is chosen, but the choice of corporate name always requires prior authorization from the Ministry of Economy
- Except for the Simplified Stock Corporations (not available in all cases), all other forms of commercial entities must be incorporated before a Mexican Notary Public or Commercial Public Attester
- Most types of entities may freely determine their minimum capital stock in the bylaws — with the exception of certain publicly traded entities and entities in the financial sector, which must abide by specific legislation and regulatory ordinances. While the Law does not state a minimum stock capital for the companies, it is mandatory to have at least two partners/shareholders. In the case of the S. de R.L., the minimum capital contributed by each partner should be at least MXN 1.00, and in the case of the S.A., the minimum contribution may be less than MXN 1.00
- Debt-to-equity ratios are not generally mandatory but may affect the tax deductibility of interest in highly leveraged operations
- Except for Simplified Stock Corporations devoted to very small ventures, all other forms of legal entities require at least two investors or participants. Mexican corporations have their own legal existence different from the legal existence of their investors or partners; therefore, corporations are treated separately from the entity for both legal (i.e., contracting party) and tax purposes
- For the most commonly used types of entities, personal or corporate legal, economic and tax liability of their investors is usually limited to the loss of their capital contribution in the entity. However, certain types of entities, seldom used nowadays, carry unlimited liability for one or all of the investors or partners
- Corporate ownership is easily transferrable for most types of entities. and capital and profits can be freely distributed and repatriated, irrespective of the type of entity or business investment

Considerations when setting up a business entity

Choice of entity

A potential investor, domestic or foreign, has free choice to operate through almost any form of entity. A Stock Corporation (S.A. or S.A.P.I. and in its “de C.V.” [*variable capital*] modality) is the most commonly used type of entity for a subsidiary of a foreign corporation, although sometimes a form of General Partnership (*Sociedad en Nombre Colectivo*), a Limited Partnership (*Sociedad en Comandita*) or a Limited Liability Company (S. de R.L. and in its “de C.V.” [*variable capital*] modality) is used, especially if the objective is that the Mexican entity be treated as a foreign partnership for tax purposes in the investor’s home country, where applicable. A foreign corporation may also conduct most business activities through a registered branch or permanent establishment in Mexico, such as a Representative Office with or without income. Limited liability to the partners is not offered in all cases for these types of entities.

Government authorization

Prior authorization to use a specific corporate name in Mexico is required from the Ministry of Economy. No approval is needed to amend the corporate charter or bylaws unless the amendment involves a change in the corporate name.

The Ministry of Foreign Affairs should be notified of cases where substitution of a provision regarding the allowing or prohibiting of a foreign investment participation in the legal entity occurs.

Certain activities may require prior authorization from the Foreign Investment Commission if the entity will have whole, partial or neutral foreign investment. See Chapter 5 for details on restrictions on foreign investments.

Formation requirements

Stock Corporations (S.A.) and Limited Liability Companies (S. de R. L.) are considered the most common types of legal entities in Mexico)

The initial minimum share capital for a regular corporation established as a Stock Corporation (S.A., S.A.P.I. or S.A. de C.V.) or a Limited Liability Company shall be the amount freely determined by the charter or bylaws established in the act of incorporation of the relevant legal entity; however, it is customary that Mexican entities determine such minimum share capital to be a nominal amount ranging from MXN 5,000 to MXN 50,000 or an amount that may provide their possible creditors a reasonable economic substance. Stock Companies issue shares and Limited Liability Companies may issue equity participations to represent their capital stock.

Every Stock Corporation must have at least two shareholders and each must at least acquire one share. Regarding Limited Liability Companies, they must have at least two partners as well, and each may have only one equity participation (though certain exceptions apply). The value of an equity participation of an S. de R.L., shall be of at least MXN 1.00; shares of an S.A., S.A. de C.V. or S.A.P.I. may have any value granted by the shareholders, but all shall be worth the same.

After all necessary governmental authorizations have been secured, the charter and bylaws must be formalized pursuant to a public instrument executed before a Public Attester (Notary Public or Commercial Public Attester). The legal entity must then be registered in the Public Registry of Commerce (*Registro Público de Comercio*) corresponding to the corporate domicile of the legal entity and with relevant all tax and regulatory authorities, such as the National Registry of Foreign Investments as described in Chapter 5 and the Mexican Entrepreneurial Information System.

Repatriation of funds

There is no restriction on remittance of profits or on the repatriation of initial or subsequent investments.

The sale, exchange or transfer of shares issued by a Mexican corporation is generally treated as a taxable event, and any resulting profit is considered to be from Mexican sources, irrespective of the residence of the selling shareholders or where the transfer takes place. Applicable tax treaties reduce or eliminate the capital gains tax.

Tax considerations

No Mexican companies are considered transparent for income tax purposes in Mexico, even if they are classified as partnerships or flow-through entities for foreign purposes.

However, certain Mexican trusts are considered transparent for income tax purposes (see Chapter 21 “Taxation of trusts”). All Mexican resident companies are taxed in the same manner and must use the calendar year for legal and tax purposes.

Intercorporate dividends are not taxed twice.

As of January 1, 2014, Mexican individuals and residents abroad (whether individuals or legal entities) are taxed with 10% withholding with respect to the dividends distributed in their favor by Mexican legal entities. Said Mexican entities are obligated to withhold and pay such tax to the Mexican federal tax authority, the Ministry of Finance and Public Credit (*Secretaría de Hacienda y Crédito Público*).

Professional advice

Legal and tax advisors should be retained early in the planning stages to secure the necessary government approval, design the most flexible and desirable corporate structure best suited for the particular global corporation, and ensure a smooth setup and regulatory compliance.

Forms of business entities

The main forms of organization of business entities in Mexico are regulated by the General Law of Mercantile Companies (*Ley General de Sociedades Mercantiles*), the Securities Exchange Law (*Ley del Mercado de Valores*), the Commercial Code (*Código de Comercio*), and the Federal and Local Civil Codes (*Código Civil*). The most common forms of business entities are summarized in Table 6 below and are discussed in more detail later in this Chapter.

Table 6. Principal forms of business enterprise

Sociedad Anónima (S.A.)	Stock corporation (S.A.)
Sociedad Anónima Promotora de Inversión (S.A.P.I.), or	Stock corporation for the promotion of investment (S.A.P.I.), or
Sociedad de Responsabilidad Limitada (S. de R.L.)	Limited liability company (S. de R.L.)
These types of entities may adopt the modality of Variable Capital and add “de C.V.” to its corporate name (S.A. de C.V., S.A.P.I. de C.V., S de R.L. de C.V.). These are the forms most used by domestic and foreign investors	
Sociedad en Nombre Colectivo (S. en N.C.)	General partnership (rarely used by foreign investors because of unlimited liability of their investors, unless they want to qualify as a foreign partnership in the home country)
Sociedad en Comandita (S. en C.)	Partnership with limited and unlimited liability partners.
Sociedad Civil (S.C.)	Civil partnership, i.e., of a noncommercial nature. (Used for non-profit entities and by professional practitioners).
Asociación en Participación (A. en P.)	Joint venture contract or agreement. This is not a legal entity but is treated as a separate entity for income tax purposes.
Sucursal de Sociedad Extranjera	Branch of a foreign corporation
Sociedad por Acciones Simplificada (S.A.S.)	Simplified stock corporation, devoted to very small ventures, which are subject to special rules like not owning equity in other entities and total annual income of less than MXN 5,000,000, among others.
Comerciante / persona fisica	Sole proprietorship (a foreigner must qualify as a permanent resident, “inmigrado”, to be able to do business in this way).
Asociación Civil (A.C.)	Civil association (used by charitable and other nonprofit organizations)
Oficina de Representación Con o Sin Ingresos	Representative office, income- or non-income-earning

The General Law of Mercantile Companies is of a federal nature and applies throughout the country. Although Civil Law is in principle state law, the civil codes for the different states in Mexico are practically identical in terms of the formation of entities of a civil nature and follow the Federal Civil Code. (For further considerations in setting up a business operation in Mexico, see the checklists in Appendix XIV and XV.)

Stock corporation

The most common way for domestic and foreign investors to operate in Mexico is through a Stock Corporation (*Sociedad Anónima, S.A.*) formed under the General Law of Mercantile Companies. In this case, the corporate name selected is followed by the words *Sociedad Anónima* (or the acronym S.A.). A foreign-owned Mexican corporation is subject to the laws relating to all local companies in general, as well as to the Foreign Investment Law discussed in Chapter 5.

Formation procedures

As mentioned above, after the corporate name authorization is issued by the Ministry of Economy to incorporate the company, the bylaws are required to be reproduced in an instrument certified by a Public Notary or a Commercial Public Attester, which will formalize the incorporation of the legal entity; such public instrument will represent the combined incorporation charter and bylaws.

In accordance with the General Law of Mercantile Companies, legal entities come into existence when they interact with third parties; nevertheless, for practical reasons they are considered to exist as of the date of the public instrument issued by the Notary Public or Commercial Public Attester, and as applicable acquire limited liability status when they are registered before the Public Registry of Commerce corresponding to their corporate domicile.

Upon incorporation, when foreign ownership of shares is permitted in accordance with the bylaws of the relevant entity, a statement known as the Calvo Clause (*Cláusula Calvo*) is included. This clause states that *"any foreign shareholders must consider themselves as Mexican nationals with respect to their stock ownership and agree not to invoke the protection of their governments in matters connected with such ownership under penalty, in the case of non-compliance, of forfeiting their holdings in favor of the Mexican state."* In a few cases, specific authorization may be required from the Foreign Investment Commission, as indicated in Chapter 5, for legal entities to have foreign capital.

The formation of a Mexican Stock Corporation (S.A.) usually takes an average of six weeks if no permit or authorization is required from the Foreign Investment Commission. Certain details of the initial shareholders are also included in the notarial instrument of incorporation, including the names and identification of such shareholders and their Mexican Taxpayers' registration or foreign tax ID; the amounts of capital contributed by each and the terms for payment of any amounts due; the names of the initial officers (such as president, secretary, treasurer, among others) members of the board of directors or sole administrator and statutory auditor (*Comisario*), as well as the granting of powers of attorney for the representatives acting on behalf of the Stock Corporation.

Certain filings from the tax perspective regarding each new corporation, but not its shareholders, must be filed with the Ministry of Finance and Public Credit, including, among others, obtainment of the Mexican tax ID (*Registro Federal de Contribuyentes* or RFC), appointment of legal representative of the company before tax authorities and obtainment of the electronic signature of the company.

Ultimate beneficiary owner

As of January 1, 2022, Notary Publics and Commercial Public Attesters have the legal obligation to identify the Ultimate Beneficiary Owner (*Beneficario Controlador*) of the legal entities incorporated before them in Mexico. This process may include providing notarized and legalized or apostilled copies of corporate documentation of foreign shareholders of Mexican legal entities, as well as translation of such documents in Mexico by an official legal translator who is authorized by Mexican courts. Provision of these documents by the shareholders may affect the timeline of the incorporation of legal entities in Mexico, as it will be subject to the identification of the Ultimate Beneficiary Owner and the provision of the above-mentioned documents.

Capital structure

Generally speaking, a Mexican Stock Corporation may never have less than two shareholders; there is no limit on the maximum number of shareholders. The capital stock of Stock Corporations is divided in shares that will be represented by stock certificates that will certify and transfer the capacity and rights of shareholder.

Minimum capital authorized, issued, paid-in

There is no mandatory minimum paid-in capital for Stock Corporations. The charter or bylaws of the corporation may freely determine such amount; note that, as mentioned above, it is customary for Mexican corporations (S.A. or S.A.P.I.) to determine a minimum share capital in an amount ranging from MXN 5,000 to MXN 50,000 or an amount that may provide their possible creditors with economic substance. Nevertheless, at least 20% of the value of each share in the capital stock must be paid in full at the time of incorporation when paid in cash and 100% when paid in kind. The authorized capital should be fully subscribed within one year from the incorporation. Additional capital stock cannot be issued until the outstanding shares are fully paid. Shares paid for with assets in kind must be held in the treasury of the corporation as restricted stock for a term of two years. If at the end of the period the value of the received assets is 25% lower than that which they were received, the shareholder must pay the difference to the stock corporation.

A stock corporation may acquire its own shares only through a court resolution to pay the liabilities of the corporation, in which case the shares must be sold within three months or the capital stock must be reduced accordingly. There is an exception to the above-mentioned rule for publicly traded companies, which can hold their own shares in treasury for up to one year. If the treasury shares are not re-issued by the end of that term, they must be cancelled, and the capital stock reduced. Nevertheless, S.A.P.I. corporations may acquire their outstanding shares, which would not be tallied for quorum or voting purposes while held by the corporation.

Par-value/no-par-value shares

The shares must have a stated par value. All shares must be of equal value and in principle confer equal rights to their holders, unless different classes of share are issued. The par value of the shares may or may not be stated in the stock certificates issued to represent the shares of the corporation. However, there is no consensus among scholars on whether or not the actual shares have a par value or not.

Stock certificates

Shares must be represented by stock certificates, which must include the following information:

- Name, nationality and address of the relevant shareholder
- Name, address and duration of the company
- Amount of capital stock, total number and par value of the shares (if applicable)
- The value of the shares that the shareholder has paid or the indication that its shares are fully paid
- The series and number of the stock certificate including the total number of shares corresponding to such series
- The main rights and obligations imposed to the shareholder, as well as the limitations on voting rights (if applicable)
- The signature of the directors that must subscribe the stock certificate in accordance with the bylaws of the company (typically the Sole Director/Manager or the Chairman and another Member of the Board of Directors/Managers

Share ownership

All shares must be issued to an identified person and transfers must be recorded.

Classes of shares

Mexican corporate law provides certain flexibility, depending on the corporate form, to allocate profits and losses among shareholders.

The charter/bylaws may specify that these shares will receive higher rates of dividends than the common shares. Debentures convertible into shares may also be issued.

Where a minimum percentage of the stock must be held by Mexican nationals, a separate series of shares must be issued that may not be legally owned by non-Mexicans, except for permanent immigrants in certain cases. A second series of shares, usually with identical rights, may be freely subscribed.

Recent reforms to the General Law of Mercantile Companies allow the issuance of shares that

1. Do not confer the right to vote, or that the vote is limited to specific matters.
2. Grant non-economical corporate rights, different from the right to vote or exclusively the right to vote.
3. Confer the right to oppose, or that the favorable vote of one or more shareholders regarding resolutions on shareholders meetings is required.

The shares issued in accordance with the abovementioned characteristics will be considered for the determination of the quorum required for the convening and voting at shareholders meetings, exclusively regarding matters in which voting rights are granted to their holders.

Loans and debentures

Stock Corporations may issue mortgage obligations or unsecured debentures, which may be listed on the stock exchange for sale to the public, or may contract loans with or without guarantee as desired in accordance with law.

Increases and decreases in capital

Modifications of the minimum fixed portion of the authorized capital stock are considered amendments to the bylaws; therefore, an Extraordinary Shareholders Meeting will be required to approve such amendment and, in some cases, require permission from the Foreign Investment Commission. Existing shareholders have the preferential right to acquire any authorized increases in capital or to submit some of their shares for redemption if the capital is reduced in proportion to the number of shares held by each shareholder in the capital stock of the corporation. Reductions in capital stock by means of reimbursement or release of unpaid shares must be published with the electronic publications systems held by the Ministry of Economy to provide protection for creditors.

Shareholders may also vote to make additional capital contributions for which shares are not received, sometimes to absorb losses suffered by the corporation or to require the payment of a premium by acquirers of new shares. Such share premium accounts can subsequently be distributed to the shareholders (in proportion to their interest rather than in proportion to their original payments of the premium), although this is rarely done before liquidation.

The provisions of the General Law of Mercantile Companies specifically authorize the capitalization of any surplus arising from the revaluation of assets, provided that the revaluation surplus is based on an independent appraisal by professional appraisers recognized by the National Banking and Securities Commission (*Corredores Publicos*) and is shown on a balance sheet previously approved by the shareholders. If the revaluation surplus relates to investments in shares or commodities, it must be based on certified market quotations. However, such revaluation surpluses may not be, in all cases, in accordance with Mexican Financial Reporting Standards (See Chapter 12 “Accounting principles, practices and requirements”.) Certain limitations on the amounts of revaluation surplus that can be capitalized are also imposed on corporations listed in the Mexican Stock Exchange.

Transferability of shares

Transfers of registered shares shall be recorded in the shares registry book kept by the Stock Corporation. Such transfer must be published within the electronic publications system held by the Ministry of Economy.

Shareholders of a Stock Corporation may establish that the transfer of shares may only be made with authorization by/from the Board of Directors or other restrictions.

Liability of shareholders

Shareholders are liable only for the amount of their contributed capital. A seller of partially paid shares is jointly liable with the buyer for any unpaid balance thereof for a term of five years.

Relationship of shareholders, directors and officers

Conduct of the entity. The shareholders gathered in a general shareholders meeting are the supreme authority of a corporation. A minority shareholder usually has no legal recourse against a decision legally taken by the majority, if lawful. Hence, the charters of corporations with substantial minority shareholders, such as those that are 49% owned by foreigners, often provide that resolutions in certain key specified areas — such as amendments to the charter, incurring substantial indebtedness, appointments of higher-level employees and their salaries, etc. — may be validly approved only by, say, 60% of the total shares.

The shareholders may elect either a Sole Director or a Board of Directors to manage the affairs of the Stock Corporation. The charter and bylaws will specify the powers of attorney, authorizations, and responsibilities of the management of the corporation, as well as any specific acts that might require a resolution of the shareholders such as, in some cases, disposition of real property or acceptance of substantial loans. A Sole Director is occasionally preferred during the organizational phase of a business, and the corporation may elect a board of directors later. This should be provided for in the original charter to avoid the necessity of holding an extraordinary meeting of the shareholders and formalization of the minutes of the corresponding meeting before a Public Attester (Notary Public or Public Broker.)

Directors are usually elected for one year or until replaced, and it is customary to elect alternate directors to facilitate having a quorum, particularly if one or more of the directors reside outside Mexico. Meetings of the board are usually held at the domicile of the corporation but they may be held elsewhere; likewise, the bylaws may state that the resolutions adopted outside of a meeting of the Board of Directors may have the same validity as if they were adopted in a Board Meeting, provided that they are confirmed in writing. The charter normally authorizes the board to appoint a general manager for the actual operation of the business of the corporation and should specify any powers of attorney, authorizations or responsibilities that the board may not delegate.

Shareholders meetings. The General Law of Mercantile Companies requires at least one Annual General Regular Shareholders Meeting and specifies that certain matters may be exclusively resolved in an Extraordinary Shareholders Meeting. Annual meetings must be held at the geographical area (municipality) of the corporate domicile of the company within the four months following the end of every fiscal year. Such meetings are held to approve the annual financial statements, decide on the distribution of profits for the year as well as elect directors and the statutory auditor (*Comisario.*)

Extraordinary Shareholders Meetings must be held to approve any modification of the charter and bylaws, mergers, spin-offs or issuance of debentures. Other matters may also be specifically reserved in the charter for such meetings, at which resolutions must be approved by more than 50% of the outstanding capital stock entitled to vote. The charter of incorporation may require a larger majority in special cases, as mentioned above. Each share represented at a meeting may have only one vote, and some classes of shares may be limited to voting only at Extraordinary Shareholders Meetings. The required prior call for a meeting of shareholders may be omitted if 100% of the outstanding shares are present or represented at the meeting.

The bylaws may state that the resolutions adopted unanimously by the totality of the shareholders with the right to vote outside of a Shareholders Meeting may have the same validity as if they were adopted in a Shareholders Meeting, provided that they are confirmed in writing.

Legal reserve and dividends

Five percent of annual net profits must be set aside in a statutory legal reserve until its balance equals 20% of the total capital stock of the corporation.

Dividends may be validly declared only by a meeting of shareholders and on the basis of a balance sheet that shows sufficient accumulated profits available for distribution. Accordingly, dividends cannot be declared until losses of prior years have been absorbed. If dividends were paid without fulfilling these conditions, the shareholders and the administrators who authorized the payments may be held jointly liable for the return of the funds to the corporation upon demand of a dissatisfied shareholder or creditor.

Liquidation

The charter should also specify the circumstances in which the corporation may be dissolved and the procedures for naming one or more liquidators and for carrying out a liquidation.

The General Law of Commercial Companies includes as a cause for liquidation the accumulation of a deficit equal to more than two-thirds of the capital stock. Although the General Law Governing Mercantile Companies provides no penalties if a corporation continues to operate in such a situation, an unpaid creditor or dissatisfied minority shareholder might bring court action to force the company to enter into liquidation.

Shareholders usually have equal rights in liquidation based on their paid-in contributions, although shares having limited voting rights must be redeemed before common shares. Shares may not be redeemed until all creditors are paid, although partial redemptions may be made if the agreement to make such a payment is published with the Electronic Publications System held by the Ministry of Economy within a period of 30 days and if creditors do not object. The final liquidating balance sheet showing the net amount payable on each share must be also published before redemption can be completed. For legal purposes, liquidators must retain the books and records of the company for a period of ten years.

Books and records

In addition to the accounting records mentioned under “Books and records” in Chapter 11, corporations are required to maintain the following corporate books: (i) Shareholders Meetings Minutes Book. (ii) the Board of Directors Meetings Minutes Book; (iii) Shares Registry Book and (iv) Capital Stock Variations Book.

Statutory auditor

All Stock Corporations (S.A.) incorporated under Mexican law are required to appoint one or more Statutory Auditors (Comisario) at the time of incorporation, as described in “Audited Financial Statements” in Chapter 11, except for public companies whose shares are traded on the Mexican Stock Exchange. The latter must appoint a firm of auditors and must have an audit committee. Statutory Auditors may be shareholders or third parties.

Statutory Auditors cannot be the following: (i) those who in accordance with Mexican law are not allowed to practice commerce; (ii) the employees of the corporation, employees of the companies that are shareholders of the corporation for more than 25% of the equity, nor employees of the companies where the corporation is shareholder for more than 50%; and (iii) certain relatives of the Directors.

Stock corporation with variable capital

Capital structure

The most common type of stock corporation is the Stock Corporation with Variable Capital (*Sociedad Anónima de Capital Variable, S.A. de C.V.*). There is no mandatory minimum paid-in capital for the organization of a corporation. The charter or bylaws of the corporation may freely determine such amount; it is customary for Mexican corporations to determine a minimum share capital in the amount of MXN 50,000, which used to be mandatory. Usually, an unlimited maximum capital stock is provided for most of these S.A. de C.V. corporations.

The procedures for the increase and decrease of the variable portion of the capital stock should be established in the bylaws. The law allows considerable latitude in this area. This should be approved by means of an Extraordinary Shareholders Meeting in accordance with Article 182 of the General Law of Mercantile Companies. Since Mexican corporations may not hold their own shares, an arrangement providing minimum formalities for the issuance of additional variable capital may prove to be a good substitute for treasury shares.

However, whether it is stated in the bylaws or not, an increase in capital stock must first be offered to existing shareholders, who have the right to purchase the same proportion of the increase as they hold in the existing capital stock, before the increase can be offered to third parties.

Capital increases of corporations having foreign investors, whether a majority or not, may require the approval of the Foreign Investment Commission, although, in accordance with the regulations under the Foreign Investment Law and the National Registry of Foreign Investment (*Registro Nacional de Inversiones Extranjeras*), discussed in Chapter 5, prior authorization is not required in the majority of cases. Except as regards matters related to the variable portion of its capital stock, the S.A. de C.V. is identical to the *Sociedad Anónima*.

Stock corporation for the promotion of investment

The Stock Corporation for the Promotion of Investment (*Sociedad Anónima Promotora de Inversión or its acronym S.A.P.I.*) was created to provide joint-venture investors with a suitable vehicle to enter into covenants which reflect the intention to develop an investment and ultimately cash in the benefits and part ways, allowing the issuance of such tailored stock, and acknowledging enforceability to certain shareholder agreements which were deemed void under business forms. In most respects, this type of entity is identical to the Sociedad Anónima, with exception made for the form of management which must be exclusively entrusted to a Board of Directors and the rights and obligations that can be imposed in the bylaws of the corporation to the shareholders.

Limited liability company

In most ways the Limited Liability Company (*Sociedad de Responsabilidad Limitada, S. de R.L.*) is similar to a Stock Corporation in actual operation. However, as an organization of individuals, its bylaws can be drafted in such a way as to give it most of the characteristics of a partnership under the tax laws of foreign countries, except for unlimited liability.

Formation procedures

This form of organization requires the same prior authorization and registration as a Stock Corporation. Costs, steps and time required for organization are essentially the same.

The Limited Liability Company may be organized by no less than two and up to 50 partners (that may be persons or legal entities), minimum equity capital should be MXN 2, since each equity interest partnership quota shall be of MXN 1 or a multiple of this amount, thus considering at least two partners are required for incorporation purposes thus such amount of minimum equity capital can be established. Considering this restriction, the charter or bylaws of the S. de R.L. may freely determine minimum equity; note that it is customary for this type of entities to be organized with a minimum equity capital that may provide their possible creditors of economic certain the amount of MXN 3,000 used to be mandatory.

No equity certificates are mandatory to be issued, and investors participate in profits and vote at general meetings in proportion to their equity investment (having one vote per MXN 1 contributed to the equity capital of the company.)

Unanimous agreement may be required to transfer or increase the equity accounts or take in new investors, although the charter may reduce this requirement. In the case of transfers to a new investor, the existing investors have a prior right to acquire the capital account to be sold. Transfers to the heirs after an investor's death do not require the consent of the other owners unless the charter provides for dissolution of the company upon the death of any investor.

Investors are liable only up to the amount of their agreed contributions to the capital of the company, 50% of which must be paid in immediately when paid in cash at the time of incorporation, and 100% when paid in kind.

Limited Liability Companies can adopt the variable capital form as similar to that mentioned for a Stock Corporation with Variable Capital. In such event the corporate name must be followed by the words "*de Capital Variable*" or its acronym "de C.V.". Equity capital variations must be approved in the Partners (investors) Meetings.

Relationship of investors and managers

The investors may name one or more managers or administrators, or they may elect to operate the business without any centralized administration. In any event, the Partners Meeting, which is required to be held at least once a year, is the highest authority of the company and the only one that may authorize a distribution of profits.

All partners have the right to vote at the Partners Meetings, with the votes being counted in proportion to the equity account of each investor, having one vote per each Mexican peso or its multiples, as may be determined by the charter or bylaws.

Liquidation

In general terms, applicable rules for Limited Liability Companies or partnerships formed as an S. de R.L. (or S. de R.L. de C.V.) are the same as those for a Stock Corporation.

Books and records

The requirements are the same as for a Stock Corporation, except that the Limited Liability Company uses a Partners Special Book (or Partners Registry Book) in place of a Shares Registry Book.

Board of managers and board of examiners

If the charter so prescribes, the Partners may elect a Sole Manager or a Board of Managers to be entrusted with the management of the company, as well as a Board of Examiners (*Consejo de Vigilancia*), which carries out duties similar to those of the Statutory Auditor of a Stock Corporation.

Partnership

The General Law of Mercantile Companies also provides for general partnerships (*Sociedades en Nombre Colectivo*) as well as for partnerships with limited and unlimited liability partners (*Sociedades en Comandita*); however, as a result of the unlimited liability (lack of corporate veil) of all or some of the general partners, as the case may be, these business forms are not common. These business forms have most of the attributes associated with the US concept of a partnership because of the unlimited liability of the partners so designated. Partnerships require at least two partners.

Civil partnership

Professional practitioners are usually organized as a Civil Partnership (*Sociedad Civil, S.C.*), which resembles in certain ways the Limited Liability Partnership (S. de R.L.). The managing partners have unlimited liability, while other partners have liability limited to the value of their contributions (Article 2704 of the Federal Civil Code). A variation of this form (*Asociación Civil, A.C.*) is also used by some non-profit entities such as educational establishments. By definition, these entities should not engage in commercial trade. The transferability of rights, as well as the admission of new partners, is subject to approval of all the partners.

In general, a civil partnership is taxable in the same manner as a corporation. However, civil partnerships involved in educational, cultural, and other activities specifically listed in the Mexican Income Tax Law may be classified as non-taxable entities if a specific authorization is obtained. Distributions of interim profits to the partners are treated as deductible salaries (fully deductible by the S.C.), and distributions of retained earnings are treated as corporate dividends.

Joint venture contract

The joint venture contract (*Asociación en Participación, A. en P.*) is one whereby a person grants a participation in the profits and losses of a specific venture or business to others who provide property or services. Such a contract has no legal personality; i.e., a separate legal entity is not created, and operations are conducted in the name of the active managing joint venturer (*asociante*). The joint venturer is the only one with any direct liability to third parties. The silent partner (*asociado*) has no direct relationship with third parties. The tax treatment applicable to the A. en P. is essentially the same treatment as regular corporations solely for tax purposes. See Chapter 19 for additional tax aspects of the joint venture contract.

Legal requirements for a valid joint venture contract are minimal. Basically, the contract should identify the contracting parties; specify the contributions and obligations of each under the contract, the purpose of the venture and the life of the contract; and establish the method for distributing profits and losses.

Formation procedures

A joint venture contract does not need to be registered, although a signed written agreement must exist.

Capital structure

There are no requirements as to minimum capital, and there are no shares. It is often stipulated that foreign ventures should receive a maximum of 49% of the profits of the venture, in which case, attorneys believe that neither approval nor registration with the Foreign Investment Commission is required. However, legal advice is necessary to comply with requirements, if applicable. Higher percentages of participation would require prior approval of, or notification to, the Commission.

Relationship of venturers and managers

Full responsibility for managing the venture rests with the joint venturer (*asociante*), although some contracts for large ventures, often in the construction field, provide for the establishment of a technical committee with representation of the silent partners (*asociados*) as well and with responsibilities quite similar to those of the board of directors of a corporation. In such cases a representative of the managing venturer would be in charge of the committee and the venture.

Liquidation

The procedures for liquidation that are used are similar to those of a partnership, except a joint venture contract is considered as terminated upon the death of any of the venturers unless the contract contains other provisions.

Books and records

Managing venturers must keep accounting records of the operations of the joint venture, separate from their other activities. Tax returns must also be filed for the joint venture operations separately from those of the active partner (*asociante.*)

Branch of a foreign corporation

A foreign corporation can be registered to operate in Mexico, with full access to the local courts, through a branch office (*Sucursal de Sociedad Extranjera*) after complying with certain formalities as well as obtaining the prior approval of the Mexican Government through the General Department of Foreign Investment of the Ministry of Economy. Exceptions are made for those foreign corporations from certain countries with which Mexico has entered into a free trade agreement (i.e., the United States, Canada, among others), in which event there is no need to obtain prior authorization, but only to file a notice with the abovementioned authority.

The Foreign Investment Commission has expressed a willingness to authorize Mexican branches of non-resident companies, except in those activities where foreign investment is restricted (see Chapter 5.)

A principal advantage to setting up a branch office in Mexico is establishing the presence of the foreign company in Mexico without the necessity of having a local board of directors or being subject to the provisions of the General Law of Mercantile Companies applicable to Mexican companies. However, a disadvantage of this form of organization is that because a branch has no independent legal status in Mexico, the parent company will be liable for any claims arising out of activities performed by the branch office.

Simple stock corporation

The simplified stock corporation (*Sociedad por Acciones Simplificada* or S.A.S.) is most suitable for very small ventures, which are subject to special rules like not owning equity in other entities and must have total annual income of less than MXN 5,000,000, among others. This type of entity was introduced in 2016 as a way to stimulate small business and encourage entrepreneurship in Mexico.

Sole proprietorship

As in many Western countries, the sole proprietorship (*comerciante / persona física*) is a very popular form of organization for small businesses. However, the element of unlimited liability generally inhibits the use of this form of organization for large operations, particularly in view of the substantial amount of severance pay that may accrue in favor of employees. Moreover, resident aliens may engage in business activities only if their immigration status is that of a permanent resident (*inmigrado*). However, in some instances it has been concluded that non-resident individuals with a taxable permanent establishment might operate under the same principles applicable to branches of foreign entities.

Non-profit organizations

Charitable and other non-profit organizations take the form of a Civil Association (*Asociación Civil, A.C.*), whose charter prohibits the distribution of profits to its members.

Chapter 10

Labor relations and social security

Investor considerations

- Labor is readily available in most regions of Mexico, with internationally competitive levels of efficiency
- Fringe benefits, including Labor Law benefits, are significant relative to total payroll costs
- Home office regulation (*teletrabajo*) exists
- Unionization and collective bargaining agreements are common in both capital- and labor-intensive industrial enterprises
- Turnover is moderate, especially in the highly competitive labor- intensive industries
- Profit sharing is mandatory for most business concerns with employees and amounts to 10% of adjusted taxable income
- Social security system is in effect for all industrial areas and many agricultural zones
- Social security premiums are payable by both the employer and the employee
- Compliance with general provisions of the Federal Labor Law as well as social security, hygiene, safety and environmental care regulations are monitored by the authority, and default is subject to penalties. which may be material in some cases
- Outsourcing is banned, and specific rules are established so that natural or legal persons only can contract specialized services or specialized works not related with its core business
- Employment of foreign nationals is generally limited to 10% of the total workforce; certain exceptions apply when a free trade agreement is in effect. Work visas are required
- There is a minimum wage requirement
- Certain states impose payroll tax rates

Labor relations

Availability of labor

Due to rapid population growth, unskilled and semiskilled labor is readily available throughout Mexico.

With the expansion of labor-intensive processing plants (*maquiladoras*), a pool of skilled labor is also available, especially in the northern border areas. Most companies find that the younger members of this pool can easily be upskilled through adequate training programs, particularly in the less-industrialized areas.

Skilled technical and professional personnel and well-trained office workers can usually be found (mainly in urban/developed areas), or less-experienced personnel can be trained for more demanding positions.

Employer/employee relations

Comprehensive labor legislation has been in effect for many years. The Federal Labor Law is clearly intended to favor the employee in all relations with an employer: It contains the principle (previously sustained by the labor authorities and the Supreme Court) that in case of controversy in the interpretation of the law, the treatment most favorable to the employee will always prevail. Nevertheless, in most cases companies are able to employ and keep satisfactory employees at all levels.

Unions

The Federal Labor Law provides that 20 or more employees may form a labor union to bargain collectively with the employer regarding the terms of their employment. Such labor unions are formed in many cases, and collective labor contracts are executed in the case of industrial enterprises. Contracts usually amplify or add to the rights enjoyed by the workers under the Federal Labor Law or the Social Security Law and are subject to renegotiation at least every two years. The Labor Law provides that an application for review of the daily-rate cash wages shall be made at least 30 days before the end of one year following execution, review or extension of the collective labor contract. The contract clauses regarding salaries and other benefits may be reopened after one year.

Labor unions are particularly strong in the petroleum, mining, education, entertainment, textile, restaurant, telephone, rubber, sugar, automotive and newspaper industries. Labor unions have traditionally used the threat of a strike during the negotiation process to exert pressure on management, but negotiations are usually concluded before reaching the stage where the employees actually strike.

The Ministry of Labor and Social Welfare (STPS, for its acronym in Spanish) is empowered to mediate and rule on labor disputes and to impose sanctions on unions or employers for labor law infringements. Additionally, in an effort to end a long tradition of irregularities in some unions, the Mexican Government has taken steps to avoid abuses of power and to limit the unions' activities that are counter to their intended purpose of employee protection and welfare (i.e., democracy, trade union freedom and legitimation of collective bargaining agreements.)

Labor reform on outsourcing

On April 23, 2021, the Mexican Congress approved a bill reforming subcontracting services including the following:

- The subcontracting of personnel consisting of an individual or entity providing or making its own workers available to another is prohibited
- Subcontracting specialized services or the execution of specialized works is permitted if they do not form part of the corporate purpose or the preponderant economic activity of the beneficiary thereof, and that the personnel company is registered before the Ministry of Labor and Social Welfare

Home office (teletrabajo)

Home office is a form of subordinate labor organization that consists of the performance of paid activities in places other than the establishment(s) of the employer. Under the home office modality, the worker is not physically present at the center of work, but instead uses information and communication technologies to work with the employer.

The home office modality, when consented by the worker, must be stated in writing in the employment agreement. It must specify, in addition to the requirements applicable to all employment contracts, the following:

- Work equipment and supplies, including those related to health and safety obligations that are delivered to the worker under the home office modality
- The description and amount that the employer will pay the worker under the home office modality for payment of services at home related to home office
- The contact and supervision mechanisms between the parties, as well as the duration and distribution of schedules, provided that they do not exceed the legal maximums

In the home office modality, workers enjoy the right to disconnection.

Additionally, employers are required to:

a. Provide, install and take care of the maintenance of the equipment necessary for the home office.

b. Assume the costs derived from work through the home office modality.

c. Keep a record of the inputs delivered to workers, in compliance with the provisions on occupational safety and health established by the Ministry of Labor and Social Welfare.

d. Implement mechanisms that preserve the security of the information and data used by workers.

e. Respect the right to disconnection of workers.

f. Establish the necessary training and advisory mechanisms to guarantee the adaptation, learning and proper use of information technologies by workers.

Managerial employees

White collar employees are those who exercise the general functions of management, supervision, inspection and auditing. They usually occupy positions of trust.

The principal provisions that relate to white collar employees are that the employer is not required to reinstate them in their jobs in case of unjustified dismissal by the payment of the applicable compensations established for such effects in the Federal Labor Law. White collar employees are not entitled to belong to a union nor to vote in strike proceedings. Additionally, specific measures are considered for the participation of these workers in the profits of the companies.

Employee training programs

Mexican labor law requires all employers provide their employees with a minimum level of training; hence, it also requires the formation of training committees composed of members of management and of the workforce. The law does not establish the minimum training by number of hours or days but states that the training should allow workers to improve their skills, prepare them for higher positions that may become available, improve their productivity and general welfare, and minimize work-related accidents.

All trades and industries should participate and provide minimum training and should submit their programs to the Ministry of Labor and Social Welfare. Training may also be provided externally through institutions registered for this purpose.

Training programs are not directly subsidized by government funds; however, the employer is allowed a corporate tax deduction for program costs and expenses.

Entities in the high-technology and automotive industries are where the employers are most actively participating and investing in training programs.

Workers' councils

Except in relatively isolated cases where the government has taken over an industry (principally, the oil and gas industry and electric utilities), there has been relatively limited demand for greater labor participation in management, although some collective labor contracts do contain provisions requiring union agreement with some decisions.

Profit sharing

Since 1963 practically all businesses with employees, whether organized as sole proprietorships, partnerships or corporations, have been required to allocate a portion of annual taxable profits among all employees.

In such context, Article 123, fraction IX, paragraph (e) of the Political Constitution of the United Mexican States establishes that employees are entitled to receive profit sharing (PTU) to be determined on the basis of the adjusted taxable income, which shall be calculated in terms of the Mexican Income Tax Law (MITL.)

For such purpose, Article 127 of the Federal Labor Law, determines those workers who are not entitled to PTU payment, including:

- Director General, General Manager and/or Managing Director
- Temporary employees who have worked less than 60 days in the fiscal year
- Household employees

The employees' right to share in the taxable profits of the business does not give them the right to intervene in the administration of the concern.

Calculation of amount of profit sharing payable

The Federal Labor Law establishes that the PTU shall be determined by taking into account the percentage determined by the National Commission for the Workers' Profit Sharing, which shall apply to the corresponding adjusted taxable income of each "entity." In this respect, the National Commission for the Workers' Profit Sharing from year 2009 established that PTU shall be of 10% over the adjusted taxable income, and in accordance with the provisions of MITL in this matter. The base for profit sharing (adjusted taxable income) is defined in the current income tax law, as discussed illustrated in the sample calculation in Appendix III.

Furthermore, on April 23, 2021, the Mexican Congress approved a bill to reform the profit-sharing structure which entered into force on April 24, 2021: it establishes a new limit on PTU payment, which will be a maximum of three months of salary or the average of the share received in the last three years, whichever is more favorable to the worker.

There are, however, a few isolated exceptions mentioned in the "Entities exempt from profit sharing" section below.

In cases where a net taxable income figure is not computed for income tax purposes (e.g., special regime), taxable income for profit sharing will be the theoretical profit that corresponds to the tax paid by such businesses.

In the case of entities organized as a *Sociedad Civil*, whose income is derived exclusively from personal services, such as professional partnerships, the amount of profit sharing for each employee may not exceed one month's salary. The same limitation applies in the case of companies exclusively devoted to collecting loans and interest or to managing leased property.

Taxpayers exempted from income tax and those with certain exemptions should determine their profit sharing without regard to these benefits.

Method of distribution

Distribution of the employees' participation in the profits must be made within 60 days after the annual income tax filing or due date (generally by May of the following year). The employer is required to make available a copy of the company's tax return to the employees so that they may exercise their right to object. Any objection by employees to the tax return is communicated to the tax authorities, who make the final decision; this cannot be contested by the employees. However, the Federal Labor Law provides that non-compliance with the provisions of the law establishing profit sharing is ground for a valid strike or, if applicable, monetary sanctions.

The portion of the company's profit that is distributed among its employees is divided into two equal parts, the first of which is distributed among the employees in accordance with the number of days worked during the year, and the second in accordance with the salaries earned by each eligible employee.

The participation of white collar employees in profit sharing is limited to 1) the highest salary of a union employee or 2) the highest paid unionized blue collar employee, plus 20%.

Entities exempt from profit sharing

Profit sharing is not applicable to the following:

- Newly established entities during the first year of operations
- Newly established entities that manufacture a new product during the first two years of operations
- Newly established mining companies during the exploration period
- Public and private welfare institutions recognized by law
- Companies whose capital and gross income are less than a specified amount established by the Ministry of Labor (i.e., declared revenue not exceeding MXN 300,000)

Working conditions

Wages and salaries

New minimum wages are approved every year. In accordance with the publication in the Official Gazette on December 7, 2022, taking effect on January 1st, 2023, the general minimum daily wage in Mexico currently is MXN 207.44 per day while in the Free Zone of the Northern Border it is MXN 312.41 per day.

The Minimum Wage Committee has also established professional minimum wage rates for a number of semiskilled and skilled jobs and office jobs. The committee for Mexico City fixed rates for a total of 61 different positions for 2022 including, for example, those shown in Table 7.

Table 7. Examples of professional daily minimum wages, 2023

All amounts are in Mexican pesos (MXN) and applicable in Mexico

	Free zone of the northern border (MXN)	General minimum daily wage (MXN)
Bricklayer	312.41	239.31
General truck driver	312.41	244.22
Cash register Cashier	312.41	215.21

Hours worked

The maximum daily work week is five eight-hour shifts, although in practice a 40-hour week is often in effect, particularly in offices. Regular time for the night shift is seven hours and for a split shift is seven and one-half hours.

Paid holidays and vacation

The legal holidays are listed in Chapter 1 under “Hints for the business visitor.” The present law requires that at least a vacation of 12 working days be granted after the first year of service, with an additional two days for each of the next years until it reaches 20 days. As of the sixth year the increase will be two days for each five years of seniority. A vacation premium of 25% of the regular salary must also be granted to the employee.

Overtime pay and other required payments

The working hours may be extended under extraordinary circumstances, without exceeding three daily hours or three times a week, and with such hours being paid double. In case of exceeding such limits, the employer must pay the applicable hours at triple the rate.

Sunday work entitles a worker to a premium of 25% of regular pay. A Christmas bonus equivalent to 15 days’ pay must be paid to all employees before December 20 each year.

Fringe benefits

Collective labor contracts often provide for benefits over and above those stipulated by the Federal Labor Law and other legislation with regard to early retirement, number of holidays, length of vacations, as well as a wide range of benefits that are not taxable to employees such as contributions to general savings funds.

Many employers grant coupons for meals and groceries, which under certain conditions are not taxable to the employees. Since 2014, the referred coupons are only partially deductible for the employer in most cases.

Some contracts still oblige the employer to pay the employees’ part of the social security contributions or even the personal income tax, although the latter does not represent deductible expenses for the employer and is infrequent. Many companies provide major medical and group life insurance, particularly for white collar employees and executives. However, the non-discrimination and other provisions of the income tax law described in Chapter 15 should be reviewed before benefits are granted to only part of a company’s workforce.

Fringe benefits, including Labor Law benefits, are significant relative to total payroll costs.

Equal opportunities

Workers are categorized as unionized and non-unionized employees. In the case of entities with no unions, the distinction commonly made is between white collar employees (those conducting managerial activities, as discussed above) and blue collar employees.

Under the Mexican Constitution, no individual may be discriminated against based on race, age, religion or sex. However, employers have traditionally enjoyed the liberty to hire or dismiss white collar employees at their discretion, and, in the case of unionized employees, companies commonly fill vacancies under the collective bargaining agreement but can also hire and dismiss unionized employees as required. (See “Termination of employment” below.)

Termination of employment

An employer in Mexico may dismiss an employee without liability only if there is a cause for the dismissal. The Labor Law specifies that at the date of termination of employment, the reasons for dismissal must be presented to the employee in writing and enumerates specific kinds of conduct that are cause for dismissal:

1. Use of false documentation to secure employment.
2. Dishonest or violent behavior on the job.
3. Dishonest or violent behavior against co-workers that disrupts work discipline.
4. Threatening, insulting or abusing the employer or his or her family, unless provoked or acting in self-defense.
5. Intentionally damaging the employer's property.
6. Negligently causing serious damage to the employer's property.
7. Carelessly threatening workplace safety.
8. Immoral behavior in the workplace.
9. Disclosure of trade secrets or confidential information.
10. More than three unjustified absences in a 30-day period.
11. Disobeying the employer without justification.
12. Failure to follow safety procedures.
13. Reporting to work under the influence of alcohol or non-prescription drugs.
14. A prison sentence.
15. The lack of documentation required for the rendering of the services attributable to the employee.
16. Commission of other acts of similar severity to those described above.

An employee may appeal his or her discharge within two months of the dismissal to the competent Conciliation and Arbitration Board or Labor Court, which are responsible for resolving labor disputes. The employer has the burden of proof showing that the employee engaged in conduct described above. If the employer fails to meet this burden, the employee can request one of the following:

- Reinstatement to his or her position
- A statutory indemnification equivalent to three months full salary, including premiums, bonuses, commissions and any fringe benefits

To avoid such reinstatement, employers usually pay the severance compensation as discussed below.

Severance compensation

The right to reinstatement is not applicable in the cases of certain employees, such as those considered as occupying positions of trust or who have less than one year of service with the company. Severance compensation in these cases may be payable at the rate of three months' salary plus 20 days' wages for each year of service if the work contract is for an indefinite period. (Otherwise, the amount is different.)

In case of controversy before Labor Courts or Conciliation and Arbitration Boards, it includes payment of salary from the date of unjustified dismissal to the day on which these indemnities are paid or the day of reinstatement (in such case). In practice, a similar amount, to the severance package (three months, 20 days per year and proportional benefits) is often negotiated and paid to unsatisfactory employees as a bonus in exchange for voluntary resignation.

Seniority premiums

Permanent employees are granted the right under the 1970 law and ratified in the reforms to this law effective as of November 30, 2012, to receive seniority premiums equal to 12 days' salary for each year of service when separated with or without justified cause. Such compensation is also payable upon the death of an employee to his or her beneficiaries. To compute such compensation, the daily salary may not be less than the legal minimum wage; the maximum daily salary for this purpose is twice the minimum wage.

The seniority premiums are also payable to employees who retire voluntarily if they have at least 15 years of service with the employer. If voluntary retirements exceed 10% of the total number of employees in any year, the company may defer payment of the excess until the following year. The law states that this special compensation based on length of service is payable to employees or their beneficiaries regardless of any other benefits to which they may be entitled.

Decisions by the Supreme Court have established precedents for interpreting the provisions of the Labor Law for calculating the premiums in the following situations:

- **Voluntary retirement.** The right to the premium is vested for employees once they have completed a minimum of 15 years of service, including the years prior to May 1970, and the premium should be paid for the entire period
- **Death.** The premium is payable to the heirs of an employee who dies from whatever cause, regardless of the number of years of employment by the company. Service prior to 1970 must be included in calculating the premium
- **Separation for any other reason.** A minimum number of years of service with a company is not required, but the premiums will be payable only for the period after May 1970

Reserves to pay seniority premiums and severance compensations

It is now clear that in most cases (except voluntary retirements of employees with less than 15 years' service) employers must pay seniority premiums to their employees when they leave, probably covering their entire period of employment. Accordingly, most Mexican companies will find it necessary to record provisions for seniority premiums currently to be able to present their financial statements in accordance with Mexican Financial Reporting Standards, although provisions for such reserves are not deductible for tax purposes unless funded as described for pension funds below. In accordance with the financial reporting standards, companies should set up a reserve for other severance compensation that might be payable to all employees, based on actuarial studies.

Funded pension plans

The average age of employees of most companies in Mexico is relatively low, particularly in the case of new companies and those that have expanded recently, and pension plans have not yet become a major factor in obtaining or retaining employees. Nevertheless, old age is not considered a justifiable cause for dismissal, and many companies follow the practice of paying full severance benefits to employees who reach retirement age.

As noted below, favorable tax treatment is accorded to funded pension plans, but, perhaps because of the high level of interest rates for loan funds, few companies have yet been willing to tie up capital in pension funds to cover the needs of the rather distant future. In these circumstances Mexican insurance companies have been offering insurance plans that also provide cash surrender values available for indemnities to employees dismissed before reaching retirement age. Premiums for this type of insurance are high, but if the plan covers all or major groups of employees, the premiums are deductible for income tax purposes with certain requirements and limitations established as of 2014. (See Chapter 15 "Taxation of corporations" and Chapter 16 "Taxation of foreign corporations".)

Estimated provisions are not deductible for income tax purposes. However, contributions to a funded pension plan may be deductible if certain requirements are fulfilled. The principal requirements include that 1) the funds must be invested through an irrevocable trust in securities approved by the National Banking and Securities Commission or in houses to workers, where a minimum of 30% should be invested in government securities; 2) contributions to the fund must be based on a report of a Mexican actuary and the plan must cover all employees.

Foreign personnel working in Mexico

Any foreign national who performs professional activities on Mexican territory must obtain a working visa issued by the Mexican Immigration Authorities. Depending on the foreigner's activities, it will be necessary to carry out a specific procedure with the Immigration Authorities.

The Mexican Labor Law establishes that 90% of employees should be Mexican citizens in all companies. Consequently, only 10% of foreigners may be employed in Mexican companies. This rule is not applicable to foreign nationals employed as directors, administrators and general managers in Mexico.

Health and safety

All employers must meet minimum health and safety requirements on their premises.

For this purpose, the Federal Labor Law provides for the formation of health and security joint committees made up of members of management and the workforce. The committees, together with labor authorities, have the responsibility to analyze and investigate causes of work-related accidents and illnesses and to develop safety practices and procedures, as well as to communicate them and to oversee compliance.

Both the labor and social security authorities are empowered to issue safety regulations and to inspect the employers' premises to evaluate compliance with minimum work safety standards and special standards developed in accordance with the type of industry or activity as well as to impose sanctions for non-compliance.

Further, the labor law provides that all business activities and ventures have the obligation to create employer-employee committees to regulate and control labor conditions and labor relationships. A mixed number of members from the workforce and management are required to participate in the following committees addressing specific issues:

a. Security and hygiene committee.
b. Productivity, development and training committee.
   (Only for employers with more than 50 employees.)
c. Committee in charge of drafting the Internal Labor Regulations.
d. Committee in charge of drafting the Seniority Chart.
e. Committee in charge of Profit Sharing among the employees.
   (The Committee will review the allocation of profits to be paid to each employee.)

Social security

Social security system

The Mexican Social Security Institute (IMSS) was established in 1942, and the social security system is in effect in all industrial areas and agricultural zones throughout Mexico. In these areas the employer's statutory obligations in connection with occupational risks are covered by payments of social security premiums.

The Institute provides for employees' and their dependents' medical attention (including hospitalization) as well as limited unemployment compensation in cases of illness and maternity leave, occupational disease and accidents. It also provides for disability and old-age pensions.

A separate social security system operates for employees of the government and its agencies.

Coverage

The IMSS system is mandatory for all non-government employees throughout the country. Special rules cover self-employed persons, domestic servants and some others. All employers that have at least one employee, including non-profit institutions and others that might be tax exempt, are required to register with the IMSS and pay its premiums.

Foreign employees of Mexican companies working in Mexico are subject to the social security system on an obligatory basis. (Some exceptions apply under agreements with Canada and Spain discussed below.)

Contributions

Social security contributions/premiums are incurred by both the employer and the employee (through withholdings) and remitted to the social security authorities every month. Premiums are determined as a percentage of each employee's wages, and the computation differs depending on the following categories:

- Sickness and maternity leave
- Life and disability
- Day-care centers and social benefits
- Retirement Savings System (SAR) and old age
- Occupational risks

The percentage contributions for each category (except for occupational risks) and maximum contributions are shown in Appendix XI.

The premium for occupational risks, paid entirely by the employer, is a percentage of the total earnings base. The applicable percentage varies, depending on the risk class to which a company is assigned.

All employees of a company located in the same city or other social security jurisdiction are classified in the same group, regardless of the type of work each performs. The percentages shown can be lowered or raised somewhat, depending on the safety equipment installed and the actual frequency and costs of claims made by the employees of a particular company (actual experience.)

In the second month of the year the corresponding percentage rates will be self-determined, based on prescribed procedures and according to actual experience under the regulations of the Social Security Law.

Employers are also required to pay 1% of covered payrolls as an additional premium to cover the cost of maintaining day-care centers for children of working mothers and social benefits.

Premium calculation

The determination of the work risk premium can be done through the Single Self-Determination System (SUA, for its Spanish acronym) or online through the IMSS portal.

In accordance with what is stated in Article 72 of the Social Security Law (LSS, for its Spanish acronym), the work risk premium must be compared with the previous premium and determine if it remains the same, increases or decreases.

The new premium may not be modified in a proportion greater or less than 1% in accordance with Articles 74 of the LSS and 32 Section II of the Regulation of Affiliation, Classification of Companies, Collection and Supervision (RACERF, for its Spanish acronym.)

Benefits

Sickness and disability

The IMSS provides medical and hospital service throughout the country, alongside private hospitals and many physicians in private practice. It maintains modern hospitals and clinics to give medical attention to covered employees and provides prescription medications without charge, and more. If employees are absent from work for more than three days as a result of a non-professional illness, job-related accident or illness or maternity, the Institute will pay 60% to 100% of their regular salary during their absence; the employer is relieved of the obligation to pay the salary, although in some cases employers pay the difference. A guaranteed minimum salary is payable in the case of permanent disability, and benefits to heirs are provided in case of death.

Table 8. Number of contribution weeks required for old-age pensions

Year	Weeks required
2021	750
2022	775
2023	800
2024	825
2025	850
2026	875
2027	900
2028	925
2029	950
2030	975
2031	1000

Pensions

Old-age pensions, as well as those for disability, have been increased in recent years. The pensions are normally payable from age 65 if the person has paid social security premiums for the required minimum of 1,250 weeks. Early retirement at reduced rates of pension can be taken from age 60. There are minimum guaranteed pensions equal to the monthly minimum salaries.

Currently employees can qualify for one of two different pensions. Employees who began working after July 1, 1997 receive their pension through AFORE; employees who started working before that date can receive their pensions through AFORE or through the traditional system.

NOTE: Pension for Old Age — The Fourth Transitory Article of the Decree that amends, adds and repeals various provisions of the Social Security Law and the Retirement Savings Systems Law — was published in the Official Gazette of the Federation on December 16, 2020. It states that on the date on which said Decree enters into force, the weeks of contributions required to obtain the benefits indicated in Articles 154 and 162 of the Law, as well as for the calculation of the guaranteed pension provided for in Article 170, will be 750 weeks, and 25 weeks will be increased annually until the year 2031, (see Table 8.)

Retirement savings system (SAR) and old age

To supplement retirement pensions under the regular social security system, which have been deemed insufficient to provide adequate retirement benefits, a Retirement Savings System is established.
The employer's contribution per employee is 2% of salary, with a wage ceiling of 25 times the minimum wage. The Old Age system includes an additional contribution per employee of 3.15% of salary.

These employer contributions will be credited to individual employees' restricted interest-bearing bank accounts established specifically for this purpose. The funds so accumulated over the years may be withdrawn, under certain rules, only upon retirement or unemployment due to disability and will be partially or totally exempt upon withdrawal, together with any other retirement payments received from the employer. In all these cases, the general rule for taxation of pension payments applies (i.e., pensions are taxable only to the extent that they exceed nine times the minimum wage.)

Employees may elect a company authorized to manage the fund (Individual Account) for the Retirement Savings System (*Administradora de Fondos para el Retiro*, AFORE).

Totalization agreements

Except for Spain and Canada, Mexico has not subscribed to totalization agreements with other countries. Additionally, whenever an employer sends an employee overseas (for training, exchange programs, scholarship programs, etc.), the Mexican employer is still required to cover the assignees' medical expenses and to not suspend them from any pension or other benefit programs in which they have a vested right.

Housing

The National Workers' Housing Fund Institute

In 1972 the National Workers' Housing Fund Institute (INFONAVIT, for its Spanish acronym) was inaugurated under the terms of amendments to the Federal Labor Law, establishing it as an independent social service organization with legal personality and control of its own assets. Control of the Institute is vested in a general assembly of 45 members, 15 named by the executive branch of the federal government, 15 by national labor organizations and 15 by national employers' organizations. In addition to having full authority over the policies and operations of INFONAVIT, the general assembly also elects the board of directors, consisting of five members, each representing government, labor and employers, and the general director, who is nominated by the President of Mexico.

Obligations of employers

The Mexican Constitution provides that all agricultural, industrial, mining and other enterprises of whatever nature are required to provide adequate housing for their employees. This obligation must be fulfilled by means of contributions in the name of the individual employee. In accordance with the law, employers are required to contribute to the INFONAVIT amounts equal to 5% of the earnings of their employees, calculated on the same basis (and contribution limits) as for social security purposes. Foreign employees of Mexican companies working in Mexico are also entitled to the housing contributions. The contributions paid by employers represent social welfare benefits (*previsión social*).

Accordingly, they are deductible expenses for income tax purposes of the employers. In accordance with Article 36 of the law establishing the INFONAVIT, deposits in the names of employees are exempt from all taxation.

Employers are required to register themselves and their employees with the Institute under rules issued by the latter. The mechanics to provide housing consists in granting loans to employees through specific selection procedures so that they can acquire a home. Employers are also responsible for making such deductions from the salaries of employees who receive housing loans, including those earning minimum wage, as may be required by the agency to repay the loans.

Enterprises must pay the 5% contribution on behalf of all employees as long as they are employed, even if they have already received a loan from the Institute or if they reside in quarters rented to them by the employer.

Benefits to employees

The entire amount of the 5% housing contribution for each employee is deposited in an interest-bearing bank account in the employee's name. Employees have the following rights:

1. The employee may use these funds to build, buy or repair a home or to repay an existing debt incurred for such purposes.
2. The entire net balance accumulated in the name of an employee (after deducting amounts so utilized) will be paid to the employee in the case of total disability or retirement or to the employee's heirs upon death.

Chapter 11

Audit requirements and practices

Investor considerations

- All private Mexican companies must undergo statutory audits performed by a statutory auditor. For publicly listed companies, this function is performed by the Audit Committee
- Mexican Tax Law requires the delivery of monthly accounting records and electronic invoicing to facilitate inspection by the authorities
- Larger companies have either the option, or in some cases the obligation, to electronically file tax compliance audit reports with the tax authorities, based on certain criteria
- International Standards on Auditing are mandatory in Mexico (which replaced the Generally Accepted Auditing Standards as of January 1, 2013)
- The Mexican accounting profession is mature and well organized

Statutory requirements

Books and records

Principal books of accounts and other types of auxiliary records must be maintained in hard copy or electronic format, based on certain requirements.

These must clearly record the company's transactions in pesos (MXN) and in Spanish. Records may be expressed in another currency or language as well, although additional translation may be requested.

They must also be kept at the official domicile of the company.

These requirements apply to all types of business entities described in Chapter 9. It is also necessary to describe the accounting principles applied (see Chapter 13 for more on the application of Mexican Financial Reporting Standards, or NIF for its acronym in Spanish, and IFRS.)

All fiscal years must concur with the calendar year.

Audited financial statements

Effective January 2022, some large individuals and corporations in Mexico (those exceeding specific revenue threshold) must have their financial statements audited for tax compliance purposes. The Fiscal Code of the Federation (CFF for its acronym in Spanish) and its Regulations (RCFF) set forth the legal framework within which the audit of the financial statements would be carried out and the auditor's opinion issued.

Corporate reviewer (comisario) / statutory auditor

All private companies governed by the General Law of Mercantile Companies need to appoint one or more corporate reviewers (*comisarios*), sometimes also known as statutory auditors, on a temporary and revocable basis.

The statutory auditor should be elected by the shareholders at the General Meeting and must meet the following criteria:

- They cannot be ineligible to conduct business
- They cannot be an employee of the company, or of any other company owning more than 25% of the company's share capital, or of companies that are more than 50% owned by such company
- They cannot be direct blood relatives of the company's management

The statutory auditor must attend Board Meetings and have the right to be heard, but not the right to vote.

The statutory auditor must inform shareholders on matters pertaining to the annual financial statements and can call ordinary and extraordinary shareholders' meetings. The report of the statutory auditors must include:

- An opinion on whether the accounting policies, criteria and the information used by the company are adequate, considering the particular circumstances of the company
- An opinion on whether those policies and criteria have been applied consistently to the information presented by management
- An opinion on whether, as a result of the foregoing, the information presented by management fairly and sufficiently reflects the financial position and results of the company

Companies listed on the Mexican Stock Exchange are exempt from appointing statutory auditors since the Audit Committee performs those functions.

Independent auditor

When a company has independent auditors, a member of the audit firm frequently serves as the statutory auditor. This is very common in the case of subsidiaries of foreign companies.

In other cases, statutory auditors who are not members of the audit firm frequently cite or mention the independent auditors' reports as the basis of their reports.

When public accountants are appointed as statutory auditors, they usually carry out a normal audit in accordance with International Standards on Auditing (ISA.)

NOTE. Local as well as foreign banks frequently request that audited financial statements be filed as part of the regular verification process before granting substantial lines of credit; therefore, full-scope examinations by independent auditors are becoming increasingly common.

Reporting

Mexican entities are obligated to file a **tax-compliance audit report** every year with the Mexican tax authorities if in the previous fiscal year they were

- A large company with declared taxable income for an amount equal to or greater than MXN 1,650,490,600
- A public company with listed shares among the greater investor public in the authorized stock exchanges

(See Chapter 14 "Tax administration" for more detailed criteria)

The report consists of audited financial statements and detailed additional schedules, together the auditor's statement that no irregularities were identified in regard to the taxpayer's compliance with its federal tax liabilities.

The auditor must be a Mexican certified public accountant registered with the tax authorities (see "Accounting profession" section below). When the company uses independent auditors, a member of the audit firm usually renders this service.

PwC Mexico's highly trained staff is well positioned to render any or all of the audit services described above, and to assist investors in every phase of the establishment and operation of a business enterprise in Mexico.

Accounting profession

The Mexican accounting profession is mature, independent, well organized and well regarded by the business community.

The Mexican Institute of Public Accountants (IMCP)

The IMCP was a founding member of what is today's International Accounting Standards Board and is responsible for reviewing auditing standards and ethics rules for Mexico. It governs a federation of Mexican state and local associations of registered public accountants.

Public accountants

Public accountants must register at the licensing office (*Dirección General de Profesiones*) of the Federal Ministry of Education if they wish to have the right to practice. Also, to act as accountants before the tax authorities, they must also be members of their local professional association of public accountants. There are two designations:

Contador Público (C.P.) is granted by Mexican universities to graduates who have completed the required four to five years of specialized college-level studies and certain other requirements.

Contador Público Certificado (C.P.A.) is granted when the IMCP issues Professional Certificates to C.P.s who meet certain experience and continuing education requirements.

Nowadays, the total membership is over 20,000, most of whom are in public practice.

Mexican public accounting firms are different from individual practitioners' offices in terms of size.

All national firms in the United States and some other countries have arrangements with associated firms in Mexico or are represented by Mexican firms. Many other firms from the United States or other countries are also represented by local public accountants.

Larger firms provide nearly the same range of services as in the United States and other industrialized countries, including specialized tax and management advisory services. They usually have offices in several Mexican cities. Some smaller firms specialize in record-keeping work for several clients.

Auditing standards

International Standards on Auditing have been used mandatorily in auditors' reviews in Mexico since 2012.

Changes to the audit opinion on financial statement audits for periods ending on or after December 15, 2016

International Standards on Auditing (ISAs) were issued in 2015 to enhance the auditor's report by increasing its communicative value to users.

Current ISAs require disclosure of key audit matters (KAM) and the engagement partner's name in audit reports for listed entities, along with other information such as an extended and enhanced description of auditor responsibilities, including its responsibility regarding management's use of going concern basis of accounting, as well as the auditor's compliance with ethical requirements and other matters.

In terms of communicating KAMs, the Independent Auditor's Report requires auditors of financial statements of listed entities to communicate in a separate section of their report those matters that, in the auditor's professional judgment, were of most significance in the auditing of the financial statements of the current period. KAMs are selected from matters communicated to those charged with governance.

In determining which of the matters communicated to those charged with governance are KAMs, the auditor should take into account those areas of significant attention in performing the audit, including

- Areas of assessed risk of material misstatement or significant audit risks
- Significant auditor judgments relating to areas in the financial statements that involved significant management judgment, including accounting estimates with high estimation uncertainty
- The effect on the auditing of significant events or transactions that occurred during the period

In addition, the new standards require specific reporting on the auditor's responsibilities with respect to other information presented with the financial statements.

Going concern

A "going concern" section of the auditor's report is required, which addresses the auditor's conclusions related to whether management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate, as well as whether a material uncertainty exists in connection with events or conditions that, individually or collectively, may cast significant doubt on the entity's ability to continue as a going concern. If the auditor's report states that the auditor has not identified a material uncertainty, a statement that neither management nor the auditor can guarantee the entity's ability to continue as a going concern should also be included.

Chapter 12

Accounting principles, practices and requirements

Investor considerations

- Basic financial statements presented annually are two-year comparative and cover one year
- In general, consistency between accounting and tax treatment of income and expense items is not required. However, to determine the foreign exchange rate for tax purposes, the foreign exchange rate gain or loss may not be less than or exceed, respectively, that which would result from applying the foreign exchange rate published by the Mexican Central Bank on the day in which the gain or loss is realized or incurred
- The objective of the Mexican Financial Reporting Standards is to be consistent with International Financial Reporting Standards (IFRS)
- Public companies report their financial statements under IFRS
- As part of the official formats of Corporate Income Tax Return (CIT), the balance sheet and the income statement must be included
- Electronic accounting: For tax compliance purposes, the trial balance in the format Period to Date (PTD) must be submitted on a monthly basis and on April 20 each year. The annual trial balance is also required, and it must include the suspense accounts information obtained from the CIT return
- Mexican entities with foreign investment (subsidiary of foreign corporations) must submit quarterly and annual reports to the Ministry of Economy including certain financial information and the four basic financial statements

Accounting principles

The Mexican Board for Research and Development for Financial Reporting Standards Board (CINIF for its Spanish acronym) is responsible for setting accounting and reporting standards in Mexico. To comply with this responsibility and after due exposure, the CINIF has issued a large number of Mexican Financial Reporting Standards (MFRS). The main objective of the MFRS is to achieve the maximum possible harmonization and convergence of Mexican accounting and reporting standards and regulatory practices with International Financial Reporting Standards (IFRS.)

The full hierarchy ordering rules of the MFRS set by CINIF is as follows:

- MFRS and interpretations of MFRS issued by the CINIF
- Statements issued by the Accounting Principles Board of the Mexican Institute of Public Accounts (IMCP) that have not been amended, replaced or repealed by the new MFRS
- IFRS, used by public companies, and in other cases when no applicable Mexican standard exists

Public companies

All Mexican public companies must submit their audited financial statements under IFRS for the last three years, as established by Mexican Stock Exchange rules.

MFRS make no distinction between large and small companies with respect either to the standards themselves or to disclosure requirements. Statements issued by the CINIF and the IMCP are applicable to all business entities. The IMCP is a member of the International Accounting Standards Committee (IASC.)

Special industries

Financial institutions, stock brokers and insurance companies must prepare their financial statements in accordance with accounting practices prescribed by the appropriate regulatory agency. These practices differ in some respects from MFRS issued by the CINIF.

Electronic accounting and reporting requirements

The Mexican Tax Law regulates the delivery of accounting records according to the accounting principles applied (e.g., trial balance, chart of accounts and grouping code) by electronic means on a monthly basis. For tax compliance purposes with Electronic Accounting, the trial balance in the format Period to Date (PTD) must be submitted on a monthly basis and on April 20 each year. The annual trial balance is also required, and it must include the suspense accounts.

There are also specified deadlines for the delivery of the charts of accounts using the XML file format. The authorities may also request information on the accounting journal entries and other records, including monthly tax adjustments.

The provision applicable to the financial sector has its own set of rules.

Besides, in general, invoices issued and received, and individual payroll receipts must be electronically issued with the help of an authorized certificate vendor (PAC.)

Moreover, the issuer of the invoice is generally required to provide a digital tax invoice — called the Digital Tax Certificate via the Internet (*Comprobante Fiscal Digital a través de Internet*, CFDI) to the tax authority, the customer and employees by electronic means using the XML file format.

Companies have the obligation to issue a CFDI when making payments to foreign entities only in case their income comes from Mexican sources.

CFDI allows taxpayers to use the strongest technical and legal infrastructure, thus making the e-invoicing system reliable.

Finally, most official notices and communications between tax authorities and taxpayers are now sent using a digital tax inbox (*buzón tributario*).

Form and content of financial statements and what to publish

Public accountants' reports must include the following financial statements in two-year comparative format:

- Statement of financial position
- Statement of comprehensive income[1] (presentation on a single financial statement) or Integrated statements of income and other comprehensive income (presentation in two statements)
- Statement of changes in stockholders' equity
- Statement of cash flows
- Notes to the financial statements

In the case of a private company, Mexican corporate law requires that the above statements and notes, together with the statutory auditor's report and management's report on the company's operations, be presented at the annual stockholders' meeting.

In the case of a publicly listed company, the independent auditors' report and the report of the audit committee replace the statutory auditor's report. Each stockholder has the right to receive a copy. Unlike private companies that are not required to publish their financial statements or make them available for public inspection, publicly listed companies must publish their annual financial statements and notes for public inspection.

Mexican entities with foreign investment (subsidiary of foreign corporations) must submit quarterly and annual reports to the Ministry of Economy including certain financial information and the four basic financial statements and notes.

Recognition of the effects of inflation

The effects of inflation should not be recognized unless the cumulative inflation rate over the last three years exceeds 26%, under MFRS B-10 (see partial list of MFRS in Appendix XIII.)

Capital

Capital stock is recorded at par or stated value, partially restated as indicated above. Any excess is separately recorded as additional paid-in capital. Additional contributions by stockholders are usually shown as such. Treasury shares are recorded as a deduction from capital stock in the consolidated balance sheet.

Stock dividends paid are recorded by transferring the appropriate amounts from retained earnings to capital stock (and possibly additional paid-in capital.)

Stock splits would not impact the amount of capital stock. Authorized but unissued shares have no value allocated.

1 The statement of comprehensive income must include, at least, if applicable, the line items of net sales or revenues, costs and expenses, comprehensive financing income and expense, income taxes, discontinued operations and other comprehensive net income.

Relevant aspects in financial reporting

Below are some important characteristics or interpretations of MFRS on how to report the following items:

Marketable securities

Marketable securities held as temporary investments are stated at market value, and any gains or losses due to changes in market value are reported on the income statement.

Long-term investments

These investments, including investments in debt and capital securities, are classified as follows in accordance with management's intention at the date of acquisition:

- Held-to-maturity investments
- Financial instruments held for trading
- Financial instruments available for sale

They are initially stated at the cost of acquisition and are subsequently stated as described below:

1. Held-to-maturity debt securities are stated at the cost of acquisition less the premium amortization or plus the discount amortization, as applicable. Any permanent reduction in value is recognized, when appropriate, to income.
2. Financial instruments held for trading and those available for sale are stated at fair value, which is similar to market value. Changes in the fair value of financial instruments held for trading are charged or credited directly to income. Changes in the fair value of financial instruments available for sale are included in stockholders' equity as part of comprehensive income until such securities are sold or reclassified, when amounts included in comprehensive income are transferred to income for the year.

Inventories

Inventories should be stated at cost or net realizable value, whichever is the lower.

Property, plant and equipment

Property, plant and equipment is carried at partially restated cost less accumulated depreciation (except for land, which is not depreciated) under MFRS C-6. Cost includes the comprehensive financing cost (see "Recognition of the effects of inflation" section) incurred during the construction or installation period.

In all cases, the asset values must be reduced by accumulated depreciation, calculated at historical cost and on revaluation increments, based on realistically estimated useful lives.

The depreciation of revaluation increments is not subject to tax deductions; however, the tax system has its own method of indexing depreciation, which gives approximately similar results.

Impairment

In general, MFRS C-15 states that all long-lived assets should be tested for impairment whenever there is indication that their value may have been impaired, other than for purely temporary reasons. In addition, goodwill and intangible assets with an indefinite estimated useful life must be tested for impairment at least annually, even if no indication of impairment exists.

Under MFRS C-15, impairment should be recognized whenever the net book value of the long-lived assets exceeds their recoverable value. The recoverable value is the higher of their estimated net realizable value and their value in use. Value in use is defined basically as the sum of the discounted future cash flows expected to be generated from the operation of the business.

Any impairment or recoverable amount so determined should be charged or credited to income for the current period.

Business combination

Purchase acquisition accounting is the only method contemplated by MFRS B-7 “Business acquisitions.”

All assets acquired, including identifiable intangible assets, and liabilities assumed in a business combination are measured at acquisition-date fair value. The price paid for the shares in excess of the fair value of the net assets acquired, usually referred to as “goodwill,” should be recorded in the consolidated balance sheet. Goodwill is not amortized, but tested annually for impairment.

If the acquisition cost of the shares is less than the fair value of the underlying net assets (“negative goodwill”), the surplus is applied to write down the value of the non-monetary assets acquired. Any remaining surplus, after the non-monetary assets are reduced to zero, is carried to income in the year of acquisition.

A company acquiring another business may also purchase the assets of the acquired entity rather than its shares. The assets acquired would be depreciated as usual, based on the cost to the acquirer, for both accounting and tax purposes.

The purchase of assets rather than shares may insulate the acquirer from any contingent liabilities of the acquired business, especially possible tax contingencies, but has the disadvantage that the acquiree would normally have to separate all its employees such as paying them seniority premiums and separation pay, unless the acquirer assumes all employment obligations and maintains compensation and working conditions prevailing prior to acquisition. (See Chapter 10 “Labor relations and social security”.)

When the acquiring company and the acquiree are under common control, it is possible to use the previously mentioned method or to record the amounts of the acquiring company at their book value. In this case, the net assets acquired are recorded at their book value in the acquiree, and any difference between such book value and the purchase price is treated as a contribution or distribution of stockholders’ equity.

Consolidation

Except in unusual circumstances, the financial statements of companies controlled by Mexican corporations should be consolidated with those of the parent company.

Control exists when one entity (investor) has power over the investee to direct its relevant activities; exposure or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect the amount of those returns. The parent company’s financial statements, prepared on an unconsolidated basis, are acceptable only when they comply with legal requirements such as the report of a statutory auditor to its annual shareholders’ meeting or financial statements prepared for federal tax audit purposes, provided the ultimate parent company or some other higher-level intermediate parent company presents financial statements under MFRS does not hold debt or equity financial instruments and is not in the process of filing its financial statements to any securities commission.

In non-consolidated financial statements, interest in subsidiaries must be presented as permanent investments valued through the equity method under MFRS C-7 “Investments in associates, joint ventures and other permanent investments.”

The CNBV requires that all companies listed on the Mexican Stock Exchange issue consolidated financial statements.

Income tax and employees’ statutory profit sharing

Employees’ profit sharing is payable on the basis of adjusted net profits.

Differences between accounting income and profits for profit sharing purposes are comparable, although not identical, to differences between accounting and taxable income.

MFRS D-4 “Income Taxes” require comprehensive interperiod tax allocation by the assets-and-liabilities method, similar to the current US and international standards (ASC 740 and IAS 12, respectively). Under this standard a deferred tax is recognized, in principle, for all differences between the book and tax amounts of assets and liabilities.

A valuation allowance should be recorded for any deferred tax asset whose realization is doubtful. Deferred employees’ profit sharing is recognized on a similar basis, to the extent that it may reasonably be assumed that those differences will give rise to an actual future benefit or liability.

Valuation allowances and estimated expenses

All necessary provisions for items — such as bad debts, inventory valuation or obsolete merchandise and estimated expenses — must be included in the financial statements. However, these items are not normally deductible for tax purposes until realized.

Derivative financial instruments

All derivative financial instruments are included in the balance sheet as assets or liabilities at fair value. Changes in their fair value are recognized in income as part of comprehensive financing income (expense), except when the instruments are entered to hedge against risks and comply with all related requirements. Changes in the value of fair value hedges are recorded in income under the same caption as the hedged item. In the case of cash flow hedges, changes in the value of the effective portion are temporarily included in comprehensive income and in stockholders’ equity, and are reclassified to income when the hedged item affects income. Any ineffective portion is recognized immediately in income.

Employee pensions, seniority premiums, termination pay

Provisions for employee pension, seniority premium, termination pay, etc., should be recorded on an actuarial basis in income for the current period. Provisions for pensions, seniority premiums, etc., are deductible for tax purposes only if funded in accordance with plans approved by the Ministry of Finance and Public Credit (see the “Pension funds” section in Chapter 15.)

Contingent liabilities

General contingency reserves are not acceptable under MFRS in Mexico.

Provisions for specific contingent liabilities must be estimated and recorded whenever future payment is considered more likely than not.

Statutory reserves

Corporations should set aside 5% of net profits in a statutory (legal) reserve until its balance reaches 20% of the value of the outstanding capital stock. However, since these provisions represent appropriations of retained earnings, the reserve balance is shown in the stockholders’ equity section of the balance sheet.

Footnote disclosures

The requirements for disclosures in footnotes include information on the principal accounting policies of the company, material contingencies of whatever nature, commitments for substantial purchases of assets or lease contracts, mortgages and other charges on assets, details of long-term debt and foreign currency exposure, details of derivative financial instruments, limitations on dividends, guarantees provided, employee pension plans, transactions with related parties and income taxes.

Revenue recognition

Income statements are almost universally prepared on an annual basis for presentation at shareholders' meetings and for income tax purposes. The VAT Law requires filing monthly returns; this sometimes poses difficulties for companies that wish to keep their accounts over periods consisting of precisely four, 13 or 52 weeks. Annual income tax returns must be prepared for fiscal years ending on December 31. Gross profits on installment sales are generally recognized in the period of sale, although in certain cases, particularly where collection is not assured, they are recognized as collections are made.

Book and tax differences

Numerous differences between the accounting and tax treatment of income and expense items may and usually do exist. Tax treatment is discussed in more detail in Chapter 15. It should be noted that, generally speaking, conformity between the accounting and tax treatment of income and expense items is not required.

Foreign investors

There are no disclosure requirements applicable exclusively to foreign investors. However, a foreign-owned subsidiary or investee would have to comply with the disclosure requirements applicable to all entities doing business in Mexico. These include the need to disclose all significant transactions with related parties — including parent, affiliated and subsidiary companies — together with the following information:

- Nature of the relationship
- Amount and description of the transaction (even when no charge is made for goods or services)
- Effect of any changes in the terms of recurring transactions
- Balances with related parties and a description of any special characteristics (e.g., due dates or interest rates)
- Any other information considered necessary for an understanding of the transaction

Transactions of a similar nature may be grouped together. Remuneration paid to company directors, officers and executives for services rendered in such capacities and the extent of directors' or officers' shareholdings need not be disclosed. However, in the case of public companies, the total combined remuneration paid to directors and chief executive officers must be disclosed.

PART II.
Tax issues and considerations

Chapter 13

Tax system

Investor considerations

- Resident taxpayers (corporate or individual) are subject to Mexican taxation on worldwide income
- Non-resident taxpayers (corporate or individual) are only taxed on Mexican-source income
- Corporations pay at a federal income tax rate of 30%
- Individuals are taxed at progressive graduated rates, with a maximum of 35%
- A 10% withholding tax is applied on dividend distributions to individuals and foreign resident shareholders (see Chapter 17)
- Compulsory profit sharing, equal to 10% of taxable income as adjusted for this purpose or capped to three months of salary or average of the profit sharing paid in/over the last three years, is payable each year to employees and is decreased for tax purposes
- In general, form prevails over substance, although tax courts are increasingly basing their rulings on substance
- More than 60 tax treaties are now in effect, and negotiations for tax treaties with other countries are in progress
- Double taxation relief is given by way of credit for foreign taxes paid

Principal taxes

Principal taxes payable by commercial and industrial enterprises operating in Mexico and, in certain cases, by foreign companies and individuals, are levied by the federal government. State and municipal governments have more limited taxation powers and receive allocations of some federal taxes collected within their borders. There are several types of principal taxes:

Federal taxes

- Income tax
- Value-added tax
- Custom duties
- Payroll taxes, mainly social security
- Excise taxes on products (e.g., high-caloric food, soft drinks, gasoline, liquor and tobacco)
- Excise taxes on services (e.g., telephone and communications)

State and local taxes

- On real property ownership and transfers
- On salaries
- Green taxes

Transfers of real estate are subject to a state tax on acquisition of real property. The states are not authorized to levy general corporate income taxes, although some states levy a tax on salaries and professional fees on the employer or payer.

Legislative framework

Statute law

Congress annually approves the Federal Revenue Law, which mainly includes a list of the federal taxes to be imposed during the year. The Ministry of Finance and Public Credit is empowered to issue regulations for implementation of the tax laws, which interpret the legislation in broad terms.

Annual miscellaneous tax rules published by the tax authorities may be relied upon by the taxpayer, although they do not have the force of law. Retroactive legislation is not permitted by the Constitution, and its application is not legal.

Case law

Although court decisions are valid only for the specific case involved, they do set a level of precedence. Supreme Court decisions that have been issued five times in the same sense on the same issue must be followed by other courts when deciding on substantially the same factual situation.

Anti-avoidance

Tax legislation contains specific anti-avoidance rules similar to those of other countries; for example:

- In the case of fraud, the authorities may look through the way a transaction is structured to determine its true economic substance and business reason
- General provisions that empower the authorities to reconstruct income on an estimated basis or disallow deductions are quite broad
- Tax authorities are entitled to request from foreign residents written confirmation showing that the application of a tax treaty is necessary to avoid double taxation
- General rules to avoid abuse through intercompany pricing have been substantially broadened. Payments to related parties must be determined on an arm's length basis and properly documented for them to be deducted
- Strict rules apply regarding compliance with documentation, withholding taxes or prior notification or authorization, deny deductibility of costs and expenses if not fully satisfied
- Transactions classified as subject to preferential tax regimes anticipate the accrual of income, restrict deductions or apply higher income tax withholding rates

Form versus substance

Generally, form prevails over substance, except as noted in the general anti-avoidance rules. Authorities typically base their analysis of transactions on the documentation backing such transactions. Some attorneys think that only if the authorities can prove that a fraudulent situation exists in a transaction would substance prevail. However, there is a growing trend toward considering substance over form, which might prevail shortly. Tax authorities have publicly announced their intention to thoroughly review international structures that could result in Base Erosion and Profit Shifting (BEPS), aligning their efforts to those of other OECD countries and following the appropriate recommendations of such organization.

Reportable transactions

Under the rules of the Federal Tax Code, tax advisors (as defined by the FTC) and in some cases taxpayers (such as Mexican entities) must disclose to the Mexican tax authorities the schemes and transactions carried out that represent a tax benefit in Mexico from 2020 onward and that fall within any of the 14 assumptions included in the FTC. (See Chapter 26 "Mandatory disclosure regime".)

In this sense, a "transaction" is considered to be any project, proposal, advice, instruction or recommendation expressed or implied to materialize a series of legal acts. It is worth mentioning that a "transaction" is not considered to be the performance of a procedure before the authority or the taxpayer's defense in tax controversies.

Furthermore, the FTC considers two different types of reportable transactions: 1) "generalized reportable transactions," which are those that seek to be mass marketed to all types of taxpayers or to a specific group of them, although they require minimal or no adaptation to the specific circumstances of the taxpayer, the form of obtaining the tax benefit is the same; 2) "customized reportable transactions," which are those that are designed, marketed, organized, implemented or administered to adapt to the particular circumstances of a specific taxpayer.

Clearance procedures

Under the FTC rules, taxpayers may request advance rulings on actual and concrete specific situations before carrying out a significant transaction, if they desire to have legal certainty as to the effects of a proposed transaction. However, such rulings are not easy to secure, and the process can be lengthy and time-consuming.

Concepts of income taxation

In general, the federal income tax system is an all-inclusive system with certain exceptions, most notably in the case of some types of interest received by individuals.

Interest from the Mexican financial system is taxed at a flat rate and may be credited in the overall annual personal return.

The federal corporate tax rate is 30%.

Provisions designed to recognize the effects of inflation for tax purposes in the areas of monetary assets and liabilities (monetary correction) and depreciable assets are incorporated in the tax law.

Resident individuals are subject to Mexican income tax on their worldwide income, regardless of their nationality, at graduated rates reaching 35% for individuals with income exceeding MXN 3.9 million in the year.

Non-resident corporations and individuals are subject to tax on their various types of Mexican-source income treated separately, but if they are considered to have one or more permanent establishments for income tax purposes in Mexico, all income attributable to such establishments must be consolidated in a single annual return.

Non-residents, including Mexican citizens who can prove residence for tax purposes in a foreign country, are taxed only on their Mexican-source income. Mexican citizens need to notify to the Mexican tax authorities their foreign residency status, with special rules and restrictions applicable in the case of expatriation to low tax jurisdictions.

Business entities that have established their main administration or their effective place of management in Mexico are considered tax residents of Mexico.

Classes of taxpayers

Taxpayers are divided into four main groups and are generally subject to the same rules. However, there are additional rules that apply only to each separate group, as follows:

1. Resident corporations and other organizations taxable as corporations

Resident corporations, permanent establishments of foreign corporations and all entities other than those non-profit organizations specifically so designated will generally be taxed in the same manner and under the same rules applicable to resident corporations.

These include most privately owned business enterprises, sole proprietorships and professional service providers.

These taxpayers are required to include all their income from all sources, with very few exceptions, in a single annual return (see Chapter 15 “Taxation of corporations”.)

2. Resident individuals

Resident individuals, whether Mexican or foreign nationals, are subject to Mexican taxation on their worldwide income of all types, most of which must be included in an annual personal income tax return. Taxable income is subject to tax according to the graduated rate schedule shown in Appendix VII. There is special treatment for capital gains and domestic interest. (See Chapter 17 “Taxation of shareholders” and Chapter 20 “Taxation of individuals”.)

3. Non-resident corporations and individuals

Non-residents may be considered to have a “permanent establishment for income tax purposes” in Mexico under certain circumstances (see Chapter 16 for a more detailed discussion). In these cases, the permanent establishments are taxed in the same way as duly registered branches of foreign corporations, basically following the rules for resident corporations.

Non-resident Mexican or foreign individuals are taxed only on their Mexican source income, at flat or graduated rates applied separately to different types of gross income without deductions, although under special rules they may elect to be taxed at higher rates on net taxable profits from sales of real property or capital stock or short-term construction and similar work. Generally, no overall annual return is required of non-residents.

Non-resident individuals rendering personal services temporarily in Mexico who are employees of a non-resident corporation that does not have a permanent establishment in Mexico are exempt if their services are rendered for less than 183 days, consecutive or not, in any 12-month period. If the duration of their services exceeds 183 days, they are subject to tax as described in Chapter 20 “Taxation of individuals.” Non-resident individuals who render personal services temporarily in Mexico directly to Mexican taxpayers, are subject to a graduated withholding tax rate (also discussed in Chapter 20.)

4. Non-profit organizations

Under the law, a limited number of organizations and government agencies are exempt from taxes. These include formally registered political parties, the federal, state and municipal governments as well as their agencies not engaged in business activities.

Other non-profit organizations are generally considered non-taxpayers, rather than as exempt from tax. These include a limited number of civil societies and civil associations that are specifically designated as such, although they are required to file annual returns on a calendar-year basis to determine their net excess of income over expenses, and their members are subject to tax only as to any amounts of net income actually distributed. These organizations are relieved of any obligation for advance payments of tax on their operations. The following types of entities, among others, are considered non-taxpayers:

- Chambers of commerce and of industry, labor unions, employer, professional, cooperative and agricultural associations
- Charitable organizations and those established for scientific, political, sports or religious purposes
- Consumer cooperatives, civil associations or societies engaged in education (if officially recognized) and civil societies organized solely to operate savings funds
- Civil societies and associations which grant scholarships, as well as entities engaged in the research and conservation of flora and fauna

Notwithstanding the above, certain types of income of non-taxpayers are subject to income tax, including unrelated business income.

Taxable income

Taxable income is gross income, which includes any kind of income (unless specifically excluded) less allowable deductions and unexpired net operating loss carryforwards from prior years, as well as employee profit sharing paid in the calendar year. Gross income also includes the taxable annual inflationary adjustment, if any. The deductible annual inflationary adjustment, if any, is fully deductible. (See Chapter 15 “Taxation of corporations” for a discussion of these items.)

Tax year

The government’s fiscal year is the calendar year, which must also be used by all taxpayers for corporate, legal and income tax purposes. Sole proprietorships and non-profit organizations must also use the calendar year.

Tax-free zones

Free trade zones have been replaced by the border region concept (as discussed in Chapter 8 “Exporting to Mexico”.)

Tax holidays

There are no income tax holidays for domestic or overseas investors in Mexico.

Capital taxation

Companies

No tax is payable on the basis of the value of a company upon incorporation or upon issuance of shares (except for relatively minor state incorporation fees.)

Individuals

There is no tax payable on total wealth or on the value of assets (see Chapter 15 “Taxation of corporations” and 20 “Taxation of individuals”.)

Dividend taxation

Legal entities are taxed at a rate of 42.86% of the value of any distributions of profits they carry out in excess of their after-tax earnings account. In these cases, the tax on distributions is creditable by the legal entity making the excess distribution. Dividends distributed to individual or foreign residents will be subject to a 10% withholding, when distributed on earnings generated from 2014 and thereafter. Dividend taxes may be lower or nil under the terms of the tax treaties in place with many countries (see Chapter 24 for details.)

Tax credit for foreign operations

As stated above, both individual and corporate residents of Mexico are subject to Mexican taxation on their worldwide income. Tax credit up to the amount of the Mexican income tax is allowed for foreign income taxes paid on foreign-source income, and the law is designed to avoid double taxation of international transactions (see Chapter 18 “Taxation of foreign operations). Mexico also has a number of tax treaties in effect and is currently negotiating additional tax treaties with several other countries (see Chapter 24 for details.)

Chapter 14

Tax administration

Investor tax considerations

- Resident taxpayers (corporate or individual) are subject to Mexican taxation on worldwide income
- Electronic filing and payment are mandatory for all tax returns filed by corporations and individuals
- Non-resident taxpayers (corporate or individual) are taxed on Mexican-source income only
- Corporate taxpayers are required to file an annual income tax return no later than March 31 of the following year
- Corporate taxpayers are generally required to make monthly advance payments
- Individual returns are due on April 30; no extensions are granted
- Filing of financial statements that have been audited by an independent public accountant with an opinion on the tax status is optional or mandatory, considering certain parameters such as taxable income, number of employees and the value of the fixed assets
- Penalty interest is payable on any unpaid tax, as adjusted for inflation
- Joint returns are not permitted
- Individuals receiving compensation directly from abroad must generally make monthly estimated tax payments
- Severe penalties, including imprisonment, can apply in the case of fraud and for failure to file returns, no withhold taxes or pay tax liabilities
- Departing aliens should notify tax authorities of the suspension of their tax obligations

Administration of the tax system

Taxes are imposed by the federal, state and local governments through the federal and state legislatures. In particular, federal income tax, value-added tax and special tax on production and services are administered by the **Revenue Administration Service** (*Servicio de Administración Tributaria*, SAT) — a department of the Ministry of Finance and Public Credit — which collects those taxes for the federal government.

As of January 1, 2022, by decree of President Andrés Manuel López Obrador, the **National Customs Agency of Mexico** was created as a department of the Ministry of Finance and Public Credit. Its main activities consist of the direction, organization and functioning of the country's customs system — applying and ensuring compliance with the legal norms that regulate merchandise in international trade and collecting federal customs revenue.

Corporate taxpayers

Tax returns

Corporations are required to file an annual income tax return for each calendar year no later than March 31 of the following year and to pay the balance of tax due at that time. Penalty interest is payable on any unpaid amount remitted after March 31.

A newly organized company must file its first tax return for the period ending on December 31 of the year of incorporation.

In cases where taxpayers are obligated or have chosen to have their financial statements audited by a certified public accountant, these must be filed, together with the accountant's opinion on the taxpayer's compliance with the tax laws, by May 15 of the following year.

Information returns

Annual information returns are due by February 15 of the following year covering investments in low-tax jurisdictions, taxes withheld on payments abroad and to certain residents, and loans received from or guaranteed by foreign residents.

Amended returns

A taxpayer may not file an amended return for a given year more than three times, except when the amendment is a result of an audit by the authorities or results in an additional tax liability or a reduction in a net tax loss carryforward.

Assessments

The taxing system is largely one of self-assessment by means of periodic tax returns subject to audit by the authorities. Great reliance is placed on the requirements of tax withholding by those who make payments representing taxable income to the recipient, except for payments to resident business enterprises.

Filing of financial statements and opinions of public accountants

As a means of facilitating the official review of corporate tax compliance, the Federal Tax Code (FTC) contains an alternative procedure that requires business enterprises to file audited financial statements and the tax opinion of an independent public accountant registered with the Ministry of Finance and Public Credit.

Companies have the **option** to choose this procedure if they have:

- a gross income in excess of MXN 140,315,940
- assets that were stated at more than MXN 110,849,600 in the preceding year
- 300 or more employees in any month of the preceding tax year

This option must be chosen by the taxpayer at the time they file their income tax return corresponding to the fiscal year in which they elected this option no later than March 31 of the year following the period to be audited.

Companies are **required** to file the audited financial statements and the tax opinion if they have:

- a gross income in excess of MXN 1,650,490,600 in the prior year or
- are public in Mexico (i.e., shares in stock markets)

These thresholds are updated for inflation on an annual basis.

The financial statements and opinions of public accountants must be filed electronically, in accordance with the tax authorities' rule, by May 15 of the following year. This period can be extended in some cases.

There is no need to audit taxpayers that have formally suspended activities as of the second tax period after having filed the notification of suspension.

Detailed additional schedules must be filed with the accountant's report, together with a separate opinion to the effect that during the audit tests carried out in compliance with the applicable auditing standards the accountant observed no irregularities in respect of any federal income tax or other federal taxes payable directly or required to be withheld by the company. Any irregular items noted but not satisfactorily corrected must be included in the report.

Import and export tariff classifications and the values declared for custom purposes are not expected to be covered by the accountant's opinion.

Additionally, similar compliance opinions are established for local payroll and real estate taxes and tariffs for water consumption imposed by Mexico City when taxpayers employ 150 or more persons (monthly average), have property worth of MXN 30,496,630 (for each property or as a group with common ownership) or more, or use 1000m3 or more of water. The due date for filing the notification of the intention to file this report is generally January 15. This period can be extended in some cases. The other state requiring similar opinions for local taxes is the State of Mexico.

As of 2022, independent public accountants registered with the Ministry of Finance and Public Credit are obligated to inform the Mexican tax authorities of issues they observe when they conduct an audit review that may be considered as a tax criminal offense. The consequence for non-compliance includes the cancellation of the CPA's registration with the tax authorities and, in some cases, the CPA may be even subject to jail punishment.

Questions arising from the desk review normally carried out by the authorities are generally directed to the public accountant. The tax authorities are empowered to close their tax audits at their discretion based on the circumstances.

As of 2014, the following taxpayers must file an information tax return regarding its fiscal situation (including information similar to the tax audit report), in connection with the taxpayer's income tax return, by March 31 of the following year:

a. Taxpayers with gross income equal or in excess of MXN 904,215,560.
b. Taxpayers that are public in Mexico (i.e., shares in stock markets).
c. Entities which "integrate" tax results (new consolidation regime).
d. State-owned entities.
e. Foreign entities with a permanent establishment in Mexico.
f. Entities resident in Mexico, with transactions carried out with foreign entities.
g. Taxpayers who are related parties of taxpayers required to audit financial statements.

Controlling beneficiary

As of January 1, 2022, the Federal Tax Code contains an obligation to identify the controlling beneficiary of legal entities, trusts and other legal figures, as well as to obtain the beneficiary's information as the Revenue Administration Service may require it as part of its accounting.

Appeals

If tax deficiencies are determined as a result of the tax authorities' examinations, objections the taxpayer may have against any of the findings in the report issued must be expressly included in the same report at the conclusion of the examination.

The tax authorities are empowered to assess any additional tax to be paid. The taxpayer may present a formal request for revocation of the assessment (administrative appeal) to the technical division — likely the relevant legal division — of the specific tax authority that made the assessment.

Alternatively, the taxpayer may appeal to the Tax Court, asking that the assessment be annulled. Court cases are handled by attorneys, usually with assistance from accountants as experts in the matter covered in the trial.

Taxpayers have a third option called "conclusive agreement" filed before the Tax Ombudsman (*Procuraduría de la Defensa del Contribuyente*, PRODECON, as per its acronym in Spanish) to resolve disputes.

Payment and collection

Corporate taxpayers are required to make advance payments of income tax on the 17th of each month. However, such advance payments should be made on the basis of an estimated annual taxable income, determined by applying to the gross income of the current year the preceding year's ratio of taxable income to gross income (the "profit factor"), less any unused losses carried forward from prior years. If good reasons are given, the SAT has authority to waive all or part of one or more of the advance payments at the taxpayer's request, in the last six months of the year.

Advance payments are not required during the first year of operation of a business. Beyond that, the law provides a procedure whereby corporations must make advance payments even when there was no profit factor arising in the previous 12-month fiscal period (i.e., in loss years). Consequently, taxpayers are required to use the profit factor corresponding to the most recent taxable year that resulted in a profit within the most recent five years period.

Withholding taxes

In many cases, a company making payments to third parties is required to withhold and pay to the tax authorities an amount of income tax on account of the recipient. In all such cases, the company is jointly liable for the tax that should be withheld, and failure to do will result in penalty fines and interest.

The withholding obligation exists, in general, for all payments to individuals, including employees, and payments to foreign entities that are not registered in Mexico. This includes most payments abroad, as described below. In all cases where the income tax law does not establish a specific period within which corporations should remit taxes withheld, the period for payment will be the 17th of the month following that in which the taxes should be withheld.

Payments to foreign residents. In general, a withholding obligation exists in connection with income paid to foreign residents (corporations or individuals) with a source of wealth located in Mexico. The corresponding withholding rate is applied to the total income without deductions, except in certain cases where income tax withholding may be determined on the net gain, such as when a qualified resident representative is appointed in connection with, for example, sales of real property or shares or for short-term construction or similar income. All withholding taxes from payments to foreign residents should generally be remitted by the 17th of the month after the date the payment was due, even if no payment or withholding is actually made. Moreover, payments made in advance of their due date would accelerate the withholding and remittance obligations.

Tax audits

In accordance with provisions of the Income Tax Law, income tax returns are considered accepted by the authorities as filed, although the tax authorities are empowered to review or audit in detail any return they may select. While there is no set rule as to how the authorities may select a taxpayer for a tax review, they have a system that identifies review candidates based on their risk factors.

The tax authorities are empowered to review the taxpayers' accounting records to determine compliance with tax obligations. The authorities can review any kind of federal tax, including foreign trade taxes.

As of 2021, the tax authority can disclose to taxpayers, periodically and generally, reference parameters regarding profit, deductible concepts or effective tax rates that they present with respect to other entities or legal figures based on the economic or industrial sector to which they belong. These disclosures help taxpayers measure tax risks. In case of significant differences, the authority may carry out audits to verify adequate tax compliance.

Penalties

Penalty interest (surcharges) up to the amount accrued over a period of five years, and in some cases ten years (based on the statutory limitation period mentioned below), is payable on delayed payments or additional assessments counting from the date the tax should originally have been paid. Surcharges are calculated on the tax deficiency as adjusted for inflation.

Fines may also be assessed in the case of tax omitted, unless the taxpayer voluntarily pays the omitted tax or corrects the obligation not satisfied prior to a formal request for payment or to a receipt of a notification of a tax inspection for the year in question.

Time in jail can be imposed if the failure to pay taxes is proven to be the result of smuggling or fraud.

Statute of limitations

In general, the right of the tax authorities to collect taxes, review tax returns or claim additional tax expires five years after the date the corresponding return is filed. Similarly, the period for claiming a refund of overpayment of taxes expires after five years.

However, the statute of limitations expires in ten years in cases if the taxpayer:

- did not secure a federal taxpayer's registry number
- did not have accounting records or keep them for the required period
- did not file a tax return with the information of the value added tax or special tax on production and services requested

Individual taxpayers

Assessments

In general, the tax system relies on tax withholdings and advance tax payments from individuals as the basis for enforcing compliance with the income tax law. Also, annual personal income tax returns are required for most situations.

Imputation of taxable income

When individuals spend more than the income shown in their income tax returns during a calendar year, the tax authorities can consider the excess of such expenses over the income declared as additional taxable income for the individual. After notification, the taxpayer is granted a period of 20 days within which to file a protest or prove a case. Otherwise, the authorities will issue the corresponding additional tax assessment.

In addition, certain non-taxable items (i.e., travel expenses, gains on the sale of home, inheritance) must be disclosed in the annual tax return; otherwise, they will be considered taxable.

Tax returns

Most individuals receiving income during the calendar year are required to file an annual tax return no later than April 30 of the following year. Individuals with less than MXN 400,000 or about USD 20,000 of salary income or interest income, in most cases, are not required to file an annual tax return.

Penalties for late or improper filing by individuals are the same as those by business enterprises.

Under current tax provisions, except in specific cases, annual tax returns must be filed using the electronic system established by the SAT. For that purpose, in most cases the taxpayer must have an electronic tax compliance password called Electronic Signature (*e-firma.*)

Payment and collection

The amount of tax shown as due on the annual return (net of applicable taxes withheld, tax credits and advance payments) is payable upon filing the return, no later than April 30 of the following year.

Advance payments

Substantial amounts are withheld from salaries and other types of income as summarized later in this Chapter. In addition, individuals are required to make advance payments on the following specific types of income:

1. Salaries received from abroad

Monthly advance tax payments on salaries and wages received from foreign employers, or others not required to withhold tax, should generally be filed by the 17th day of the following month. The tax due should be calculated by applying the monthly graduated rate table to the wages received each month.

2. Business activities and professional fees

Advance tax payments are due, on a monthly basis, on income net of deductible expenses.

3. Rental of Mexican real property

Advance tax payments are due, on a monthly basis, on income net of deductible expenses. Alternatively, a flat 35% of the rental income can be deducted instead of the actual expenses.

Advance tax payments can be quarterly if the rental income during the year is less than ten times the minimum wage for the month (not applicable if the taxpayer has other income.)

4. Sale of Mexican real estate

The notary public who processes the documentation for the sale must withhold income tax in accordance with the holding period and should file an advance tax payment within 15 days after the closing.

5. Sale of other personal property

An advance tax payment is due equal to 20% of the gross income and should be paid through withholding by the acquirer residing in Mexico or paid within 15 days after the income is obtained.

6. Income from the acquisition of assets below fair market value

A 20% advance tax payment is due within 15 days after receiving the tax assessment from the tax authorities.

7. Interest received on loans if received on a continuing basis

A semiannual advance tax payment is due on the gross income without deductions.
These interests are different from credit yields.

8. Sporadic income (e.g., forgiveness of debt, guarantor fees, etc.)

An advance tax payment equal to 20% of the gross income is due within 15 days following the date the income was obtained.

Tax withholding

Tax withholding for individuals is required as follows:

1. Salaries and wages

Mexican employers are required to withhold income tax on remuneration paid to employees at the rates established, and they must remit the withheld taxes generally by the 17th of the following month.

Furthermore, since most employees whose total taxable wages for the year do not exceed MXN 400,000 or about USD 20,000 are not required to file an annual tax return, employers are required to true-up the tax withholdings by determining the total tax payable for the year and withhold any balance due or refund any excess withholdings.

Any net balance due must be paid at this time, and overpayments are recovered by reducing withholdings for subsequent months. An adjustment of the withholding for December is authorized by the tax law to avoid overpayments. This true-up procedure does not apply to employees who leave the employer before December 1 or who confirm in writing that they will be filing their own annual returns.

The regulations establish special procedures for calculating monthly withholding when, in addition to normal salary, an employee receives bonuses or payments covering several months, other than for severance compensation.

2. Severance compensation

The tax for severance compensation to be withheld is calculated at the effective rate of tax withholding on the last normal monthly salary, based on the tax to be paid on the last normal monthly salary.

3. Fees for independent personal services, rent and miscellaneous types of income

Corporations are required to withhold 10% of professional fees or rent paid to individuals.

4. Other types of income

Under some circumstances, withholding taxes are also applicable to other types of income received by individuals, including:

a. Interest on fixed-income securities. (see the “Interest income” section in Chapter 20.)

b. Proceeds from sales of securities and other personal property. (see the “Capital gains” section in Chapter 20.)

Penalties

Penalty interest, inflation adjustments and fines for delayed or omitted tax payments are the same as those described for corporate taxpayers.

Tax audits and appeals procedures

Individual tax returns are subject to the same type of audit and appeals procedures as those described for corporations.

Foreign personnel

Foreign nationals residing in Mexico are subject to the same compliance requirements as Mexican nationals residing in Mexico. Non-residents, including Mexican citizens who have terminated tax residency, are taxed only on their Mexican-source income.

Exit permits

Before the final departure of a tax resident, an appropriate notification must be filed to have the authorities suspend the individual's tax registration and obligations and to terminate the individual's status as a tax resident. No formal tax clearance has been established as a condition for boarding or exiting for departing citizens or foreigners.

Partnerships and joint ventures

Tax administration for Mexican partnerships and joint ventures is the same as for corporations.

An association in participation agreement (*Asociación en Participación, A. en P*.), a type of joint venture, has legal personality for tax purposes but the activities carried out through this instrument do not create a separate legal entity. However, it has the same tax treatment as regular companies, and the active partner must pay the tax and comply with the A. en P.'s tax obligations.

Chapter 15

Taxation of corporations

Investor considerations

- Mexican corporations are taxed on worldwide income
- A 30% corporate tax rate is imposed on net taxable income
- A special system is available to determine taxable income for taxpayers in certain industries (farming, fishing, livestock breeding, timber activities, among others)
- Net operating losses may be carried forward for ten years
- Capital losses (i.e., losses on the sale of shares) can only be carried forward against capital gains
- Thin capitalization rules provide for a 3:1 debt-to-equity ratio
- Intercompany interest arising on excess indebtedness is not deductible. Interest paid to a related party may be treated as a dividend in certain circumstances (e.g., on back-to-back loans)
- Leveraged corporations must recognize an inflationary gain as additional taxable income and an inflationary loss as a deductible expense
- Residents abroad and Mexican individuals will be subject to an additional 10% withholding tax on dividends paid from profits generated as of 2014, considered a definitive payment
- Dividends from after-tax earnings are not subject to additional taxation at a corporate level
- Capital gains are wholly includable in gross income and are taxed at the same rate as ordinary income
- All intercompany transactions are scrutinized closely and are subject to contemporaneous documentation requirements to support the arm's-length nature of intercompany prices
- As of 2014 a new regime of "integration" has been created for corporate groups, based on a shareholding participation of 80%, to defer a certain amount of income tax over a maximum of three years
- Tax holidays are not available for federal taxes

Cont.
15

- Compulsory profit sharing, equal to 10% of taxable income as adjusted for this purpose, or capped to three months of salary or average of the profit sharing paid the last three years, is payable each year to employees and is deductible decreased for tax purposes
- The regime applicable to public Real Estate Investment Trusts continue
- Specific rules are applicable for recognition of unremitted income arising from investments in preferential tax regimes (tax haven rules)
- Mexico does not recognize any tax transparency for foreign corporations except for some investment funds investing in Mexico
- Mexican source income obtained by foreign non-taxed (flow-through) corporations may be considered as income obtained by an entity resident in a preferential tax regime (tax haven)
- Deduction for payments to foreign related parties and entities resident in tax havens have specific requirements
- Taxpayers dedicated exclusively to the generation of energy from renewable sources or efficient energy through cogeneration systems and which have fully deducted their investments shall establish an account designated as “Tax Profit Accounts for Investments in Renewable Energy” that will allow for the distribution of dividends without payment of corporate dividend tax. This exception does not apply to the withholding tax applicable to individuals who are resident in Mexico or all residents abroad

Corporate tax system

Corporations and shareholders

The tax rate for corporate taxpayers is 30%.

Profits taxed are included in the net after-tax earnings account (*Cuenta de Utilidad Fiscal Neta* or CUFIN) from which dividends can be paid out free of additional corporate taxes. CUFIN balance must be restated for inflation. When dividends are not paid out of the CUFIN, they should be grossed up by a specific factor (1.4286) to determine the additional corporate tax payable by the company. This additional corporate tax can be credited in the year of payment and the following two years.

Taxpayers dedicated exclusively to the generation of energy from renewable sources or efficient energy through cogeneration systems and which have fully deducted their investments shall establish an account called "Tax Profit Accounts for Investments in Renewable Energy" (equivalent of CUFIN) that will allow for the distribution of dividends without payment of corporate dividend tax. This exception does not apply to the withholding tax applicable to individuals who are resident in Mexico or all residents abroad.

In fact, individuals and residents abroad are subject to an additional 10% tax on dividends or earnings distributed by Mexican companies or permanent establishments located in Mexico. This tax must be withheld by the distributing entity.

The aforementioned 10% tax is applicable only to profits arising as of 2014. In this regard, the entity or permanent establishment is required to track the CUFIN balance with earnings generated up to 2013 and those generated as of 2014 (i.e., post-2013 CUFIN balance). When these two accounts are not handled separately or profits cannot be identified, the earnings distributed are deemed to be generated as of 2014.

Taxable entities

Taxable entities include different types of companies, such as corporations, limited liability companies, Mexican partnerships and civil organizations (other than those specifically designated as non-profit organizations) as described in Chapter 13 under "Classes of taxpayer".

Under certain circumstances non-resident corporations (or individuals) may be considered to have a permanent establishment (PE) in Mexico for income tax purposes, including branches of foreign corporations duly registered to operate in Mexico. The business operations of such establishments are taxed in the same manner as a corporation, with the relatively few differences described under the "Branch versus subsidiary" section in this Chapter.

The Federal Tax Code provides that corporations are to be regarded as residents of Mexico if their principal administration or effective management is established in Mexico. All partners and shareholders of Mexican companies must be registered for tax purposes, except for those who acquire their shares on recognized stock markets or markets with high trading volumes. This requirement is met by corporations or entities providing the relevant information on partners and shareholders.

Territoriality

Domestic taxpayers (both corporations and individuals) are taxed on worldwide income from all sources unless specifically exempt, with a limited foreign tax credit for foreign taxes paid on foreign-source income. Permanent establishments of foreign entities are generally subject to tax only on income attributable to such establishments in Mexico.

Accounting period

Taxpayers are required to use the calendar year for income tax purposes. Newly formed corporations will have a short taxable year from the date of incorporation to December 31 of that year. Similarly, existing corporations will have a short taxable year in the year in which liquidation procedures commence.

Gross income

Accounting methods

A modified accrual basis of accounting is required of all business taxpayers for income tax purposes. In the case of sales of goods or services, revenues should be recognized for income tax purposes in their entirety in any of the following situations, whichever occurs first:

- When a document (digital invoice, receipt, etc.) is issued that supports the agreed price or remuneration
- When the goods are physically shipped or delivered, or when the services are rendered
- When the price or payment becomes legally due or payable, or is received in whole or in part, even if it is considered an advance

The revenues of civil entities rendering professional services (e.g., legal, accounting, medical, engineering or architectural firms) are not recognized until collected.

A special system is available to determine taxable income for taxpayers in certain industries (farming, fishing, livestock breeding, timber activities, among others.)

Financial leases

Financial or capital lease contracts are considered as a sale by the lessor. Consequently, the lessor is not entitled to depreciate assets covered by these contracts.

For income tax purposes, a financial lease exists when a person is obligated to provide to another the temporary use of tangible goods on a fixed term and the latter is obligated to pay several installments as the price of the good, which amount covers the acquisition cost of the goods, the financial charges and other payments and to elect at the end of the lease term, one of the following options as stated in the General Law on Auxiliary Credit Organizations and Activities:

- Purchase the goods at a price lower than the acquisition value
- Extend the financial lease contract at a lower price
- Participate with the lessor in the gain derived from the sale of the goods to a third party

A written contract must exist specifying the value of the asset and the interest rate or the method for determining such interest rate.

Revenues from long-term contracts for the construction of buildings or the long-term manufacturing of personal property (e.g., large machinery) must be recognized for tax purposes when the periodic estimates of work completed are approved by the customer for payment. In the case of personal-property long-term contracts, revenues should be determined on the basis of the quarterly construction work advance or the manufacturing of the equipment, if such estimates are not presented at least every three months. If advance payments, guarantee deposits, etc., are received, the entire amount of the advance or deposit must be recognized as income.

Costs incurred under such contracts are deductible in the years in which they are incurred and, in some cases, estimated future costs can be charged against such revenues.

Business profits

There are several differences between business and tax profits (e.g., depreciation rates, inflation effects). These differences should be reconciled on an annual basis when the annual tax return is filed.

Inflation gain or loss

Taxpayers are required to calculate an adjustment due to inflation (i.e., additional taxable income) on an annual basis by applying the percentage increases in the National Consumer Price Index to essentially all liabilities net of monetary assets, including bank balances, investments (except in shares) and some notes and accounts payable.

However, taxpayers may have an inflation loss (i.e., additional deduction) if their monetary assets, including bank balances, investments (except shares) and some notes and accounts receivable, exceed their monetary liabilities.

It should be mentioned that liabilities that may arise from non-deductible items and the debts that exceed the debt-to-equity ratio (according to the thin capitalization rules), as well as debts linked with the non-deductible interest derived from the excess of the 30% of the adjusted taxable income, should not be considered in the calculation of the adjustment for inflation.

Intercompany transactions

For tax purposes, intercompany charges should meet arm's-length requirements (i.e., terms and conditions should be comparable to transactions between unrelated parties). Prices paid for goods bought from foreign or local affiliates or any other source are subject to review by the tax authorities and, if not considered to represent true local or foreign market prices, may be adjusted under broad transfer pricing provisions.

Domestic and foreign transactions must be supported by the application of a recognized transfer pricing method following a preferred method rule. Such methods are (in order of preference):

1. The comparable uncontrolled price method (CUP)
2. The resale price method
3. The cost-plus method
4. The profit split method
5. The residual profit split method
6. The transactional net margin method

Taxpayers are first required to apply the CUP method when determining prices in transactions carried out with related parties. If the taxpayer can demonstrate that the CUP method is inappropriate, the other transfer pricing methods can be applied.

A range of prices or margins could be established by the application of any of the above-mentioned methods. If the price or margin is within the range, the transaction would be considered as carried out at fair market value.

Taxpayers must secure and maintain contemporaneous documentation supporting transactions carried out with related parties, especially with foreign related parties, providing appropriate support that income and deductions are based on market values.

This documentation must be prepared per type of operation and must include all operations carried out with related parties.

In addition, the tax authorities have the power to reconstruct income declared by a taxpayer from sales made at less than current market prices or at cost or less. The income from sales at less than cost will be accepted as declared if the taxpayer can prove that the sales prices represented current market prices for the merchandise, that the items sold represented damaged or obsolete merchandise, or that other special circumstances existed that made it necessary to sell at less than cost.

Taxpayers who are required to present an information return with respect to their tax status (*Declaración Informativa sobre la situación fiscal del contribuyente* or DISIF) are also required to submit information relating to transactions carried out with related parties by December 31 of the year following the tax year in which the transaction occurred, by way of the following returns:

- **Master information return** including information related to the multifunctional business group
- **Local information return** including information relating to the taxpayer and related party transactions. The filing should be made by May 15 of the following year
- **Country-by-country information return** including information on a tax jurisdictional level based on the jurisdictions in which the multinational group operates, so long as the taxpayer is the controlling multinational company, a Mexican tax resident or a foreign resident with a permanent establishment (PE) in Mexico and has been designated as the party responsible for presenting the tax return

Tax havens

Payments made to related party residents of tax havens are considered non-deductible unless some substance requirements are duly satisfied.

Shares to related parties

The sales price of shares (other than publicly traded shares) sold to a related party must be set at market value and the transaction must be supported by the corresponding contemporaneous transfer pricing documentation.

Inventory valuation

The cost of goods sold is deductible in the year in which the income arising from the sale of goods is accrued.

For tax purposes, the incurred cost system based on historic or predetermined costs is required. If the requirements in the Regulations to the Mexican Income Tax Law (MITL) are met, the direct cost system, based on historical costs, may be used.

Inventory may be valued by any of the following methods:

- First in-first out (FIFO)
- Identifiable costs
- Average cost
- Retail

Taxpayers selling goods that are identifiable by serial numbers, at a cost exceeding MXN 50,000, must value their inventory by the identifiable cost method.

The election of a method is compulsory for five years and can only be changed when the requirements established in the MITL Regulations are fulfilled. The results of the change in method will be amortized during the following five years.

For accounting purposes, different methods and certain variations can be applied. However, a record of the differences must be maintained, and such differences will not be taxable or deductible.

Imported merchandise

The cost of imported goods may be deducted (and included in the cost of goods sold) only if it can be shown that the goods were legally imported into the country.

Royalties and service fees

Royalties for the use of patents, trademarks or trade names, as well as fees for services of any kind are fully taxable.

Non-taxable income

The relatively few types of corporate income that are not subject to income tax include the following:

- Dividend income from Mexican resident corporations
- Proceeds from stock redemptions associated with investments in shares of Mexican corporations. However, the redeeming corporation is subject to tax in certain cases
- Income from certain investments made by foreign-funded pension plans whenever the funds are exempt from taxes in their home country, and these funds are registered
- Capital contributions or repayment by shareholders of losses sustained by a corporation
- Premiums charged upon the issuance of new shares
- Income recognized for financial purposes by using the equity method for valuing shares of controlled corporations
- Income recognized for financial purposes as a result of revaluing assets or capital to recognize the effects of inflation

Preferred tax regimes or tax havens

Mexican taxpayers are subject to immediate taxation on undistributed foreign source income that arises from its direct or indirect subsidiaries or any other investment vehicle when the income of that preferred tax regimes (PTR) vehicle is subject to an effective foreign tax of less than 75% of the Mexican tax to which the same income would have been triggered, had it been generated under the Mexican income tax rules.

Investments in PTRs include those made directly or indirectly in entities, branches, real property, shares, bank accounts or investment accounts, and any kind of participation in entities, trusts, joint ventures or investment funds, as well as in other similar legal entities created or incorporated in accordance with foreign law and located in a PTR, including those that are carried out through an intermediary.

Income shall be deemed to be from a PTR when it arises from the application of a legal, regulatory or administrative provision or an authorization, refund, application as credit, or any other procedure, and the income tax actually due and paid in the country or jurisdiction concerned is less than that due or payable in Mexico. In other words, it is not a simple comparison of tax rates, but an analysis of the tax actually due or paid in each country. And if this tax is less than 75% of the tax that would apply had the income been earned in Mexico, then such income is considered income from a PTR.

One of the effects of this is that Mexican taxpayers with foreign investments must calculate the effective tax of all their investments on an annual basis, to determine whether the undistributed income must be immediately reported and taxed in Mexico. The determination as to the effective taxation abroad may be done on an entity by-entity or country-by-country basis or for each operation.

The second effect of such rules is that Mexican taxpayers who make certain payments that are from a Mexican source must determine whether to withhold at a punitive 40% rate, rather than the normal withholding tax rates applicable to payments abroad. This punitive rate is only applicable in transactions with related parties resident in countries that do not have an exchange for information agreement with Mexico.

Mexican tax residents or permanent establishments of foreign residents are required to include the income located abroad subject to PTR that they directly generate, or through entities or foreign legal structures in which they participate directly or indirectly, in the proportion that corresponds to their participation in the capital of these entities or legal structures, unless it can be demonstrated that the party in question does not have management control over the investments. Specific rules related to control must been analyzed.

The PTR income regime provides two other exceptions. If the PTR income is "not" passive, it will not be deemed to be PTR income. This exception for active income does not apply to Mexican taxpayers making purchases or sales through their PTRs to the extent that the goods were produced or sold in Mexico. This exception may not be applied, however, if income such as interest, dividends, royalties, certain capital gains and rents (i.e., passive income) represents more than 20% of the total income generated by the taxpayer. Also, the exemption cannot be claimed when 50% or more of the income generated in the foreign entity has a Mexican source of income or has had been considered as a deduction in Mexico directly or indirectly.

The PTR income will be determined on a yearly basis and will not be included with other income of the taxpayer. This means that the taxpayer must record such transactions separately. In general, taxable income would be gross income, unless the taxpayer has the books and records available to the tax authorities and an information return is filed on a timely basis.

For these purposes neither the inflationary adjustment nor the gain/loss on exchange currency should be considered as taxable income. The tax on direct investments in PTR is 30% of taxable income. Additionally, net operating loss carryforwards associated with the low-tax jurisdiction may be utilized in each of the ten taxable years following the taxable year of the loss, as long as the accounting records of said investments are available and the information return is filed on a timely basis. Taxpayers must keep an account for income or profits arising in the PTR. Dividends received must be added to the after-tax earnings account (CUFIN). The obligation to file in February (with a possible extension) of every year the informative return of income subject to PTR generated in the immediate previous fiscal year applies to those taxpayers who

1. Obtain PTR income described above.
2. Obtain income of any nature from any of the territories indicated in the Transitory Provisions published in the MITL (see Table 9 for the blacklisted territories.)
3. Obtain income generated in one or more transparent foreign entities or legal structures for tax purposes and they are not deemed to be taxpayers in the country of their organization or the profits generated through them are taxed at the owner level.

Withholding tax rate on PTR income

As a general rule, any income paid to related parties residing in a PTR is subject to a tax-withholding rate of 40% on gross income without any deduction. The withholding should be applied by the Mexican resident (or permanent establishments of non-residents) payer. This rate does not apply to distributions of dividends, as well as to certain types of interest.

Table 9. Black listed territories

Anguilla	Kingdom of Swaziland	Republic of Mauritius
Antigua and Barbuda	Kingdom of Tonga	Republic of Nauru
American Samoa	Kiribati	Republic of Panama
Aruba	Labuan	Republic of Trinidad and Tobago
Ascension	Macao	Republic of Tunis
Azores Islands	Madeira	Republic of the Marshall Islands
Barbados	Malta	Republic of the Seychelles
Belize	Montserrat	Republic of Vanuatu
Bermuda	Most Serene Republic of San Marino	Republic of Yemen
British Virgin Islands	Netherlands Antilles	Saint Helena
Brunei Darussalam	Nevis	Saint Kitts
Campione D'Italia	Niue	Saint Lucie
Canary Islands	Norfolk Island	Saint Pierre and Miquelon Islands
Cape Verde Republic	Oriental Republic of Uruguay	Saint Vincent and the Grenadines
Cayman Islands	Ostrava Free Zone	Socialist Democratic Republic of Sri Lanka
Channel Islands (Guernsey, Jersey, Alderney, Great Sark, Herm, Little Sark, Brechou, Jethou, Lihou)	Pacific Islands	Solomon Islands
Christmas Island	Patau	Special Zone of the Canary Islands
Cocos-Kelling Islands	Pitcairn Island	State of Bahrain
Commonwealth of Dominica	Principality of Andorra	State of Kuwait
Commonwealth of the Bahamas	Principality of Liechtenstein	State of Qatar
Cook Island	Principality of Monaco	Sultanate of Oman
Falkland Islands	Qeshm Island	Svalvard Archipelago
Free Associated State of Puerto Rico	Republic of Albania	Tokelau
French Polynesia	Republic of Angola	Trieste
Gibraltar	Republic of Costa Rica	Tristan da Cunha
Granada	Republic of Cyprus	Turks and Caicos Islands
Greenland	Republic of Djibouti	Tuvalu
Guam	Republic of Guyana	United Arab Emirates
Hashemite Kingdom of Jordan	Republic of Honduras	U.S. Virgin Islands
Hong Kong	Republic of Liberia	Western Samoa
Isle of Man	Republic of the Maldives	

Capital gains

Securities

Capital gains on the sale of shares and other securities are included in regular taxable income. There are two different procedures for computing the tax basis of a Mexican company's shares, depending on the period the shares were held (i.e., less or more than 12 months). The cost basis purchase price of shares of Mexican corporations sold may be increased by the inflation adjustment factor for the holding period.

In the case of shares with a holding period of more than 12 months, there are certain additional items to be considered when computing the tax basis of each share, including:

- Change in the Mexican tax basis earnings and profits account known as the CUFIN account of the issuing corporation (including the possible negative CUFIN effects), adjusted for inflation during the period the shares were held (considering for this purpose the CUFIN balance)
- Prior years' tax losses at the date of the sale, as well as tax losses arising prior to the date on which those shares were acquired and amortized during the holding period
- Any capital reductions of the issuing company
- Losses on the sale of shares are deductible only if the acquisition and sale comply with the general rules established by the tax authorities. The deductible amount is limited to the gains from similar transactions in the same or the following then fiscal years. Losses may not be deducted by non-residents selling shares, and these losses are not deductible against ordinary income. Certain exceptions to the capital loss recognition rules may apply

Non-resident sellers of Mexican shares

In general, the sale by non-residents of shares issued by a Mexican company is subject to a 25% income tax applicable on the gross amount of the transaction.

Alternatively, gains realized by non-residents on the sale of shares issued by a Mexican company may be taxed by applying the statutory 35% rate applied to the net gain (i.e., value of the transfer less the tax basis of the shares). This election is only available if the foreign shareholder is a resident of a country that is not considered to qualify as a "Preferred Tax Regime" jurisdiction (tax haven) or a country with a territorial tax system (see sidebar on "Preferred Tax Regime"). The non-resident seller must have previously appointed a representative in Mexico and comply with the filing of a statutory tax report on the transfer of shares issued by a certified public accountant. The public accountant issuing the report must attach the transfer pricing valuation of the shares, when those shares are sold between related parties.

Gains and losses from derivative financial transactions of a capital nature are taxed under a special procedure depending on the type of transaction.

Related party losses from derivative financial transactions are non-deductible in certain cases (i.e., if the applicable terms are not at arm's length.)

Real estate

In determining taxable gain or loss on the sale of real estate, the historical-cost basis of land and buildings may be adjusted (i.e., increased) for inflation, according to the time that the assets have been held. This is done by applying inflation adjustment factors to the net undepreciated balance.

Similar rules apply to non-residents electing to pay 35% tax on net gain, by appointing a legal representative in Mexico. Otherwise, the 25% final withholding tax on gross income usually applies to non-residents.

It is important to mention that a specific tax regime is applicable for Real Estate Investment Trusts, which is described below.

Machinery and equipment

Gains or losses from the sale or disposition of machinery, equipment and other fixed assets are calculated by deducting from the sales proceeds the net undepreciated balance as adjusted for inflation.

Gains on sales of assets restricted as to depreciation

In the case of certain company-owned assets whose cost is generally not depreciable for tax purposes, such as personal residences, yachts and airplanes (which may be depreciated only in very limited circumstances), the entire sales price will be considered as the taxable gain without deduction of the original cost.

When only part of the cost of an asset is depreciable for tax purposes, as in the case of some automobiles, the non-depreciable part of the cost will not be deducted in determining the gain on a sale.

Interest

Interest income is taxable on an accrual basis, whether or not collected in the same period, except in the case of penalty interest charges (imposed for failure to meet designated obligations on time) in which case the creditor recognizes the income when it issues a formal invoice or receives the revenue in cash, in kind or in services.

When a Mexican taxpayer pays interest to a foreign entity, income tax withholding is required to be remitted to the government by the payer of interest on the earlier of:

- When the interest is due
- On the date on which the interest is paid

Withholding tax rates on interest payments differ according to:

- The type of loan
- The beneficiary of the interest
- The effect of any tax treaty in force

Additionally, to consider the interest as a deduction, the payer of the interest must issue an electronic invoice with the amount of the interest paid and the applicable withholding income tax.

Derivative financial transactions covering debt

Gains and losses from derivative financial transactions covering debt are treated similarly to interest income and expense, including recognition of inflation adjustments and foreign currency gains and losses as well as applicable withholding tax provisions. Transactions classified as mixed debt/capital are considered debt-related derivative financial transactions.

Dividends

Dividends from foreign corporations are fully taxable. A foreign tax credit is allowed for the foreign income taxes paid on such dividends if certain conditions are met. Specific rules and procedures must be taken into consideration to determine the applicable foreign tax credit in Mexico. One of those considerations is that the tax credit should be computed separately on a per jurisdiction basis.

Undistributed earnings of foreign corporations are not taxable until actually received by the Mexican shareholder, except in the case of entities resident in preferred tax regimes or investments in transparent entities/vehicles.

Intercompany dividends

Dividends received by Mexican corporations are not includable in gross income, but they must be added to the recipient corporation's CUFIN account.

As of 2014, the profit-sharing base became the same for both PTU and income tax purposes.

Stock dividends

Stock dividends are not taxable to the recipient when distributed by Mexican residents.

Dividends-in-kind

Intercompany dividends received in kind instead of in cash are also non-taxable when distributed by Mexican residents. The recipient treats them in the same manner as cash dividends for all purposes, including employee profit sharing. However, the distributing corporation may be required to recognize income when it makes a distribution-in-kind.

Distributions- or payments-in-kind

When a Mexican corporation makes a payment-in-kind or distributes assets that have appreciated in value, it must include as regular taxable income the excess of the appraised value over the net tax basis of the property transferred.

Exchange gains and losses

Foreign exchange gains and losses arising from assets or debts in foreign currencies are taxable or deductible, respectively, on an accrual basis.

The foreign exchange rate gain or loss may not be less than or exceed, respectively, that which would result from applying the foreign exchange rate established by the Mexican Central Bank that is published in the Mexican Official Gazette.

Tax treatment of dividends for Asociación en Participación (A. en P.)

An A. en P. is not a separate legal entity. Legally, all the activities of the Association in Participation are conducted in the name of the active partner.

Nevertheless, the A. en P. is treated as a separate regular corporation for tax purposes, even though the active partner must pay the tax and comply with all the tax obligations. The active partner does not combine the taxable income or loss of the A. en P. with its other taxable income or losses.

Distributions received by passive partners from the A. en P. are taxed as dividends.

The A. en P. should record its own CUFIN, profit distributions are subject to the treatment applicable to dividends. And when the A. en P. agreement is cancelled or terminated, the capital reduction rules apply.

Contributions of non-cash assets to the capital of corporations are treated for tax purposes as sold at fair market value by the shareholders. Depreciation may only be applied on assets that have been contributed to the A. en P.

Deductions

Deductions of corporations are a matter of legislative grace, and many specific rules or limitations are established in the tax law and its regulations. The principal requirements and restrictions are described below. (Also see Table 10 for tax treatment of certain deductions.)

General requirements

The general requirements for deductibility are as follows:

- Deductions should be for expenses considered as strictly necessary to conduct business, except for charitable contributions
- Deductions should be adequately documented by supporting evidence with the name of the taxpayer, and duly recorded in the accounting records
- Electronic invoices supporting expenses and the acquisition of fixed assets must satisfy a series of very strict requirements. For example, the tax registration number of the client must be shown. And if the payments are for items subject to VAT, the amount of such tax must be shown separately on the bill
- Deductions exceeding MXN 2,000 paid via electronic fund transfers must be made from accounts in the name of the taxpayer. Salary payments exceeding MXN 2,000 must be made through the financial system. Provisions for estimated expenses — such as severance pay, vacation and accrued expenses in general — are not deductible until actual payments are made
- Generally, all requirements for any particular deduction must be satisfied no later than the last day of the year to which the deduction applies, although the invoice supporting the expense may be provided up to the date on which the tax return for the period in question is filed. An invoice received for an item constituting an expense must contain a date within the year for which the deduction is claimed. However, payments of fees and rent to individuals may be deducted only when actually paid within the taxable year. Amounts representing other taxable income to individuals should have been actually paid, and payment of the withholding tax on taxable income of individuals or foreign corporations must be proven
- Payments to foreign corporations (e.g., royalties, interest) are only deductible when withholding obligations are satisfied, and an electronic invoice is issued by the payer
- For the deduction of salaries and wages, the corresponding tax should be withheld and paid, social security and welfare payments should be made, and the employees must be registered in the Federal Taxpayers Registry. An electronic payroll receipt must be issued by the employer
- Contributions made to pension and retirement funds as well as disbursements for remuneration qualifying as exempt income for employees (welfare dues, savings funds, severance pay, annual bonuses, overtime, vacation and Sunday premium, among others) are deductible at the rate of 53%. The deduction will be 47% when the taxpayer reduces exempt employee benefits from one year to the next

Table 10. Tax treatment of certain deductions

Item	Tax treatment
Depreciation	Deductible at the maximum rates specified by law for the straight-line method and inflation-indexed. However, depreciation (and other operating expenses) of automobiles is deductible only up to a certain limit. Impairment of long-lived assets is not deductible for tax purposes.
Provisions for specific estimated expenses	Only definitive amounts due to creditors may be deducted.
Provisions for pensions and other seniority benefits	Deductible only when calculated on actuarial bases and paid into an irrevocable trust fund.
Bad debts	Deductible only when practical inability to collect can be established for each debt or the statute of limitations to demand payment has expired.
Adjustments for inflation	The tax system includes adjustments for inflation with respect to depreciation, gain or loss on sale of capital assets, loss carry-forwards, and monetary gain or loss (inflationary component.)

Business expenses

As noted above, all "strictly indispensable," fully documented business expenses are deductible, with the restrictions, exceptions and special requirements for specific expenses noted in each case below.

Deduction of doubtful accounts

Losses on uncollectible receivables are deductible if the statute of limitations for enforcing collection has expired, or earlier if the accounts can be proven to have become obviously/practically uncollectible. For relatively substantial balances to be deductible, the existence of bankruptcy or the resolution of legal proceedings are normally required. Estimated provisions for bad debts are generally not deductible.

Banks may no longer deduct the creation of or increases in the global preventive reserve as of 2014. They may only deduct doubtful accounts when the portfolio is written off, as per the provisions established by the National Banking and Securities Commission (NBSC.)

Once excess global preventive reserves have been deducted, the bank may deduct quit claims, pardons, rebates and discounts on current loans as well as losses on the sale of the portfolio and payments in kind, except those conducted between related parties, provided this does not give rise to a double deduction.

Cost of goods sold

As was explained in the "Inventory valuation" section, from 2005 onwards the deduction for merchandise purchased was replaced by a deduction for the cost of goods sold. Several inventory accounting methods are acceptable to determine the cost of goods sold.

Imported merchandise

The cost of imported goods may be deducted (and included in the cost of goods sold) only if it can be shown that the goods were legally imported into the country.

Depreciation and amortization

The income tax law permits the deduction of the cost of investments in tangible property or intangible assets only through annual charges for depreciation or amortization. The straight-line method, without recognition of estimated salvage values, is the only acceptable method for tax purposes.

Depreciable costs are defined as including not only the purchase price of the assets but also freight and handling charges, insurance, commissions, fees, customs duties and taxes, except value-added tax, which is handled as described in Chapter 23. Maximum rates of depreciation and amortization are shown in Appendix II. In general, all types of fixed assets except land are depreciable for tax purposes as long as they can be shown to have been acquired for the business purposes of the corporation.

Depreciation of personal residences and ships or airplanes not licensed for commercial use may be deducted only if specific authorization is secured, based on factual evidence that such assets are necessary to conduct corporate activity. Depreciation of recreational property is prohibited. Intangibles other than goodwill may be amortized at the rates shown in Appendix II.

Different methods of depreciation, as well as different straight-line rates, may be used for financial purposes. The rates used for tax purposes may be less than the legal maximum straight-line rates but, once adopted, may be changed only one time in a five-year period. A second change within five years may be made only under special circumstances such as in the case of a merger. Depreciation may commence in the fiscal year in which the assets are placed in use or in the following year, at the election of the taxpayer.

Vehicles

Depreciation of combustion automobiles is restricted to MXN 175,000 and electric automobiles to MXN 250,000. All the expenses related to the care and maintenance of vehicles, as well as losses sustained on their subsequent sale, will also be deductible in the same proportion that this ceiling bears to the total cost of the vehicle. Vehicles must be strictly indispensable for the business and used solely for business purposes.

Indexation of depreciation expense

Straight-line depreciation computed at the rates specified by the law, based on the estimated useful lives of the different types of assets, may be increased by the application of the percentage increases in the National Consumer Price Index since the month of acquisition of the asset. Also, specific annual depreciation rates are established for certain industries. When an asset is disposed of or becomes useless, the remaining undepreciated historical-cost basis may also be deducted after application of the appropriate adjustment factor.

No immediate deduction of fixed assets is allowed.

Therefore, the general rules for the straight-line method are applicable, as described above, except for machinery and equipment for generating electric power from renewable sources or from efficient electricity cogeneration systems, as well as facilities for special-needs persons, which continue to be entitled to a 100% straight-line deduction.

Leasehold improvements

Leasehold improvements are depreciable by the lessee in accordance with the depreciation rates established by the Tax Law (in general, at 5% per year). If the related leases are effectively terminated before the leasehold improvements are wholly depreciated, the undepreciated balance will be deductible by the lessee. When leasehold improvements become the property of the lessor upon termination of the lease, the lessor will be required to include the appraised value of such improvements as taxable income.

Lease agreements

Assets acquired under so-called **financial leases** are treated as purchases subject to depreciation. The related contracts must specify the value of the property being leased and the amount of interest due under the contract. Consequently, the lessee must capitalize precisely that amount as an asset for depreciation purposes and consider the balance as interest expense, deductible as accrued.

Amounts paid under an **operating lease** are generally deductible in full.

Depletion

Exploration to locate and exploit new yields incurred prior to the commencement of commercial operations of a mine are treated as pre-operating expenses, which are amortizable at 10% a year. Tangible fixed assets of mining companies are generally treated as depreciable assets. There is no percentage depletion allowance.

Interest on loans

Interest on loans can be deducted if the proceeds of the loans have been invested in the business of the company and proper tax withholding, if applicable, have been paid. Deductions for interest expense may be partially or wholly disallowed if a company makes non-interest-bearing loans to third parties or if such loans bear interest at lower rates. The amount disallowed may not exceed the amount of additional interest that should have been charged to the borrower, calculated on the basis of the average interest rate paid by the company on its loans. Also, very broad rules classifying loans as back-to-back loans will result in the disallowance of interest deductions. Financing operations that derive interest from legal entities or permanent establishments in Mexico also would have the treatment of back-to-back loans, whenever such operations lack business reasons.

In addition, thin capitalization rules and 30% of adjusted taxable income limitation result in the disallowance of interest expense for highly leveraged companies. (See discussion later in this Chapter.)

Correction for inflation

Mexican corporations must determine an annual inflationary income adjustment and a deductible loss for income tax purposes by applying the percentage increases in the National Consumer Price Index to the annual average of some monetary assets, including bank balances and financial investments (except in shares) as well as on most of the liabilities.

Even though Mexican inflation has maintained at a low level in recent years, highly leveraged companies may have restrictions on the deductibility of their interest expense and foreign exchange losses as a result of the inflation adjustment. Because of this monetary correction, investors should evaluate the negative effects of financing their operations in Mexico through debt instead of equity.

Thin capitalization rules and 30% adjusted taxable income

Interest generated by excess debt coming from a foreign related party is non-deductible for income tax purposes if the amount of debt is more than three times the shareholders' equity (3:1 debt-to-equity ratio), according to the taxpayer's balance sheet. All liabilities are considered for purposes of calculating the disallowed interest expense amount in determining the annual average liabilities.

Certain liabilities may be excluded if particular requirements are met.

In general, the thin capitalization rule still includes the possibility of taxpayers applying for a ruling from the Mexican tax authorities, which will allow them to apply a higher leverage position due to the characteristics of their activities (higher than the 3:1 debt-to-equity ratio). Also, the thin capitalization rules still do not apply to the financial sector.

To determine the amount of debt that exceeds three times the accounting net equity of the taxpayer, debts incurred for the purpose of investment in infrastructure related to the generation of electricity will be excluded from the calculation.

In addition, taxpayers may alternatively use the sum of the average balances of the capital contributions account (CUCA) and the after-tax earnings account (CUFIN) and reinvested CUFIN account to determine the 3:1 debt-to-equity ratio. The taxpayers that opt for this (tax attribute) calculation must continue using it for at least five years. This alternative computation is mandatory for those taxpayers that do not account for capital following Mexican Financial Reporting Standards and is subject to specific requirements.

For purposes of the thin capitalization rules, net operating losses pending to be offset that have not been considered in the determination of the tax result should be included in the calculation of the accounting total equity for the year based on the tax attributes balances. This option may not apply when the result of the aforementioned operation exceeds 20% of the accounting total equity of the fiscal year in question, with certain exemptions.

Certain clarifications are included for hydrocarbon exploration and extraction activities. Also, the exception applicable to SOFOMs (Mexican non-bank financial entities) no longer would apply for activities with related parties.

Moreover, taxpayers must apply an additional limitation test for interest expense, whereby the net interest expense (i.e., interest expense reduced with interest revenue) will be limited to 30% of the entity's adjusted taxable income. The excess will be carried forward for ten years. Exceptions for this rule may apply to certain activities such as infrastructure projects and an exemption for the initial MXN 20,000,000 of annual interest expense.

Royalties, service fees and technical assistance

Royalties paid to foreign licensors are deductible if the appropriate taxes are withheld and certain other requirements are met such as the issuance of an electronic invoice. To be deductible, technical service fee payments must be made directly to companies having the required technical capabilities and should correspond to services actually received. In the event of a tax audit inspection, the authorities may request documentation proving that technical assistance services were effectively received. The withholding rates on foreign royalties are shown in Appendix V.

Payments in connection with technical assistance, technology transfer or royalties paid to Mexican residents would only be deductible in the case of specialized services or the execution of specialized works, which are not part of the corporate business purpose or the preponderant economic activity of the beneficiary of the services, in accordance with the recently enacted subcontracting/outsourcing reform.

Payments to residents outside Mexico for technical assistance or know-how, including royalties, are deductible only if the corresponding fees are paid for services or know-how actually received, not merely for the right to receive services or know-how. The payments also have to be made to companies that directly provided the service using their own technical resources and staff.

Royalties are considered to include payments for the temporary use of patents, invention or improvement certificates, trademarks, trade names, copyrights on literary, artistic or scientific works including movies, films and recordings for radio or television, as well as designs or models, plans, formulas or industrial, commercial or scientific procedures, commercial, industrial or scientific equipment, as well as amounts paid for the transfer of technology or information relative to industrial, commercial or scientific experiences or other similar rights or property.

The temporary use of copyrights on scientific works also includes software programs.

Royalties are also considered to include payments made for the right to receive visual images, sounds or both for retransmission, or payments made for the right to permit public access to such images or sounds, when they are transmitted in either case by satellite, cable, fiber optics, or other similar means.

Payments for technical assistance are not to be considered as royalties. Technical assistance is the rendering of independent personal services whereby the provider agrees to furnish non-patentable knowledge, which does not imply the transmission of confidential information relative to industrial, commercial or scientific experiences, and agrees to take part in the application of said knowledge.

It is very important to consider whether pure technical assistance services may be afforded a different tax treatment under the terms of a tax treaty with another country.

Employee remuneration

All types of remuneration paid to an employee, as well as benefits paid for the employee's account that do not qualify as tax-free fringe benefits, mentioned below, must be considered in calculating the monthly income tax withholding required for all employees. There are no specific limits on payments to employees as long as normal payroll taxes and income tax withholdings are paid. Social security dues payable by employees but paid by the employer as required by law or as a fringe benefit are not deductible.

Fees and other payments for services

Fees and payments to administrators, general managers, directors, and statutory auditors (*comisarios*) are deductible expenses only if determined as specific amounts and comply with the following requirements:

- Annual amount paid to each person may not be larger than the salary of the principal officer of the company
- Total of such payments may not be higher than the total salaries paid and may not exceed 10% of the total of all other deductible expenses of the company

Moreover, the company is obligated to withhold personal income tax according to the income tax table for resident employees (up to 35%), unless the recipient is also an employee, where these fees are added to salaries. Fees of this type paid to non-residents by a company domiciled in Mexico are considered Mexican-source income even if paid outside Mexico. These fees paid to non-residents are subject to a flat 25% income tax withholding rate.

Travel, gifts, meals and entertainment

Reimbursements to employees for travel expenses incurred in areas that are more than 50 kilometers from the employee's base office are deductible (up to certain limits discussed below) and are not considered taxable personal income of the employee if proper supporting evidence is obtained from third parties, such as suppliers of transportation, meals and lodging. The employer must be able to prove a business purpose for the trip involved and should pay by means of a credit or corporate card and is obligated to inform the tax authorities if such expenses are over a certain amount.

The cost of meals incurred as a traveling expense is deductible only if the related transportation or lodging expenditure vouchers are attached to the meal vouchers.

Furthermore, there are daily per-person ceilings for meals of MXN 750 for domestic expenses and MXN 1,500 for expenses incurred abroad.

In addition to the ceilings on meals deducted as travel expenses, the following travel expense ceilings also apply:

- Rental cars: MXN 850 a day
- Lodging: MXN 3,850 a day for trips outside Mexico
- Seminars and conventions: If the related fee includes all or part of the traveling expenses and these are not shown separately, only an amount equal to the daily deductible meal allowance may be deducted (see above)

Deductions for entertainment expenses are not permitted, and business gifts or favors to customers are deductible only if they are directly related to sales or services and are offered on a general basis.

Business mileage reimbursements are deductible if certain requirements are met, but monthly allowances for the use of personal cars and per diem living allowances are not deductible unless they are supported by third party documentation (see above) or treated as taxable wages of the individual employees.

Investments in and expenses of private corporate dining rooms (i.e., those not available to all the company's employees) are not deductible.

Pension funds

Contributions to funded pension plans can be partially deducted if certain requirements are met, such as that the funds be placed in trust with a Mexican bank or other qualified for investment in approved securities (30% in government obligations), that specific calculations and annual provisions should be made at rates determined by a Mexican actuary, and that all or large segments of the employee workforce must be covered by the plan after a reasonable eligibility period.

Employee savings funds

Contributions by employers to employee savings funds are considered welfare expenses and are subject to the general rules and limitations for this type of deduction, described below. In addition, the regulations establish specific rules for payments from the fund to be tax exempt to the employees.

Employer contributions may not exceed 13% of each individual's salary, up to 1.3 times the annual general minimum wage. Employees may formally withdraw these savings only upon separation or once each year; these withdrawals are generally tax free to the employee. Employees are also permitted to request loans from these funds once a year. The fund is only allowed to invest in securities approved by the National Banking and Securities Commission.

The rules of the fund may also provide for contributions by the employee on a pretax basis. The above withdrawal rules apply for employee contributions. If employee contributions are for the same amount as contributed by the employer, the employer contributions are not considered as part of the salary for social security and workers' housing contribution purposes.

Welfare expenses

Payments for welfare expenses must be for benefits or services offered to employees on a general basis. The tax treatment of welfare expenses is different for employees who are members of a union and those who are not. For union workers, fringe benefits and welfare expenses should be contained in the collective labor agreement to be considered deductible.

Welfare expenses should be the same for all non-union workers. Otherwise, they could be considered to represent taxable income of the specific individuals benefited. The expenses that may be considered deductions as social welfare expenses are limited to payments of pensions, death benefits, disability compensation, medical and hospital services, scholarships for workers or their children, savings funds, child-care centers, cultural and sports activities as well as activities of a similar nature. The regulations contain detailed rules limiting the deductions for what are classified as welfare expenses.

There is a limit on the exemption from tax of social welfare benefits granted in the form of disability subsidies, educational scholarships, day-care centers, cultural activities, sports, and other activities of a similar nature. Whenever the sum of salaries and social welfare benefits of the above types exceeds an amount equivalent to seven times the minimum wage of the economic area of the taxpayer, all such social welfare benefits in excess of one annual minimum wage are taxable to the employee, and the employer should consider any such amounts in making personal income tax withholdings. Under no circumstances will the social welfare benefits be taxable if their amount, together with other regular compensation, does not exceed seven times the minimum wage. This limit is applicable only to the specific types of benefits mentioned above and does not apply to other types of benefits, such as the contributions made by the employer to employees' savings funds, pensions or allowances for medical expenses.

As previously mentioned, those items paid and granted by the employer are subject to a 53% maximum deduction if the expenses qualify as exempt benefits for the employees.

Insurance premiums

Payments of premiums on employee life insurance policies shall be deductible only if the benefits of said policies cover the death of the policyholder or the policyholder's disablement or disability to render dependent personal services, in accordance with the Social Security laws, and provided that the payments are delivered as a lump sum or in installments as agreed by the parties.

Likewise, payments by the taxpayer of employee medical insurance premiums as well as insurance related to cover the risk of losing key personnel, shall be deductible.

Mandatory profit sharing

Every business concern with employees is required to distribute a portion of annual profits among all employees, irrespective of its form of organization. The amount distributable to the employees is 10% of taxable income, before the amortization of tax loss carryforwards. As discussed in the “Profit sharing” section in Chapter 10, special rules apply to a limited number of specific businesses. Profit sharing is deductible from taxable income or added to tax losses.

Intercompany charges

To be deductible for a Mexican taxpayer, charges for management fees by foreign or local companies, whether or not they are affiliates, should meet the test of being “strictly indispensable” for conducting business. The intercompany charges should also meet the arm’s-length criteria to be deductible.

Charges from a foreign affiliate for a pro rata share of general and administrative expenses or research and development costs are generally not deductible, except in the case of branches or other permanent establishments of foreign corporations (see “non-deductible items” below) or the compliance of very strict requirements.

Foreign exchange

Foreign exchange gains or losses are treated as additional interest income or expense, as discussed above under “Inflationary gain or loss.” The official exchange rate is the one published by the Mexican Official Gazette.

Operating Losses

Carryback or carryforward

An operating loss declared for tax purposes can be carried forward and deducted from otherwise taxable profits of the ten subsequent years. Such deductible loss carried forward will also be indexed (increased) for inflation. Operating loss carryback is not allowed.

Losses carried forward may be increased by the percentage increase in the National Consumer Price Index between the seventh and twelfth months of the fiscal year in which they are incurred, and thereafter up to the sixth month of the fiscal year in which they are applied.

In the case of a spin-off, tax loss carry forward can be divided between the surviving entity and the spun-off entities, as long as the tax losses are transmitted to entities with the same business activity in proportion to:

- The inventories and accounts receivable transferred in the case of commercial entities
- The fixed assets transferred, in all other cases

Tax loss carryforwards are non-transferable, not even by virtue of a merger. However, the tax losses the surviving entity had prior to the merger may continue to be used to offset the income derived from the same business activities that originated them.

Current tax legislation may limit the offsetting of tax loss carryforwards upon direct or indirect changes in ownership that imply a change in control of the Mexican entity in certain situations.

Donations

Deductible contributions are restricted to those actually made within the fiscal year to the federal, state or municipal governments, legally authorized charitable or cultural organizations, or scientific and technological research institutions appropriately registered as such. Donations to private non-profit and public educational institutions are also deductible when the recipient institution has the recognition required by federal education laws and the payments are not for services. These deductions are limited to 7% of the taxable earnings for the previous period for both entities and individuals.

However, any donations made to the federal government, federal entities, municipalities and their centralized organisms may not exceed 4% of said profit or earnings.

Non-deductible items

In addition to deductions that do not comply with the above general requirements, the following items are not considered deductible expenses:

- Corporate income tax
- Payments of taxes levied on other taxpayers, such as withholding taxes for payments to foreigners covered by the taxpayer
- Amounts that may be considered as participation in the profits of a taxpayer or that are based on the realization of profits, whether paid to employees, directors, creditors or others
- Allocations of overhead and general and administrative expenses of the home office are deductible (as determined under Mexican tax rules) in the case of a Mexican branch or other permanent establishment of a foreign corporation. However, in the case of subsidiaries or affiliates, these pro rata allocations are non-deductible, except in specific circumstances
- Goodwill or its amortization
- Losses arising from the merger, reduction of capital stock or liquidation of corporations in which the taxpayer has acquired shares
- Entertainment expenses and most business meals, as discussed earlier in this Chapter
- Fines or indemnities for damages resulting from actions for which the taxpayer is responsible. However, taxpayers are permitted to deduct penalty interest assessed by the tax authorities
- Operating expenses or the cost of personal residences, ships or airplanes not licensed for commercial use except as may be specifically authorized under the regulations. In the case of automobiles, operating expenses will be deductible only in the proportion which the deductible amount of the investment (MXN 175,000 maximum depreciable basis) for automobiles bears to the total cost of the vehicle
- Payments to foreign related parties when related to PTR, unless specific exemptions apply as discussed below

Non-deductibility of payments to foreign-related parties subject to PTR

The Mexican Income Tax Law (MITL) denies, under a broad set of circumstances, the deductibility of payments made by Mexican residents to foreign-related parties subject to a preferred tax regime (PTR), regardless of whether the payment is made on an arm's-length basis.

The MITL considers two parties to be related parties if one participates in the capital or management of the other or a third entity participates, directly or indirectly, in the capital or management of the two parties. There is no minimum level of participation required to be deemed a related party for purposes of the MITL. The deductibility denial also applies to payments made to a third party subject to a REFIPRE if the third party is interposed between the related parties through a structured agreement.

Also, the MITL denies proportionally the deductibility of payments made to a party not directly subject to a REFIPRE if the direct or indirect recipient uses the payment received to make deductible payments to group members or through a structured agreement and these payments are themselves subject to a REFIPRE.

This language imposes a look-through ability for payments made by Mexican residents if, pursuant to certain rules, the income is deducted abroad and ultimately accrued in a REFIPRE. The ordering of the payments in time should not affect the applicability of the look-through rule. The look-through rule would presume that the transaction is partially or wholly non-deductible if the direct recipient of the Mexican-source income makes deductible payments to a REFIPRE that are greater than or equal to 20% of the payments received from the Mexican-resident entity.

An important exception to the non-deductibility rule exists when the payment derives from the recipient's business activity, and the recipient has the personnel and assets sufficient to carry out such business activity. Furthermore, the recipient must maintain and have formed its effective seat of management under the laws of a country with which Mexico has a broad exchange of information agreement in place.

The business activity exception would not apply to hybrid payments; i.e. when the payment is deductible in Mexico, but not accruable proportionally in the foreign jurisdiction due to a difference in the characterization by Mexican and foreign law of the payment or legal vehicles involved.

Tax computation

Net income

Net income for tax purposes is defined as the difference between taxable revenues and allowable deductions. The operating loss carried forward from prior years and employee profit sharing paid may be deducted from net income to arrive at net taxable income to which the tax rate is then applied. See Appendix III for a sample tax calculation.

Tax rates

The corporate tax rate is 30%. Lower effective tax rates may be achieved by certain primary economic activities through a system of limited additional exemptions and tax rate reductions for taxpayers engaged in those activities.

Tax credits

A foreign tax credit is allowed for income tax paid directly or indirectly in foreign countries on foreign-source income, as described in Chapter 18.

In addition, a tax credit is provided for investing in R&D expense, movie and theatre production, among others.

Consolidation

As of 2014, the tax consolidation regime has been eliminated.

Optional regime for groups of companies

An optional regime under which tax payment is partially deferred over a three-year period is in place. Each company will determine its tax on the basis of a consolidated tax result factor. That factor is determined by dividing the consolidated tax result by the sum of the consolidating portion of the positive tax results of the companies of the group.

The consolidated tax result for the period is determined by adding the tax results of the companies of the group and subtracting the tax losses of the remaining companies of the group (all in the consolidating portion.)

The consolidating portion is determined as follows:

1. The consolidating portion of the controlled companies is the average daily direct or indirect shareholding of the controlling company in the controlled companies during the period.
2. For the controlling company, the consolidating portion is 100%. The controlling and controlled companies must pay restated deferred income tax on the same date on which they are required to file the return for the period following that in which the three-year period concludes.

Requirements for controlling companies

A controlling company opting for this regime must:

1. Be an entity resident in Mexico.
2. Directly or indirectly hold more than 80% of the voting shares of one or more controlled companies.
3. In no case may more than 80% of their voting shares be directly or indirectly owned by one or more companies, unless those companies are resident in the country with which Mexico has signed an exchange of information agreement.

Corporate reorganizations

Mexican law no longer provides for tax-free reorganizations when non-Mexican entities are involved. However, the tax authorities may authorize the deferral of taxes that would otherwise be triggered by the transfer of Mexican issued shares through a reorganization of companies belonging to the same group, such as mergers and corporate spin-offs. The authorization must be obtained prior to the share transfer. The tax deferred is determined considering an arm's- length price. This tax, adjusted for inflation, is payable upon the sale of the originally transferred shares outside the same economic group. An economic group consists of companies 51% or more of whose voting shares are held by the same ultimate parent company.

The representative requesting the deferral is jointly liable for the tax on the sale of shares, even when a statutory report is issued by a public accountant.

In principle, such authorizations for deferral are not granted if the party acquiring or selling the shares is a resident of a tax haven or of a country that has not signed a broad exchange of information agreement with Mexico. However, in the latter case, an authorization may still be granted if the taxpayer provides documentation to the Mexican tax authorities stating that the taxpayer has authorized the foreign tax authorities to provide information to the Mexican authorities regarding the transaction for tax purposes.

If the sale of shares qualifies as an exempt reorganization under tax treaty rules, the non-resident must appoint, prior to the sale, a legal representative in Mexico and file a notice with the Mexican tax authorities informing them of such appointment and the details of the intended reorganization. Additionally, certain formal requirements have been established in the Regulations of the Mexican Income Tax Law that must be satisfied when carrying out this type of transaction.

Tax treaty provisions may be applied in lieu of domestic law rules when the seller resides in a tax treaty country. See Chapter 17 for further discussion of taxation of reorganizations.

Other taxes and issues

Value-added tax

Since, in general, value-added tax (VAT) is not an expense except to the final consumer, payments of VAT charged by suppliers or paid directly on imports are not deductible unless the corporation does not have the right to credit the payments against the VAT triggered on its own activities or to obtain refunds thereof and such payments relate to deductible expenses or purchases subject to depreciation for income tax purposes.

In essence, VAT is deductible only insofar as it relates to purchases of goods and services for activities that are exempt from VAT, rather than those activities subject to the zero rate of tax (see Chapter 22.)

VAT is a "cash basis" tax with few exceptions (e.g., VAT on some types of interest must be paid on an accrued basis); consequently, only the receipt of payment for goods or services triggers the output VAT liability, and an input VAT credit may be claimed only when the taxpayer pays VAT to its Mexican suppliers of goods and services. VAT is calculated for each calendar month as a final tax.

A value-added tax (VAT) is payable at the general rate of 16% on sales of goods and services as well as on rents and imports of goods and services. Medicines and food products are subject to VAT preferences. (See Chapter 22 for more details on VAT.)

A Presidential Decree published in December 2018 granted a credit equivalent to 50% of the VAT, when the acts and activities are carried out in the border region.

Excise tax

Mexico imposes excise tax on certain products and services. See Chapter 23 for more details.

Branch versus subsidiary

From an operational viewpoint, there is no significant difference in operating through a branch or through a subsidiary of a foreign corporation. When it comes to tax treatment though, the are some differences between the two.

Compared with subsidiaries, branches may now represent a disadvantage since the branch profits tax (which is equivalent to the 10% dividend tax) is payable on a yearly basis and tax treaty reductions to the rate may not apply.

Remittances (i.e., royalties, fees, commissions, services or interest payments) made by a branch or other permanent establishment of a foreign corporation to its head office abroad are not deductible by the branch, although they would continue to be subject to any applicable withholding taxes.

It should be noted, however, that branches and other permanent establishments of foreign corporations which are located in a country that has a concluded double tax treaty with Mexico, are allowed to deduct pro rata allocations of home office expenses. This deduction is not available to subsidiaries of foreign corporations. Also, certain prorated expenses of the home office paid to third parties are subject to withholding taxes.

Lastly, it is important to consult with competent legal counsel on the non-tax responsibilities assumed by the home office when operating as a branch. These may include product liability, legal liability, etc.

Special industries

Freight and passenger transportation

Coordinated entities managing and operating fixed assets and land directly or indirectly related to freight or passenger transportation may continue to comply with their tax obligations through the entity based on the rules for individuals engaged in business operations. The tax authorities may grant administrative facilities.

Primary economic activities

Agricultural, cattle breeding, forestry and fishing activities, applicable to taxpayers engaged exclusively in that sector, with tax determined as follows:

a. Entities will have an exemption on an amount equivalent to 20 times the unit of measurement and upgrade (UMA, for its Spanish acronym), calculated per year for each member, not to exceed 200 times the annual value of the UMA.
b. Entities with income exceeding 20 times the UMA up to an amount equivalent to 423 times the value of the unit of measurement and upgrade, calculated for the year, will have the aforementioned exemptions, as well as a reduction of 30% of the tax on the excess balance.

Insurance companies

The various types of insurance and bonding companies are allowed to deduct certain asset valuation and technical reserves, established on the basis of the instructions or with the approval of the National Insurance and Bonding Commission.

Holding companies

Dividends received by Mexican companies that own the shares in other Mexican companies are not includable in taxable income.

Electronic Invoices

In Mexico all taxpayers must issue their invoices in XML format. This digital invoice will support transactions carried out related to income, credit notes, payroll or payments made.

Authorized providers by the Mexican tax authorities are in charge of issuing, validating and stamping digital tax invoices.

Investment in transparent entities/vehicles

Since 2020 Mexican tax residents and permanent establishments in Mexico of foreign residents have been subject to tax in Mexico on the revenues obtained through non-Mexican fiscally transparent entities or vehicles in proportion to their participation, even if the revenues obtained through them are not distributed.

In the case of investments in a foreign fiscally transparent entity, the Mexican taxpayer would be taxed on the annual taxable profit of the foreign entity determined in accordance with Mexican corporate tax rules. In cases where the entity is partially transparent, then the Mexican resident would only consider the tax corresponding to the revenues attributable to them.

In the case of investments in foreign vehicles, the Mexican taxpayer would be taxed on the revenues derived from them in proportion to their participation, regardless of whether the vehicle is fiscally transparent or not. If fiscally transparent, the revenues would be taxed based on the character of the Mexican resident recipient. Otherwise, should the vehicle be considered a taxpayer in a foreign jurisdiction, then the Mexican tax should be determined in accordance with Mexican corporate tax rules.

Moreover, Mexican taxpayers with investments in fiscally transparent entities or vehicles must keep an account for each of the fiscally transparent legal entities or foreign vehicles to track contributions and profits already subject to tax in Mexico so that upon distribution of revenues in the future, the Mexican taxpayer recipient is not subject to double taxation.

Furthermore, it should be noted that the Mexican taxpayers investing in foreign vehicles or fiscally transparent entities must keep accounting records in connection with such investments and documentation to support the expenses or investments made through them. In the absence of records or supporting documentation, the Mexican taxpayer would be subject to tax on the gross revenues received through the foreign fiscally transparent entity or juridical figure.

In addition, such regime would only be applicable to those Mexican taxpayers that have a direct participation in the foreign fiscally transparent entity or foreign vehicle, or when such taxpayers have an indirect participation that involves other foreign fiscally transparent entities or vehicles. In cases where the indirect participation involves at least one foreign legal entity that is not fiscally transparent, the revenues obtained through such foreign entity in connection will be subject to the Mexican Controlled Foreign Corporation (CFC) regime.

Lastly, note that an annual information tax return should be filed by Mexican taxpayers deriving revenues by February of the subsequent fiscal year in which revenues were generated.

Chapter 16

Taxation of foreign corporations

Investor considerations

- As of 2014, dividends paid out from a Mexican company to a foreign entity are subject to a 10% withholding tax in Mexico under domestic tax provisions. Under certain treaties, this rate could be reduced
- A similar 10% corporate tax is applicable to profits distributed from a Mexican branch (permanent establishment) of a foreign entity. Under certain treaties, this rate could be reduced
- The dividend tax does not apply to profits generated prior to 2014. Separate accounts are needed for pre-2014 and post-2013 CUFIN to apply this benefit
- Branches are taxed in the same way as corporations, except that a branch is not allowed to deduct expenses charged by the head office (e.g., interest, royalties, services)
- In principle, pro-rated expenses incurred by Mexican subsidiaries are deemed non-deductible, unless specific and comprehensive requirements are satisfied. However, a branch is allowed to deduct pro-rata expenses pushed down (assigned) by the head office, if certain requirements are met (i.e., the head office should be a resident in a country that has a tax treaty and a broad exchange of information agreement with Mexico)
- Mexican tax law generally follows the OECD model treaty definition of a permanent establishment
- Salespeople or agents with authority to execute contracts or who have an important role in negotiating those contracts constitute a taxable permanent establishment
- Goods held in bonded warehouses within Mexico do not constitute a permanent establishment. The Mexican customer is considered the importer at the time goods are released from the warehouse
- Liaison or representative offices can operate tax-free in certain circumstances. However, if they employ local personnel, they are subject to normal payroll obligations
- Mexican-source income that is not connected with the conducting of business through a permanent establishment is generally subject to specific withholding tax rates, although tax treaties reduce or eliminate withholding taxes in some cases

Taxation of Mexican-source income of non-residents foreign entities

Mexican income tax law contains specific rules for the taxation of Mexican-source income of non-resident foreign corporations and individuals. For these tax purposes, Mexican-source income may be divided into the following general categories:

- **Income attributable to what are classified as permanent establishments for income tax purposes in Mexico.** Income is taxed under similar rules as those applicable to Mexican corporations. (See Chapter 15 “Taxation of corporations”)
- **Mexican-source income not arising from branches or permanent establishments.** This income is usually taxed at a flat rate applied on a withholding tax basis to the gross income without deductions of any kind as discussed below, except in a limited number of cases when a higher rate of tax can be applied to net income, if the non-resident meets specific residency requirements and has appointed a duly qualified representative in Mexico
- **Income from sales of property and shares, or capital interests located in Mexico.** When the non-Mexican resident sells land or buildings located in Mexico, trust rights to such real property, shares of stock issued by Mexican corporations, or capital interests in non-stock companies domiciled in Mexico, the proceeds of these sales are considered Mexican-source income no matter where the sales take place

For income from personal services rendered in Mexico, see Chapter 20 “Taxation of individuals.”

A tale of two exporters: Income tax treatment of sales within versus outside Mexico

Mexico treats international sales to a resident of Mexico that legally imports the goods as sales completed outside Mexico. Accordingly, a foreign corporation exporting merchandise through direct sales to Mexican customers — instead of through a branch of permanent establishment in Mexico — is not subject to Mexican taxation because the sales of merchandise took place outside Mexico. In these cases, the goods are imported by the customers and will normally be subject to import duties and value-added tax, but these are obligations of the Mexican importer.

In contrast, when the foreign corporation has a registered branch or permanent establishment for income tax purposes in Mexico, sales within Mexico made by the head or other foreign office will be attributed to the Mexican establishment. Moreover, foreign residents who own merchandise on consignment and for sale in Mexico are generally considered to have a permanent establishment in Mexico for income tax purposes and therefore are subject to Mexican income tax on their profits from such sales.

It is important to note, however, that certain tax treaties that Mexico has in effect with other countries permit the maintenance of inventories solely for delivery.

Also, a non-resident is allowed to maintain inventories in a bonded warehouse for delivery in Mexico. The ultimate Mexican importer is responsible for any customs duties or licenses (if applicable) and for the value-added tax upon withdrawal of the merchandise from the bonded warehouse.

Branch operations

A branch of a foreign corporation formally registered to do business in Mexico and any other permanent establishment for income tax purposes is generally taxed as a Mexican corporate business enterprise. Only income attributable to the branch itself is considered for tax purposes, except that, under a rule of attraction, sales of goods carried out in Mexico by the head office or other offices of the same legal entity must be considered income of the branch or other permanent establishment. Income may also be attributed to the permanent establishment to the extent that it participates in the expenses incurred to produce income in any other establishment of the same legal entity.

Duly registered branches or other permanent establishments of foreign corporations in Mexico are allowed to claim deductions corresponding to their activities, whether incurred within or outside of Mexico, as long as they comply with the specific requirements of the income tax law and regulations, including expenses that represent reasonable allocations from the head office or other offices located outside of Mexico. Allocations are only allowed if the head office is a resident of a country with which Mexico has signed a tax treaty and, in addition, the other foreign offices are residents of a country with which Mexico has signed a comprehensive exchange of information agreement.

However, remittances to such offices will not be deductible even when made in payment of royalties, fees, commissions for actual services, or interest on funds provided to the establishment in Mexico or for similar purposes.

The cost of assets imported from the head office or other offices of the foreign taxpayer will be determined on the basis of the lower of fair market value or the amount declared for customs purposes.

Transfer of branch profits

In the case of branches and other permanent establishments of foreign corporations, as of 2014, a 10% tax which is final, is imposed to profit distributions made to the head office

In addition, the following tax rules apply to permanent establishments:

- Procedures established for the determination of the balance of the net after-tax earnings account (CUFIN), or the capital remittances account (similar to the capital contributions account). This involves a procedure similar to that followed by Mexican corporations in determining the tax that may apply to dividend payments and capital redemptions
- Remittances made to the home office for reimbursements of capital in Mexico are first considered to be from profits. Once these remittances exceed profits, the excess will be considered a reduction of capital
- Any amount paid to the home office that does not arise from CUFIN or the capital remittances results in additional income tax. This is payable at a 30% rate by the permanent establishment on a grossed-up amount arrived at by multiplying the total excess remittances by 1.4286

Tax rates

Branches and other permanent establishments of foreign corporations are generally subject to the same tax rules as Mexican corporations, with some exceptions. In general terms, branches should determine its corresponding income tax by applying the general 30% rate on its taxable income as described in Chapter 15.

Permanent establishment for income tax purposes

Per the income tax law, any place in Mexico where business activities are partially or totally carried out, such as branches, offices, agencies, or mining exploration sites, regardless of the time involved, will be considered a permanent establishment in Mexico for income tax purposes and subject to taxation as described above.

The law also provides that if a foreign resident corporation or individual acts within Mexico through an individual or company that has and exercises power to sign contracts in the name of the foreign resident or plays an important role in negotiating those contracts, involving business activities in Mexico other than activities referred to below, the foreign resident will be considered to have a permanent establishment for income tax purposes in Mexico as regards to such activities, even if they are not carried out in a fixed place of business. A non-resident is also considered to have a permanent establishment if it owns merchandise for resale in Mexico (other than merchandise deposited in a bonded warehouse, as discussed above). Or, in the case of business activities are carried out by a foreign resident through a trust, a permanent establishment may be triggered.

In addition to the cases where there is a power of attorney or there are inventories that are subsequently delivered on behalf of the non-resident, a permanent establishment of a non-resident will also be deemed to exist, even if there is no physical place where business is conducted, when the non-Mexican resident acts in Mexico through a corporation or individual of an independent character, provided that such independent agent does not act within the ordinary framework of its activities. For these purposes, an independent agent shall be deemed not to act within the ordinary framework of its activities in the following cases:

- Keeps a stock of goods or merchandise to be delivered on behalf of the non-resident
- Accepts risks on behalf of the non-resident
- Acts under detailed instructions or under the general control of the non-resident
- Carries out activities that are in the economic interest of the non-resident, not of its own
- Receives compensation by guaranteed remuneration, regardless of the result of its activities
- Undertakes transactions with the non-resident using prices other than those that would have been used by unrelated parties in comparable transactions

In contrast, a person shall be presumed not to be an independent agent (thus considered a dependent agent of the non-resident) whenever it acts exclusively or almost exclusively for non-residents, which are its related parties.

Moreover, a permanent establishment is considered to exist when a foreign entity acts in Mexico through a dependent agent, when such person habitually concludes contracts on behalf of the non-resident, or habitually carries out the principal role in the conclusion of the contracts, and any of the following apply:

1. the contracts are executed in the name of or on behalf of the non-resident.
2. the contracts provide for the transfer of the rights to or the temporary right to use property.
3. the contracts commit the non-resident to provide a service.

These situations have not been included in the definition of a permanent establishment in the tax treaties concluded by Mexico. In these treaties, Mexico uses a definition that is similar to that provided by the OECD model tax convention.

A permanent establishment will also be deemed to exist when a foreign resident provides services related to construction works, demolition, installation, maintenance, or assembly on real estate, along with projection, inspection, or supervision activities related to such services, if they are performed for a period exceeding 183 calendar days in any 12-month period. Nevertheless, if it is known at the time a contract is signed that the services will require more than 183 days, income for this type of work will be treated as earned by a permanent establishment from the beginning of its activities in Mexico. This treatment is relevant to determine the income tax obligations, not only of the foreign company but also of any foreign residents employed in the work as discussed in Chapter 20.

Moreover, the term “construction works” includes foundation, structures, houses and buildings in general, unpaved roads, embankments, industrial or electrical plants, warehouses, highways, bridges, roads, train tracks, dams, canals, pipelines, aqueducts, well drilling, road works for urbanization, drainage works, dismounting works, ports, airports and similar works, as well as the projection or demolition of immovable property.

The Mexican payer is generally required to withhold 25% of gross payments when the period is for less than 183 days. (For more information on withholding taxes, see Appendix V.)

Mexico has entered into tax treaties with several countries. In some cases, the treaties provide a different period for classifying a construction activity as a permanent establishment (e.g., six months or eight months) and generally do not provide withholding tax rates applicable during the period in which the foreign constructor does not have a permanent establishment in Mexico.

Activities not constituting a permanent establishment

The income tax law provides that a limited number of activities will not be considered as constituting a permanent establishment in Mexico. However, it is advisable to seek competent advice on whether the authorization of the National Commission on Foreign Investment is required. Such activities include the following:

- The use or maintenance of facilities solely for the purpose of storage or display of goods or merchandise belonging to the foreign resident
- Keeping goods or merchandise that belong to the foreign resident for the sole purpose of storing or displaying said goods or merchandise or having them transformed by another party
- The maintenance of a place of business solely for the purpose of purchasing goods or merchandise for the foreign resident
- Using a place of business with the sole purpose of carrying out publicity, supply of information, scientific research, preparation for placing loans or similar activities
- The bonded storage of the goods or merchandise of a non-Mexican resident in a bonded warehouse or the delivery of such goods or merchandise for their importation into Mexico

The above shall not apply whenever a non-Mexican resident performs functions in one or more places of business in Mexico that are supplementary, as part of a cohesive business operation, to those carried out in a permanent establishment in Mexico or to those carried out in one or more places of business in Mexico by a related party that is a Mexican resident or a non-Mexican resident with a permanent establishment in Mexico. Also, the exception shall not be applicable whenever a non-Mexican resident or a related party has a place of business in Mexico, where supplementary functions are performed and are part of a cohesive business operation, but whose combination of activities is not ancillary or preparatory.

Foreign residents shall not be deemed to have a permanent establishment for any legal or financial relationship maintained with companies engaged in *maquiladora* operations to the extent a treaty for avoidance of double taxation is in force between Mexico and the country of the foreign resident and certain requirements established in the Mexican income tax law are met.

The obligations imposed by the value-added tax, social security and other laws, in addition to the normal income-tax withholding from payments to employees and others, must be satisfied in the above cases, when the activities are deemed to constitute a non-taxable permanent establishment, which may include the case of representative offices of foreign residents.

Joint liability

In addition, the 2021 Mexican Tax Reform expanded the category of persons subject to jointly and severally liability for certain situations. Among the modifications of tax provisions, it should be considered that Mexican residents and non-Mexican residents with a permanent establishment in Mexico shall be jointly and severally liable for transactions entered with foreign related parties, whenever the foreign residents have a permanent establishment in Mexico by reason of such transactions. Such liability shall not exceed the tax that such foreign residents trigger regarding such transactions as a permanent establishment in Mexico.

Mexican-source income not arising from a permanent establishment

Mexican-source income of foreign corporations that do not have permanent establishments for income tax purposes in Mexico or, if they do, whose income is not attributable to such establishments is taxed separately. Generally, such taxation is performed through withholding taxes applied at source. The rules referred to in this section are applicable to foreign corporations and also apply to non-resident individuals if they receive Mexican-source income.

Nature of income

As mentioned before, foreign corporations are subject to tax in Mexico with respect to their Mexican-source income received in cash, kind, services or credit. Payments made for the account of the foreign corporation are also subject to tax. This includes traveling expenses of foreigners rendering services. Any income tax due from the foreign corporation that is absorbed by the Mexican payer is also specifically considered as additional taxable income of the foreign corporation.

Tax withholding

Income tax withholding is imposed on payments made by Mexican residents to non-residents (both individuals and/or entities) on their Mexican sourced income. For these purposes, the Mexican payer should withhold and remit the corresponding income tax, see Appendix V. Under certain circumstances, the foreign corporation is permitted to determine its income on a net basis (e.g., a legal representative in Mexico should be appointed, see below.)

In this regard, the Mexican withholding agent is obligated to remit the corresponding withholding tax when the obligation becomes due (whether or not payment is actually made) or when the payment is actually made, whichever happens first. Typically, the Mexican withholding agent is required to remit the corresponding withholding tax to the tax authorities within the first 17 days of the following month in which the income was earned. For these purposes, the withholding payments are generally considered as definitive payments, with no further obligations in hands of the foreign corporation.

Election to be taxed on net income through a qualified representative in Mexico

Foreign residents may apply a 35% Corporate tax rate on the net taxable profit (i.e., sales price less tax basis) in the cases of (i) alienation of shares, (ii) transfer of real property, (iii) artistic or sporting activities, (iv) derivative operations stock and debt transactions, and (v) income derived from construction services. For these purposes, the foreign resident should appoint a legal representative in Mexico who meets the following requirements:

- The legal representative (individual or legal entity) must be a resident in Mexico for income tax purposes or a foreign resident with a permanent establishment in the country
- The legal representative should maintain supporting documentation related to the income tax payment within the following five years to the date in which the tax return should be filed
- The legal representative should voluntarily assume the joint and several liability of the foreign resident, which should not exceed the income tax due by the foreign resident. Moreover, the legal representative should own enough assets to respond as a joint and several obligator

In a sale of shares transaction, the election also requires (among others) that the seller not be a resident of a tax haven or a preferential tax regime country and that a CPA issue a tax report addressing whether the tax basis computation is in conformity with the "net basis taxation" rules optionally available for stock transactions.

Tax treatment of different types of Mexican-source income

Dividends

Legal entities distributing dividends or profits out of the net after tax earnings account (CUFIN, as per its acronym in Spanish) should compute and remit the corresponding corporate income tax by applying the 30% rate on the dividend distribution. For such purposes, the income tax due should be added to the dividends distributed and thus, the dividend must be multiplied by the 1.4286 factor, and the result should be multiplied by the 30% corporate income tax rate. The tax will be payable by the company and will be creditable against its income tax liability of the year of the distribution and the following two years, subject to certain limitations (see the "Corporations and shareholders" section in Chapter 15.)

Under the Mexican tax provisions, dividends are considered to be from a Mexican source when the entity that distributes the dividend is a Mexican tax resident. In this regard, legal entities distributing dividends should withhold the corresponding income tax by applying a 10% rate on the gross amount of the dividend.

It is worth mentioning that the additional income tax that should be withheld from dividend distributions made to foreign shareholders should only be applicable to the distribution of profits generated as of January 1, 2014. For these purposes, Mexican taxpayers are required to maintain a CUFIN balance with earnings generated up to December 31, 2013, and an additional CUFIN account to record earnings generated as from 2014. (Please note that when those two accounts are not handled separately, or when the aforementioned earnings are not clearly identified, the earnings distributed are understood to be generated as of 2014 and onwards and, therefore, subject to the 10% withholding tax.)

Interest

Interest income earned by non-Mexican tax residents should be sourced in Mexico when the capital is placed or is invested in Mexico or when the interest is paid by a Mexican tax resident. Interest is defined quite broadly and refers to yields on credits of any kind. However, the definition includes, among others, the following:

- Earnings from loans or credit balances of all types
- Earnings from the public debt
- Earnings from bonds or debentures
- Other payments made which are related to the loan or credit balance (commission, guarantee fees, etc.)

The domestic law contains various withholding tax rates that apply to the gross interest income depending on specific conditions of the transaction (e.g., payer, payee, characteristics of the loan, etc., as described in Appendix V.) The general withholding rate is 35%; however, the withholding rates on nominal interest could range from 4.9% to 40%. The tax should be withheld at the time interest becomes due or is actually paid, whichever occurs first (even when there is no payment.)

A tax exemption is applicable to the following types of interest, among others:

1. On loans granted to the federal government.
2. When paid on a minimum three-year loan agreement granted by financial institutions that promote exports and are duly registered especially for this purpose (i.e., not a regular bank) with the Ministry of Finance and Public Credit.
3. On preferential loans granted or guaranteed by foreign financial entities to institutions authorized to receive tax-deductible donations in Mexico, provided these institutions use the funds for purposes consistent with their tax-exempt status and are properly registered.
4. On loans granted to the Mexican government or the Central Bank.

Sales of shares or capital interests

Under domestic law, income obtained by non-Mexican residents from the disposal of shares or capital interest in non-stock companies should be sourced in Mexico and is subject to taxation in this country when

1. The issuer of the shares is a Mexican tax resident (direct transfer rule.)
2. When more than 50% of the book value of the shares being transferred derives, directly or indirectly, from immovable property located in Mexico (indirect transfer rule.)

The income sourced in Mexico should be subject to income tax either at 25% tax rate on gross proceeds (total amount of the transaction) or alternatively by applying the 35% income tax rate on the net gain (fair market value less tax basis), if certain requirements are met, including:

- The foreign seller must appoint a legal representative in Mexico, who is a resident of Mexico for tax purposes and has a tax ID; the representative would be required to file a tax return and pay income tax on behalf of the non-Mexican seller (if any) within 15 days after the income is earned
- The income of the seller should not be subject to preferential tax regime (tax haven) under the Mexican rules, which is a jurisdiction where the revenues on the transaction are not taxed, or the tax imposed is less than 75% of the income tax that would be due under Mexican rules
- A notification should be filed with the tax authorities within the 15 days after filing the above-mentioned tax return to inform that a tax report would be filed in connection with the sale of shares
- A CPA should prepare and issue a tax report including the calculation of the tax basis of the shares. Such tax report should be filed with the tax authorities within the 30 days after the tax return above-mentioned was filed

If the foreign resident has a duly qualified legal representative in Mexico, he may elect to calculate the taxable gain by deducting from the sales proceeds the average cost of the shares sold, as adjusted by the change in the after-tax earnings account (CUFIN) of the issuing company, any unamortized tax losses, reimbursement of capital and any similar items, during the period the shares were held to the date of the current sales transaction, all adjusted for inflation.

Moreover, non-resident taxpayers are not allowed to deduct losses incurred in similar transactions. When the purchaser is also a foreign resident and does not have a legal representative in Mexico, the seller is obligated to pay the tax directly. Gains on sales carried out through the Mexican Stock Exchange are subject to a 10% tax, fulfilling certain requirements (a tax exemption is available in certain cases.)

As previously mentioned, the indirect transfer of Mexican shares is generally not subject to tax in Mexico, unless more than 50% of the book value of the shares of the non-resident company being transferred derives from real property located in Mexico. Real property located in Mexico is always a key factor that needs to be carefully analyzed, even under a tax treaty.

Group restructuring

The Mexican tax authorities may grant a ruling to defer the income tax arising from the sales of the shares of a Mexican company during a corporate reorganization. Such authorization will only be granted prior to the restructuring and provided the following requirements are fulfilled:

- The consideration received in exchange for the sale of Mexican shares should consist of shares issued by the acquirer
- The seller or the acquirer must not reside in a territory with a preferred tax regime or a country with which Mexico has not entered into an agreement for comprehensive exchange of information
- A legal representative must be appointed
- A tax report is filed with the Mexican tax authorities including specific formalities
- There are solid business reasons

In addition, the Mexican tax authorities require some additional information to be filed with the request for a ruling and the tax will only remain suspended while the shares remain within the same interest group. The suspended tax never expires and should be paid with inflation adjustments when the shares are transferred outside the interest group.

Royalties, including technical assistance services

Royalty income earned by non-Mexican tax residents should be sourced in Mexico when the assets or rights that produce the income are utilized within Mexico or when the payments are made by a Mexican tax resident or a non-resident having a permanent establishment in Mexico. Payments for technical assistance services should be sourced in Mexico regardless of whether the services were rendered in or outside Mexico, it would be enough that the service is utilized in Mexico. The tax withholding tax rates applicable to the gross income received are shown in Appendix V. Generally, the rate ranges from 5% to 40%.

Construction, installation and related services

Earnings from short-term construction, installation and related services are considered to include income from construction work, installation, maintenance and assembly on real estate; construction of buildings and structures; and inspection work or supervision related to such activity when the services involved are expected to last for less than 183 days. The source of income is considered to be in Mexico when the work is carried out within Mexico.

Tax will be payable on a withholding basis at the rate of 25% on the gross income, unless the foreign corporation has a qualified legal representative in Mexico, as mentioned previously. In this case the taxpayer may elect to pay tax at a 35% rate applied to the net profit obtained from the activity. This taxable profit will be determined by deducting from the gross income received the directly related deductible expenses authorized for resident corporations, whether incurred in Mexico or abroad. When the taxpayer elects to be taxed on a net basis, the Mexican customer should be advised so that the 25% withholding is not applied, and the legal representative should pay the tax due with a tax return to be filed during the month following that in which the work is completed.

If the work lasts longer than 183 days, the foreign resident will be considered to have a permanent establishment for income tax purposes in Mexico as from that time and will be taxed as such thereafter, rather than by either of the special methods of taxation described above. An income tax return must be filed within three months after the end of each calendar year from the incorporation of the permanent establishment. Additionally, advance monthly tax payments must be made during the year following that of the incorporation of the permanent establishment. When calculating the advance income tax payments, the permanent establishment must remain with the option chosen to determine its income tax prior to being considered as a permanent establishment (25% on gross income or 35% on net income.)

Moreover, if it is known at the time the work begins that it will require more than 183 days, for example, based on the contract terms agreed, the foreign resident will be considered to have a permanent establishment for income tax purposes as from the date of commencement.

Mexico has entered into tax treaties with several countries, and the time periods may vary for classifying a construction activity as a short-term construction activity or permanent establishment. In some cases, short-term construction activities are no longer subject to Mexican withholding taxes under a particular treaty. Therefore, consultation with an international tax specialist is advisable prior to the execution of the contract or commencement of the work.

Rental income

Income derived from the leasing of real estate by a foreign resident are deemed as Mexican-source income when the immovable property is located in Mexico. In this regard, the tax should be computed applying 25% rate on gross proceeds (i.e., sales price at FMV) with no allowable deductions.

Payments of any type for the temporary use of or enjoyment of scientific, industrial or commercial equipment are included in the definition of royalties for Mexican tax purposes. Under domestic legislation, royalties paid to non-Mexican residents are subject to tax withholding at the 25% rate.

Railroad cars, containers and airplanes and ships that may be commercially exploited are subject to a 5% tax withholding rate under domestic law.

Property leased under a financial lease, in which case a 15% tax withholding under domestic law is applied only on the portion of the lease payments that is deemed to represent interest.

Sales of real estate

Foreign residents engaged in the alienation of real estate are subject to income tax in Mexico when the immovable property is located in Mexico. Generally, the tax should be computed applying a 25% tax rate on gross proceeds (i.e., sales price at FMV) with no allowable deductions.

Alternatively, foreign taxpayers may apply a 35% tax rate on the net gain (i.e., sales price less tax basis) to the extent that certain requirements are met, among other that the foreign resident appoints a legal representative in Mexico, and the transaction is supported either with a public deed or non-amortizable real estate trust certificates.

Upon a tax audit, tax authorities are empowered to carry out an appraisal to verify the sale price of immovable property. In cases where the price determined in the appraisal exceeds more than 10% of the sale price, the Mexican tax resident should determine and withhold the corresponding income tax over such surplus applying a 25% tax rate.

Also, when the payments for the alienation of immovable property supported with a public deed is agreed in installments in a period of more than 18 months, the income tax should be paid in the years in which the corresponding payment is actually collected or due.

Fees paid to foreign corporations

In general terms, income earned from independent personal services (i.e., general services that do not fall within the royalty or technical assistance definitions) are subject to tax withholdings when they are rendered in Mexico or on the portion that is rendered in Mexican territory.

However, please note that resulting from the 2020 Mexican tax reform, “specific anti-avoidance rules” were introduced. In a nutshell, any payment made by Mexican taxpayers to foreign related parties, which is subject to a preferential tax regime should not be deductible for Mexican income tax purposes, regardless of whether the payment is made on an arm’s-length basis. In this regard, income earned by a non-Mexican resident should be deemed subject to a preferred tax regime whenever it is not subject to taxation, or when it is subject to tax resulting in an overall taxation that is lower than 75% of the income tax that would be due and paid in Mexico under domestic tax rules (i.e., 22.5% effective tax rate considering Mexican rate of 30%.)

Portfolio investments

There is no difference in the taxation of income from subsidiaries, portfolio investments or unrelated parties. It should be noted, however, that investment income of foreign pension funds in existence and exempt under the laws of their respective countries is wholly exempt from Mexican income tax.

Treatment of non-income taxes

In connection with the value-added tax (VAT) described in Chapter 22, permanent establishments of foreign corporations in Mexico are subject to VAT on the same basis as Mexican tax residents: VAT is applicable to most transactions at a rate of 16%. Additionally, the sale or transfer of certain goods and services are classified as either zero-rated or VAT-exempt transactions.

As a result of the 2022 Mexican tax reform, VAT to be credited must be related with activities subject to VAT either performed abroad or in Mexican territory; otherwise, a VAT creditability proportion should be determined in accordance with VAT law. For these purposes, non-residents are subject to VAT in connection with their activities performed in Mexico if such activities are subject to tax, regardless of whether those are subject to income tax. For instance, VAT would be payable on sales of assets in Mexico other than exempt real estate (land or residential property) and shares or capital interests, whether or not they are taxed under the Mexican Income Tax Law.

Thus, the net amount payable by each taxpayer is generally the difference between VAT effectively paid and VAT effectively collected. The excess of VAT effectively collected from customers over VAT effectively paid to vendors (or to the customs authorities on imports) must be paid to the tax authorities on a monthly basis as a definitive payment.

The **rental of machinery, equipment and real estate from foreign corporations** is generally VAT taxed, subject to the withholding mentioned above. In the case of services utilized in Mexico but for which payment is made to non-resident service providers, the Mexican resident making such payments is deemed to be the importer of such services and is required to reflect a VAT liability thereon at the time of making the monthly VAT returns, but may reflect a VAT credit in an equal amount against the liability for tax on the resident’s own taxable activities.

Moreover, as of June 1, 2020, **foreign residents that provide digital services to recipients located in Mexico** must calculate and pay the monthly VAT on all consideration effectively collected. A digital service is defined as any service provided through digital applications or format, over the internet or other network, and which is fundamentally automated. It specifically includes the following:

- Downloading or access to images, film, text, information, audio, video, music, games, gambling, multimedia content, multi-player environments, mobile tones, online visualizations, traffic information and weather forecasts. Excluded from this definition are access to electronic books, newspapers or other periodicals
- Mediation among third parties for the offer of goods or services with the exception of used movable property
- Online clubs, online dating, and online learning

The recipient will be considered to be in Mexico if any of the following apply: A Mexican domicile was provided; the payment was made through a Mexican financial intermediary; the IP address used by the electronic device is in Mexico; or the recipient provided a Mexican telephone number.

Chapter 17

Taxation of shareholders

Investor tax considerations

Dividends

- Dividends paid to individuals and foreign tax residents are subject to 10% withholding tax under domestic legislation. Use of relevant tax treaties to reduce this withholding tax rate should be considered on a case-by-case basis and provided formal and substantive requirements are met
- Withholding tax would apply to those dividends distributed from post-2013 retained earnings. Separate CUFIN baskets including pre-2014 and post-2013 must be maintained, if applicable
- When dividends are distributed in excess of net after-tax distributable earnings, the company paying the dividend is subject to an effective corporate tax rate of 42.86%
- Intercompany dividends paid between Mexican corporations are not taxable but are added up to the CUFIN
- Dividends to domestic individual shareholders are taxable to the latter on a grossed-end up basis, although a credit is available for most of their portion of the income tax incurred by the payer

Capital gains

- Capital gains on the sale of shares by domestic corporations are generally fully taxable
- Capital gains on the sale of shares issued by domestic corporations that are disposed by individuals, whether domestic or foreign tax residents, are taxable through a special procedure
- Disposal by individuals and foreign tax residents of Mexican shares traded widely and publicly in the Mexican or certain foreign stock exchanges are generally subject to a 10% tax rate
- Foreign investor disposing the shares resident in a jurisdiction with which Mexico has a double tax treaty, and the shares in question are disposed through a recognized stock exchange market, the gain might not be subject to taxation in Mexico
- There is a tax benefit that has been extended until fiscal year 2025 through a Decree published on December 23, 2021, equal to 10% of the capital gain from the sale (through the authorized Mexican stock exchanges) of listed shares issued by Mexican entities, transferred by Mexican resident individuals and non-residents. There is a condition that the book equity of the Mexican issuer must not exceed MXN 25 billion at the IPO

Cont.
17

Reorganizations

- Business reason has been heavily strengthened to access various tax benefits, including but not limited to those in connection with the transfer of shares at cost basis or the deferral of the capital gains tax derived from business restructurings, as well as for tax-free mergers and spin-offs

  However, the 2022 Mexican tax reform set forth rules and requirements so that if during an audit review the Mexican tax authorities determine that there is a lack of business reason behind the merger or spin-off, or that the taxpayer has not complied with any of the tax requirements, a transfer of assets will be deemed to take place, voiding the tax neutral effects
- Tax-free mergers and spin-offs are available provided a number of formal and substantive requirements are met, including business reason requirement
- A reorganization of Mexican corporations of the horizontal type, (i.e., a merger of two corporations or a spin-off of a corporation into two or more corporations), can be done essentially tax-free by fulfilling specific requirements
- Net operating loss carryforward of the surviving corporation in a merger may be utilized only against profits earned in the same line of business
- Net operating losses of the merged company are permanently lost
- For non-Mexican entities involved in a reorganization of ownership in Mexican entities, a tax deferral authorization can be granted

Acquisitions

- The local tax on acquisition of real property is always payable, even if transferred in a non-taxable reorganization
- Inside tax basis of assets can generally be stepped up through acquisitions

Domestic shareholders

Dividends

As of 2014, the applicable tax regime on dividends changed, and distributions paid out of post-2013 earnings to domestic individual shareholders are subject to an additional 10% withholding tax. This tax should be withheld by the Mexican corporation paying the dividends and remitted to the Mexican tax authorities.

Individual resident Mexican shareholders of companies that reinvest profits generated from 2014 to 2016 will be entitled to a reduction in tax on dividends of up to 5% to the extent such profits are distributed beginning in 2019. To qualify for this benefit, the company must identify the accounting within its books and records as well as include a disclosure in the relevant notes from their audited financial statements, information related to such profits, and the reinvestment and distribution of the same. The company must also file other relevant information before the Mexican Tax Authorities based on relevant general administrative tax rules.

If the shares of the company are not publicly traded, the company must present an independent audit tax report with respect to its financial statements according to the terms of Article 32-A of the Federal Tax Code.

In addition to withholding such tax, the tax treatment of dividends is as follows:

- Dividends paid by Mexican corporations are not deductible by the corporation distributing the same or includable in the gross income of the domestic corporate recipient
- Dividends paid out of the CUFIN balance are not subject to corporate income tax in the Mexican entity making the distribution. (For more on CUFIN balance, see Chapter 15)
- Dividends or deemed dividends paid in excess of the CUFIN balance are subject to corporate income tax. This is a tax on the distributing corporation, not a withholding or other tax on the shareholder. The distributed dividend would have to be grossed up (multiplied by 1.4286), and the result would have to be multiplied by the corporate income tax (CIT) rate of 30%. This CIT paid on dividend distributions could be credited against the annual CIT of the fiscal year in which the dividends are paid or the following two, provided certain timing conditions are met:

Cuenta de Utilidad Fiscal Neta (CUFIN)

CUFIN, which roughly translates to net after-tax earnings account, represents the balance of earnings that have already been subject to corporate income tax and can be distributed to shareholders on a tax-free basis at the corporate level. In a nutshell, these accounts and balance would include each year's after-tax net earnings plus domestic dividend income received by the corporation, minus dividends distributed out of CUFIN. The final balance from prior fiscal year, before including current year's previously tax net earnings, should be restated for inflation.

A detailed set of rules, illustrated in Appendix IV, establishes the procedure for computing the balance of a corporation's CUFIN, taking into account the company's taxable earnings since 1975. Appendix IV illustrates both, the computation of each year's additions to this account and the restatement for inflation to be made each year.

Dividends or distributions of profits from foreign sources received by Mexican shareholders must be included as part of its overall taxable ordinary revenues for purposes of the corporate annual income tax and for statutory employee profit-sharing purposes. A foreign tax credit may be claimed by the Mexican taxpayer (see also “Dividends and interest” in Chapter 18) to the extent the relevant revenue items from foreign sources are deemed as taxable for Mexican tax purposes in respect to the full amount.

In addition, dividends obtained by individuals are subject to an additional 10% tax paid on the gross amount of the dividend received from foreign sources.

Dividends distributed to Mexican resident individuals are taxable to those individuals on a grossed-up basis, allowing a domestic deemed-paid credit for income taxes paid at 30% by the Mexican corporation paying the dividends, which will effectively make the dividends taxable at up to an additional 5% regular income tax, since the maximum tax rate for individuals as of 2014 is 35%.

Capital gains

Gains on the sale of shares by corporations are fully taxable, although the historical-cost basis of the shares for this purpose could be adjusted for inflation and, in the case of shares issued by Mexican corporations, the basis is also adjusted for the change in the after-tax earnings account (CUFIN) and other relevant items, as discussed under “Capital gains” in Chapter 15.

Capital gains on the sale of shares by individuals are taxable in the same manner as for corporations, but a tax rate averaging method is available, as further discussed in Chapter 20. If the gain arises from the sale of publicly and widely traded Mexican shares through the Mexican Stock Exchange (or certain foreign exchanges), a 10% withholding tax rate should be applicable.

Foreign shareholders

Dividends

Individuals and corporations that are foreign tax residents are subject to 10% tax on dividends on those post-2013 distributed earnings. The tax must be withheld by the Mexican legal entities distributing the dividends and is considered a definitive tax payment. Please note that some treaties concluded by Mexico may grant a lower tax withholding rate or an exempt dividend distribution, provided formal and substantive requirements in the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MIL) and the treaty itself are met. It would be important to review the potential effects once the Multilateral Instrument enters into effect.

As in the case of domestic shareholders, an additional corporate tax at an effective rate of 42.86% applies only if the dividend is distributed out of earnings that have not been subject to the regular corporate income tax (i.e., paid in excess of the CUFIN balance.)

Capital gains

Gains by foreign corporations on the sale of shares issued by Mexican corporations are taxable, irrespective of where the sale takes place, as described under “Sales of shares or capital interests” in Chapter 16. As in the case of resident individuals, gains by foreign shareholders (corporate or individual) are generally subject to a 10% tax if the shares are disposed through a recognized stock exchange. Also, if the foreign investor disposing the shares resides in a jurisdiction with which Mexico has a double tax treaty, and the shares in question are disposed through a recognized stock exchange, the gain might not be subject to taxation in Mexico.

IPOs

There is a tax benefit that has been extended until fiscal year 2025 through a Decree published on December 23, 2021, equal to 10% of the capital gain from the sale (through the authorized Mexican stock exchanges) of listed shares issued by Mexican entities, transferred by Mexican resident individuals and non-residents. There is a condition that the book equity of the Mexican issuer must not exceed MXN 25 billion at the IPO.

Certain conditions and limitations are applicable to the benefit.
www.pwc.com/us/en/services/tax/library/mexican-tax-benefits-decree-ipos-bonds.html

Business reorganizations / restructurings

Business reason has been heavily strengthened to access various tax benefits, including but not limited to those in connection with the transfer of shares at cost basis or the deferral of the capital gains tax derived from business restructurings, as well as for tax-free mergers and spin-offs.

Incorporation / Subsidiary

The conversion of a Mexican branch of a foreign corporation into a subsidiary corporation would entail the following:

- Formation and incorporation of the subsidiary
- Transfer (generally through a sale) of all the branch assets to the subsidiary
- Transfer of its employees, who would retain their seniority
- Liquidation of the branch

Asset transfers and branch liquidation are taxable transactions that may give rise to taxable income or loss in Mexico, including VAT and real estate transfer taxes. A specific authorization (or notification in some cases) may be required to permit the incorporation of the branch of the foreign corporation; however, if it is required, the same should be granted by the National Commission on Foreign Investment because operating as a branch already involves 100% foreign ownership. Net operating losses of the branch, if any, would be permanently lost, as they are non-transferable upon incorporation of a Mexican subsidiary.

Merger

Two different types of tax-free mergers are generally recognized in Mexico, provided all applicable requirements are met:

1. A vertical merger, where one company has already acquired the shares of the other company.
2. A horizontal merger, where two or more companies are merged, with the assets and liabilities of one company exchanged for new shares of the surviving company.

In accordance with the income tax law, the depreciable value for tax purposes of the fixed assets would be carried over and should not exceed the basis pending to be depreciated for tax purposes in the merged entity before the merger.

Properly structured mergers that meet all formal and substantive requirements could potentially be tax-free for federal taxes, except for real estate acquisition tax, which is levied and paid by the acquirer and should be paid even in the case of mergers or other tax-free reorganizations. Under these situations, there are no taxable profits to the shareholders of the merged company, and no gain, loss or goodwill should, in principle, result from the merger. In order for mergers to avoid sale treatment for tax purposes, a one-year continuity-of-business requirement is imposed on the merged entities, among other requirements.

If a merger occurs within five years of a prior merger, notification to the tax authorities must be filed.

The cost basis of the shares acquired as a result of the merger is equal to the basis that the shareholder had in the shares of the merged corporation that are canceled.

As a result of the 2020 Mexican tax reform, several new tax provisions and conditions were included whereby it shall be considered that there is a change of control of shareholders where the amortization of losses of the surviving entity will be limited against the profits obtained from the same business units after the merger.

Split-up or spin-off

A spin-off (or split-up) occurs in the case of the formation of one or more additional corporations where assets and activities of a corporation are transferred to the new entities, but where the transferor corporation may continue to exist and there is no change in the capital invested or in the original shareholders and their proportionate ownership. The following rules apply to spin-off transactions:

- Assets transferred will retain their original attributes, such as original cost, remaining basis and date of acquisition, without gain or loss being recognized
- The adjusted-cost basis of the shares of the company that is split up is apportioned among the original shares and those issued as a result of the split-up
- The transaction is free of income tax if certain formal and substantive requirements are met. If a split-up is instead characterized as a capital reduction under the Income Tax Law, it will always be subject to sale treatment for tax purposes
- Net operating loss carry forwards may be similarly apportioned to the spun-off entities
- CUFIN and CUCA accounts balances are also apportioned between the surviving entities

A corporate split-up will be treated as a tax-free reorganization, provided 51% of the shares with voting rights is maintained for three years, beginning one year prior to the split-up. The shareholders of the 51% must maintain the same proportionate holding in the capital of the resulting entities as they had in the original entity prior to the split-up.

Any transfer of real property will be subject to the local tax on the acquisition of real property.

Cross-border intra-group restructurings

In connection with tax-deferral authorizations for cross-border intra-group restructures, the deferred tax will become due whenever the Mexican issuer and the acquirer cease to consolidate their financial statements for accounting purposes.

Moreover, the tax deferral authorization shall be rendered void when the tax authorities, during a tax audit, ascertain that the restructure or the relevant transactions (see section above covering domestic restructurings) related thereto performed either five years prior to, or five years after, the restructure lack a valid business reason, or when the tax authorities detect that the exchange of shares results in income subject to a preferential tax regime.

When a relevant transaction is performed during a five-year period after the restructure, the acquiring entity or its legal representative shall inform the tax authorities.

Finally, the tax report prepared in connection with the restructure shall include the business lines and the economic activity of both the issuing.

Tax reforms tighten rules for mergers and spin-offs

The related entities in a merger or split-up are expected to fulfill specific filings and formal requirements. Failing to do so may invite scrutiny from the Mexican tax authorities and void any tax neutral effects.

(Note that except for mergers and corporate spin-offs, no special tax rules exist for other types of reorganizations. Each would be taxed on the basis of what actually takes place if any measurable net income in cash, credit or kind arises. A reduction in capital stock may also be taxed, depending on the circumstances.)

In particular, the Mexican tax authorities may challenge certain mergers and spin-offs for the following reasons:

Improper transfer of net operating losses carryforward

Since June 2018, rules have been put in place to eliminate or limit the improper transfer of net operating losses carryforward for certain restructuring transactions and were included as part of the tax legislation.

Under the rules, the Mexican tax authorities may presume that there is an improper transfer of net operating losses carryforward when they identify — from information available through their databases — that the taxpayer has likely utilized the net operating losses in question and subsequently was part of a corporate restructure, merger or spin-off, or resulted in a change of ownership (i.e. shareholders, partners, etc.) where the taxpayer ceases to be part of the group.

Certain transactions and specific conditions should be met, and the Mexican tax authorities must notify the Mexican taxpayer through specific procedures.

Lack of business reason

The 2022 Mexican tax reform set forth rules and requirements so that if during an audit review the Mexican tax authorities determines that there is a lack of business reason behind the merger or spin-off, or that the taxpayer has not complied with any of the tax requirements, a transfer of assets will be deemed to take place, voiding the tax neutral effects.

For purposes of the foregoing, the accruable income should be the gain derived from the merger or spin-off.

In connection with the above, the Mexican tax authorities may take into account the “relevant transactions” related to the merger carried out within the five years before or after the merger or spin-off as defined under the tax rules.

Another relevant change recently incorporated establishes that the financial statements utilized to carry out the merger or spin-off, as well as the financial statements resulting from the merger or spin-off, should be audited by an independent and authorized CPA.

Liquidations

Consequences to shareholders

Liquidating distributions in excess of amounts of paid-in capital of a corporation (restated for inflation) or paid for the acquisitions of its shares (also restated for inflation) would be deemed as dividends.

Consequences to corporations

When a corporation begins its liquidation period, it must:

1. File a corporate annual income tax return for the short period covering up to the date, during the fiscal year, in which the liquidation period starts.
2. File a corporate annual income tax return covering the liquidation of its assets, paying the corporate income tax on the total net taxable income arising during the whole period of liquidation.

Distributions-in-kind would generally be treated as a taxable sale at market value, with any appreciation over the tax basis of the assets distributed representing income for tax purposes of the corporation being liquidated.

Acquisitions

Asset acquisition

A non-resident is allowed to own assets including shares of Mexican corporations in Mexico, subject to certain restrictions specified in the Foreign Investment Law (see Chapter 5). In addition, antitrust laws should be reviewed and permission may be required for this purpose.

As a result of the 2022 Mexican tax reform, certain conditions and considerations have been included within the tax legislation from a joint liability perspective in the acquisition of a going concern on those scenarios in which a partial or total acquisition of assets takes place.

Also, in the acquisitions of shares, the inside tax basis of the assets and other attributes of the Mexican entity remain the same for depreciation, amortization and other purposes. In this case, buyers should be aware that tax and other legal and formal obligations (and contingent liabilities) remain with the entity whose shares are acquired. Therefore, due diligence is indispensable prior to acquisitions of either shares or assets, the latter considering the new potential joint liability exposure that may derive from an acquisition of a going concern.

Buyer and seller

There are no general or special rules that may be applied in trying to offset advantages of buyers and sellers from different ways of handling an acquisition. However, buyers should be aware that there is rarely an advantage in adopting a procedure that will result in a stepped-up basis for fixed assets because this usually requires a sale of the assets by the seller (a Mexican corporation), which may be subject to employee profit sharing obligations, value added tax and possibly even corporate income tax on any gain due to appreciation of such assets.

There are several aspects that would have to be analyzed depending on the role of the buyer or the seller; however, generally speaking, buyers obtain a step-up in basis of the purchased assets that may allow them to deduct over time a portion of the purchase price through straight-line method depreciation (if applicable), while for the seller it may trigger a taxable gain.

Note that the excess of the price paid for the assets over their Fair Market Value is considered as goodwill for Mexican tax purposes and may pose relevant tax considerations for the seller (taxable for income tax and VAT) and the buyer (non-deductible and VAT not recoverable.)

Irrespective of whether transactions are agreed between non-related parties, it is generally advisable to secure a valuation of the assets being transferred to support that the transaction was set at a fair market value. If this is a global deal and there was a purchase price allocation (PPA) among the different countries involved, it would be more relevant to make sure that PPA is done under consistent and reasonable basis worldwide, and the convenience of a valuation becomes even more relevant since the tax authorities could challenge the PPA.

Chapter 18

Taxation of foreign operations

Investor considerations

- Foreign-source income of Mexican corporations is fully taxable, with limited double taxation relief by way of a foreign tax credit
- Mexico has entered into tax treaties and has signed agreements to exchange tax information with several countries, and these treaties also include provisions to minimize the effects of double taxation
- Earnings of a foreign subsidiary of a Mexican corporation are taxable only when repatriated as dividends, with the exception of companies with investments in a preferred tax regime (PTR) or fiscally transparent entities or juridical figures which are taxed even if undistributed
- In some cases, the Mexican corporate shareholder owning at least 10% of the shares of the distributing corporation are entitled to a credit for taxes paid by the foreign corporation
- Proceeds from the liquidation of a foreign subsidiary are taxable if they exceed their cost basis calculated in accordance with Mexican tax rules
- Dividends received by an individual are subject to an additional 10% tax which should be paid as a definitive payment
- Losses of a foreign branch can be offset against domestic profits, as the taxable income or loss of the foreign branch is included with the domestic operations on a current basis
- Consolidation of foreign subsidiaries for tax purposes is not allowed

Taxation of foreign income

Mexican corporations are taxed on their income from all sources. Foreign-source income usually qualifies for the foreign tax credit described in the “Double taxation relief section” below.

Branch income

The net income or loss from operations of a foreign branch of a Mexican corporation should be included in the annual income tax return of the Mexican corporation and subject to the same income tax rates, with right to the foreign tax credit discussed below.

Foreign subsidiary income

The income of foreign subsidiaries of Mexican corporations is not taxed until dividends are paid to the latter, except for investments in Preferred Tax Regimes (PTR) or foreign transparent entities/vehicles as described in the “Dividends and interest” section below.

NOTE. The inclusion of foreign subsidiaries in a **consolidation for Mexican tax purposes is not allowed.**

Capital gains and liquidation proceeds

Gains on sales of shares or on the liquidation of a foreign subsidiary are taxed as ordinary income to a Mexican resident. Loss carryforwards on sales of shares can generally be used to offset gains from similar transactions.

Dividends and interest

Earnings of a foreign subsidiary of a Mexican corporation are taxable only when repatriated as dividends, with the exception of companies with investments

- In a PTR (i.e., entities not subject to tax or who are taxed at a rate which is less than 75% of the tax that would be paid had the income been earned in Mexico). (See Chapter 15 for a more detailed discussion of the PTR and foreign transparent entities/vehicles)
- In a foreign transparent entity/figure, the income from which the Mexican investor must generally consider as earned and taxable currently, although certain particular rules and reporting requirements may apply

Otherwise, dividends or distributions of profits received by Mexican companies as shareholders or partners of foreign enterprises and interest from a foreign subsidiary must be included as ordinary income, subject to the foreign tax credit indicated below. Dividends or distributions of profits received by Mexican resident individual are subject to an additional 10% tax, which should be paid as a definitive payment.

Royalties and technical assistance fees

Income from technical assistance fees and royalties charged to non-Mexican companies represents ordinary income for income tax purposes, with foreign tax credit allowed, but it is subject to favorable treatment for value-added tax purposes.

Foreign exchange gains and losses

Foreign exchange gains and losses resulting from certain assets or liabilities denominated in foreign currency are treated as additional interest income or interest expense, respectively, as discussed under “Business profits” in Chapter 15. Exchange gains and losses are recognized on an accrual basis at the end of each month. The exchange gain or loss can neither be less nor more, respectively, than the one that would be determined by considering the Mexican Central Bank foreign exchange rates.

Translation of branch profits

Foreign branches of Mexican corporations must keep full accounting records and recognize income or losses for tax purposes on a current basis.

Translation of subsidiary earnings

Since the earnings of a foreign subsidiary are taxable only as and when formal dividends are remitted, its earnings need not be translated on a current basis. Dividend income is translated at the exchange rate of the day on which it is paid to the shareholder. Different rules apply to PTR investments (the Mexican Controlled Foreign Corporation, CFC equivalent) and investments in foreign transparent legal entities/vehicles.

Double taxation relief

Eligibility for foreign tax credit

The income tax law allows Mexican corporations and individuals a Foreign Tax Credit (FTC) on income from foreign sources. The law provides that taxpayers may credit against their Mexican income tax liability the amount of income tax paid in foreign countries on their foreign-source income as long as such income is subject to income tax in Mexico.

In general, credit is available for foreign income taxes directly withheld from foreign-source income or paid with a tax return filed in the foreign country in the name of the Mexican resident or by a foreign branch of a Mexican corporation.

However, in the case of dividends or distributions of profits received from corporations resident in a foreign country, and when a Mexican corporation owns at least 10% of the capital of the foreign corporation for six months prior to the dividend, a credit can also be taken for the proportionate part of the underlying foreign corporate income tax paid by that corporation, corresponding to the dividend or distribution of profits received.

In this regard, the Mexican law provides several formulas to determine the applicable foreign tax credit and its limitations. In calculating the amount of income subject to Mexican tax in these cases, the dividend or distribution must be grossed up to include the proportionate amount of tax paid by the foreign corporation (as illustrated in the "Calculating foreign tax credit on dividends" sidebar). This credit is allowed also on tax paid on a second holding tier, when certain conditions are met.

Foreign tax credit limitation

The foreign tax credit is allowed up to the effective Mexican rate on taxable income (tax result) shown by the annual return as reflected below under an "overall" type limitation.

Taxpayers who are not in a position to take full credit for the taxes paid to a foreign country on foreign-source income are allowed a ten-year carryforward of such excess foreign taxes, provided certain compliance requirements are met and the credit is limited to the corporate tax rate of 30%.

In addition, foreign tax credit should be computed on a country-by-country basis. And it should be determined for each taxable year in which dividends arise. In addition, it is important to keep specific accounts that track the source and application of each foreign tax, along with the documentation supporting such credits and any pending carryforward.

Moreover, the direct Foreign Tax Credit for taxes paid by the Mexican resident abroad shall not be available whenever the tax has also been credited in another country or jurisdiction except in cases where the income for which such tax credit was made has also been taxable in such other jurisdiction.

Calculating foreign tax credit on dividends

The proportional amount of (direct) income tax paid abroad by a resident company via dividends is obtained by applying the following formula:

$$PIT2 = (D/P)\ (D2/P2)\ (IT2)$$

Where:

PIT2: Proportional amount of income tax paid abroad by the foreign resident at a second tier, which distributes dividends to another foreign company (first tier), which in turn distributes dividends to a Mexican corporation.

D: Dividend distributed by the foreign resident to the Mexican taxpayer without reducing the income tax.

P: Profit that was the basis for distributing the dividends after income tax (at the first tier.)

D2: Dividend distributed by a resident abroad to another foreign resident that in turn distributes dividends to the Mexican company without reducing the income tax.

P2: Profit served as the basis to distribute dividends after payment of income tax (at second tier), obtained by the foreign resident which pays dividends to another foreign resident and finally distributes dividends to the Mexican company.

IT2: Income tax paid abroad by the foreign resident that distributed the dividends to another foreign resident, which in turns distributes a dividend to the Mexican corporation.

Lastly, there is a third formula that must be followed to determine the maximum foreign tax credit limitation for the combined taxes paid abroad:

$$L = CTPA \left\{ [(D+PIT+PIT2)\ (CT)] - ID \right.$$

Where:

L: Limit of foreign tax that can be credited by the Mexican corporate entity, which is the lower of the sum of the dividend plus the proportion of the first and second corporate level taxes, multiplied by the Mexican corporate income tax rate; or the actual foreign tax withheld or paid by the distributing companies.

D: Dividend distributed by the foreign resident to a Mexican resident without reducing the income tax from the distribution.

PIT: Proportional amount of corporate income tax paid abroad related to the first-tier dividend.

PIT2: Proportional amount of corporate income tax paid abroad related to the second tier.

CT: Corporate tax rate in Mexico.

CTPA: Corporate tax paid abroad (first and second level), on the proportionate profit distributed, as well as withholding made by the foreign resident paying the dividend to the Mexican company.

ID: Direct Creditable Tax in connection with the dividend received by the Mexican resident.

Chapter 19 Taxation of partnerships and joint venture agreements

Investor considerations

- Commercial partnerships, as well as professional partnerships organized under civil law, are taxed as corporate entities
- Partners in a commercial partnership are taxed in the same manner as shareholders
- Periodic distributions made to professional partnerships may be elected to be treated as salaries
- A joint venture (which used to be considered a conduit and not a separate taxpayer) are currently treated as a separate taxpayer under similar rules as corporations. Each venturer is taxed in the same manner as a shareholder of a corporation

Types of partnerships

In general, partnerships are considered separate entities and are taxed in the same manner as corporations, as described in Chapter 15. The partners — whether individuals, corporations or other entities, either domestic or resident abroad — are subject to dividend tax on distributions of after-tax profits and dividend withholding tax. In addition, as discussed in Chapter 17, the paying entity is required to pay tax on a grossed-up basis on the distributions that exceed the balance of the entity's after-tax earnings account (CUFIN.)

Sociedad de Responsabilidad Limitada **(S. de R.L. appears after the legal name of the Mexican entity)** is similar to limited liability companies in foreign countries and has the same tax treatment as corporations in Mexico.

Sociedad en Comandita **(S. en C.)**, structured with limited and unlimited liability partners, is treated the same as a regular corporation for Mexican income tax purposes.

Sociedad en Nombre Colectivo **(S. en N.C.)**, a type of general partnership with unlimited liability, is treated the same as a regular corporation for Mexican income tax purposes.

Sociedad Civil **(S.C.)** is a professional partnership organized under civil law and is also generally taxed in the same manner as corporate entities. Individual partners are taxed as recipients of salary income with respect to income distributed currently (which is treated as a deductible salary expense by the partnership). With respect to actual distributions of retained earnings, individual partners are taxed as recipients of dividends in the same manner as regular shareholders.

See Chapter 9 for the discussion of the legal characteristics of the various types of business entities in Mexico.

Joint venture agreements

Asociación en Participación **(A. en P.)** is an unincorporated joint venture. Previously treated as a conduit, A. en P. is now considered a separate taxpayer and are subject to the same tax treatment as regular companies when it is used to carry out business activity in Mexico.

The Federal Tax Code defines the A. en P. as group of persons or entities that carry out a business activity pursuant to a contract so long as the persons participate in the profit and loss of the business in accordance with a legal provision or the contract itself. In this case, the active partner does not combine the taxable income or loss of the A. en P. with its other taxable income or losses even though it is conducted as a division of the legal entity acting as the managing or active partner (*asociante.*)

In accordance with the general provisions of the income tax law, the managing or active partner (*asociante*) of an A. en P. joint venture contract is required to pay the taxes arising from the A. en P., including estimated payments of income tax, and to comply with all the tax requirements pertaining to the activities carried out by the A. en P., which is now treated as a separate taxpayer in most situations.

Profit distributions are subject to the treatment applicable to dividends, and when the A. en P. agreement is cancelled or terminated, the capital reduction rules apply. Goods contributed by the active and passive partners are considered to be sold to the joint venture at a value equivalent to the inflation adjusted net tax basis of the investment. Depreciation may only be claimed by the A. en P. after assets have been contributed to the joint venture.

The passive partners of an A. en P. (*asociado*) are jointly liable for taxes (in specific circumstances) pertaining to the activities carried out through the A. en P. to the extent of any assessment not covered by the assets of the joint venture and up to the amount of the contribution of the passive partners to the joint venture.

For more information on A. en P. as a business entity, (see Chapters 5 and 9.)

For information on deductions on A. en P., (see Chapter 15.)

Chapter 20

Taxation of individuals

Investor considerations

- There are no special tax concessions available for foreign nationals other than those established in tax treaties that Mexico has subscribed
- Residents are taxed on worldwide income. Non-residents are taxed only on Mexican-source income
- Residents are subject to a tax table of progressive rates. Non-resident employees are subject to tax at graduated rates that are significantly different from the resident tax rates
- Salaries paid by a non-resident employer who does not have a permanent establishment in Mexico to a non-resident employee rendering services temporarily in Mexico are exempt, if the non-resident employee is physically present in Mexico for less than 183 days, consecutive or not, in any 12-month period
- Timing of arrival and departure could result in significant savings.
- Joint returns are not allowed. Investment income of a non-working spouse may not be included in the other spouse's return, except under specific circumstances

Tax considerations for expatriates

- Planning the timing of major transactions, such as the exercise of employee stock options or the liquidation of an investment, before establishing tax residence in Mexico, is essential
- Moving expense reimbursements for specific out-of-pocket normal moving expenses are not taxable
- Deferred compensation paid from abroad less than six months after departure may not be taxable if related amounts are not cross charged or billed to the local affiliate or allocable to a Mexican permanent establishment of the foreign employer
- A large network of tax treaties is in place with several countries (see Appendix VI.) In some cases, there may be provisions for double-taxation relief (e.g., via limited foreign tax credits)

Territoriality and residence

Residents of Mexico

Resident individuals are subject to Mexican tax on their worldwide income, regardless of their nationality. The tax applies at graduated rates ranging from 1.92% to 35%.

Residents are granted a foreign tax credit with respect to foreign tax paid on their foreign-source income.

Mexican nationals are assumed to be residents for tax purposes, unless they can prove the contrary, such as by acquiring residency for tax purposes in another country. Mexican citizens residing abroad, similar to non-residents, are usually taxed only on their Mexican-source income, as discussed below.

The Federal Tax Code provides that a person is a resident of Mexico when he establishes a home in the country. If the individual also has a home in another country, then the individual is a resident in the country where he has his center of vital interests. A person is considered to have his center of vital interests in Mexico if either:

1. More than 50% of his income comes from Mexican sources in the calendar year.
2. Mexico is the primary place of his professional activities.

For this purpose, salary income would be considered Mexican source to the extent the services are rendered in Mexico, no matter who pays the salary. The definition of home as used in the Federal Tax Code is not entirely clear, but it is generally believed to be an abode that is permanently available to the individual.

Several factors should also be considered, such as the type of living quarters occupied in Mexico; i.e., on site facilities provided by employers, transient quarters.

Non-residents of Mexico

Foreigners working in Mexico on short-term visits are usually not considered residents of Mexico for tax purposes. Other non-immigrants entering the country for longer periods of time would remain as non-residents unless they establish a home in Mexico.

Non-resident individuals are not subject to Mexican taxation when paid from abroad by a non-resident employer that does not have a permanent establishment in Mexico, as long as they are present in Mexico for less than 183 days in any 12-month period. If their stay exceeds 183 days, they will be required to pay Mexican tax on their monthly salaries from the beginning of their stay.

In the event that the non-resident has to pay taxes in Mexico, the tax would be determined in accordance with the graduated rate table which includes an exempt amount of up to MXN 125,900, 15% for income in excess of such amount and up to MXN 1,000,000, and 30% on all income above this amount.

The tax computation for non-residents is based on the cumulative income earned during a 12-month period. The tax paid is considered final. Non-residents do not file an annual tax return.

Change of residence

Individuals who become residents after having been taxed as non-residents during part of the year will consider the non-resident taxes paid as final. Such individuals are subject to Mexican income tax as residents on their income for the resident part of the calendar year, starting with the date they acquire residency in Mexico and running to the end of the calendar year. They are required to file a resident annual income tax return for this part of the year.

Residents of Mexico who move to another country during a calendar year should consider tax withholdings and/or advance payments of income tax already made as final and may not file an annual income tax return. Also, taxpayers are required to file a notice of change of residency due to the termination of their Mexican tax residency during the 15 days before the change of tax residency takes place. Mexican nationals who move to a tax preferred jurisdiction (i.e., a “tax haven”) are considered to continue to be tax residents of Mexico for the following five years after filing the notice of change of tax residency.

Source rules

The types of income considered as Mexican-source are specifically defined in the section of the law dealing with non-residents, as discussed in Chapter 16.

Income from dependent personal services is generally considered Mexican-source income in proportion to the services rendered in Mexico. The tax is levied at graduated rates, as described in Appendix VII.

Fees paid by a Mexican resident company to members of its board of directors or vigilance or advisory committees, as well as to administrators and statutory auditors (to the extent they are non-Mexican residents), are considered Mexican-source income, regardless of where the services are rendered if the payment is made by a Mexican resident. In this case, tax is imposed at a flat 25% of the gross fees earned.

Gross income

Definition of taxable income

The law provides that individuals are taxed on income received in cash, kind or credit and, in certain cases, in services. However, the law includes a number of exceptions to the general rule as regards to income in credit (i.e., earned but not paid.)

These exceptions set forth that the following types of income become taxable only when received in cash or in kind, including:

- Income from personal services
- Rental income

Note that some exempt income received by resident individuals must be reported in the annual income tax return (i.e., loans, gifts or prizes exceeding MXN 600,000). The report is for disclosure purposes only, and the items remain non-taxable. However, failure to disclose an item in the annual tax return when required could cause it to become taxable.

Employment income

Income from personal services (earned income) includes salaries, commissions, bonuses, and allowances of all types, including those for housing, living expenses, education, foreign service, tax reimbursements, and profit-sharing payments from their employer (see Chapter 10 for more details.)

Business expenses reimbursed to employees may be considered taxable income to the individual unless they are properly documented. Regarding business travel expenses, they are non-taxable to the employee if supported by receipts from third parties and certain other requirements are met. A per diem rate paid without filing an expense report with the employer would be treated as a taxable allowance, unless an expense report is properly filed, supported by third-party documentation proving the disbursement for the travel, meals and lodging expenses.

NOTE. A company car provided to an employee is **not** taxable to a private sector employee. However, the employer's deduction will be subject to certain restrictions. (See related comment under "Depreciation" in Chapter 15.)

Fees to directors and statutory auditors (*comisarios*) are subject to tax and treated as income similar to wages.

Severance compensation is taxed under special rules, as described below.

Tax-exempt income from employment services

Certain fringe benefits, such as employee's share of social security employee´s contributions, paid by the employer or contributions to the employee's savings fund, are tax-exempt to the employee if certain requirements are met. The Christmas bonus is tax exempt for resident taxpayers up to the equivalent of 30 days of the minimum wage.

Also, an exemption equal to a maximum of 15 days of minimum wage is applicable each for vacation premium pay and the mandatory employer profit sharing. Other items such as compensation for disability, unemployment and old age, death benefits and social welfare benefits (including qualified savings funds, social security benefits and pensions) are tax-exempt subject to some limitations.

A limit is imposed on the tax exemption of certain social welfare benefits granted by the employer in the form of educational scholarships, day-care centers, cultural activities, sports, grocery coupons and other benefits of a similar nature. The limit is as follows:

- Whenever the sum of both the salaries and social welfare benefits exceeds an amount equivalent to seven times the annual minimum wage; the exemption is limited to the amount equivalent to one annual minimum wage and any excess would be subject to income tax withholding

  This limitation is applicable only to the specific types of benefits mentioned above and does not apply to other types of benefits, such as contributions made by an employer to an employee's savings fund or pension or reimbursements for medical expenses
- Social welfare benefits will not be taxable if their amount, together with other regular compensation, does not exceed seven times the annual minimum wage

Seniority premiums, retirement payouts, indemnities and other similar one-time severance payments are tax-exempt up to 90 times the daily minimum wage per year of service, and tax is payable only on any excess following a specific procedure.

Employer deductions related to contributions to pension and retirement funds as well as exempt salaries paid to employees are only partly deductible (53% or 47%), depending on specific compensation changes made by the employer during the previous year. (See Chapter 15 “Taxation of corporations”.)

Professional fees and business activities

Independent professionals and individuals carrying out business activities through unincorporated enterprises as well as other individuals rendering personal services (i.e., independent contractors) may deduct their normal expenses following rules similar to those for business enterprises, as described in Chapter 15. If the total deduction amount exceeds the income declared in the tax year resulting in a loss, it may be carried forward during the following ten years and deducted against the same type of income.

Capital gains

Capital gains on sales or exchanges of assets, including those realized on all types of personal and real property are generally taxable.

Exempt gains

Income from the following sources, among others, is exempt from income tax:

- Sales of other types of personal property (other than shares of stock) when the total gain on such sale in a calendar year does not exceed three times the annual minimum wage. (Note that the excess is taxable)
- Sale of the taxpayer's residence once every three years, limited to sale proceeds of 700,000 Investment Units (equal to approximately MXN 4.97 million in 2022)
- Transfers of property related to inheritances
- Gifts between spouses and between direct ancestors/descendants

Determination of taxable gain

When determining the taxable gain, the costs and expenses of the transaction are deductible. In the case of shares, the average cost of shares or other securities or of capital accounts in non-stock companies can be adjusted by factors intended to recognize the effects of inflation over the period of years in which the shares were held. The cost basis of shares in a Mexican corporation is further adjusted by the fluctuation in the after-tax earnings account (CUFIN) and the additional reinvested tax profit account (Reinvested CUFIN) during the holding period of the shares. Therefore, the seller should add increases or subtract decreases in the CUFIN balance during the holding period to determine the cost basis of the shares sold.

Calculation of tax

A portion of the taxable capital gain from the sale of shares, real estate and other assets is added to other ordinary taxable income in the annual personal income tax return. The remaining portion of the taxable gain is subject to tax at a flat rate which is the resulting effective rate of tax payable by the individual on the total income reported in the annual tax return. The individual also has the option to apply a flat rate based on the average effective tax rate from the preceding five years. The portion of taxable income to be added to the other ordinary taxable income in the annual personal income tax return is determined by dividing the total capital gain between the number of complete years that the stock was held, up to a maximum of 20 years. For example, in the case of an asset held for more than 20 years, only 5% of the taxable gain must be added to ordinary income and the flat rate will apply to the remaining 95%.

Losses on sales of real estate and shares are partially deductible. The immediately deductible portion of the loss is determined on the basis of the number of years the asset was held (not to exceed ten). This portion may be deducted from other types of income (excluding salaries, professional fees and business activities) declared in the current annual tax return or in the following three calendar years. The remaining portion of the loss is used to calculate a tax credit which may be applied against tax on other capital gains in the same year or in the following three years.

Gains on the sale of shares through stock exchange

Individual residents in Mexico are subject to tax on the gain related to sales of the shares of Mexican entities, and certain related products such as derivatives linked to shares and share indexes, where transactions are carried out on the Mexican stock exchange or derivatives market.

A flat final tax rate of 10% is applied to these gains.

Tax resident individuals must determine the tax payable for the period in a tax return to be filed along with the annual income tax return.

Losses resulting from the sale of such shares and derivatives on the Mexican stock exchange or derivatives market may be applied to the gains on such assets in the current tax year or in the following ten years.

In case of non-resident individuals, the intermediary must withhold the corresponding tax on the resulting gain for each transaction, without deducting any losses.

However, no tax should be withheld by the intermediary if the non-resident individual provides a statement specifying that he is a tax resident of a country which has a tax treaty with Mexico.

To determine the gain or loss on the sale of shares, the acquisition cost, plus any commissions paid, restated for inflation can be deducted. In case the shares were purchased prior to 2014, there is an option to determine the cost based on the average of the 22 last closing prices of the shares in 2013, unless such prices are significantly different from the previous six months based on the value, number or volume of operations.

In these cases, the average for the preceding six months may be used.

Rental income

Resident individuals are taxed on income from the rental of real property. They are allowed a standard deduction equal to 35% of their gross rental income plus property taxes, in lieu of actual expenses and depreciation.

Alternatively, they may elect to deduct actual expenses incurred on the property rented, including depreciation at 5% on the building cost (indexed for inflation), fees and commissions, property taxes, insurance, maintenance and interest on loans (net of inflation adjustments) for the purchase or construction of the property rented.

Interest income

Special treatment is applicable to interest received on fixed-income securities, such as bonds and others that are considered placed with the general investing public (as determined by the Mexican tax authorities), as well as interest received from Mexican banks or auxiliary credit institutions on acceptances, certificates of deposit, loans, and other credits. In general, financial institutions must withhold income tax at the statutory rate published by the Mexican Congress for that year. This inflation adjusted interest must be included in the individual's annual tax return, except when the taxpayer's only taxable income is interest that does not exceed MXN 100,000 in the calendar year.

Interest paid by credit institutions may be exempted, as long as the average daily balance of the account does not exceed five times the annual minimum wage.

Income derived from premiums, bonuses or gains on the sale of bonds, securities or similar credit instruments that are classified as traded among the general investing public are also considered as interest subject to the same rate of tax on interest mentioned above (withheld by the brokers), rather than as a capital gain from the sale of securities.

See the section on Other income below regarding the taxation of foreign currency exchange gains.

Dividends

Dividends received from Mexican corporations must be included in the gross income of individual shareholders, grossed up for the income tax paid by the corporation and reported in their individual annual tax return. It is possible to claim the underlying corporate income tax paid as a credit against the ultimate tax liability of the individual. Individual taxpayers must compute their tax on dividends at their own personal tax rate, which may be higher than the 30% credit for corporate taxes paid in which case further tax will be payable on submission of the annual tax return.

There is also a supplementary 10% tax on dividends received from Mexican corporations (payable in addition to the income tax mentioned above). The supplementary tax must be withheld by the Mexican corporation, and it is a final tax.

Dividends received from foreign corporations are fully taxable. If the dividend is also taxed in the foreign country, a foreign tax credit may be claimed by the individual shareholder, limited to the tax rate as per the applicable tax treaty, if any.

The 10% dividend tax is also applicable on dividends received from foreign corporations. The tax is self-assessed and must be paid each month in which foreign dividends are received. This tax must be paid in addition to the income tax (up to 35%) to be paid with the annual tax return. Foreign tax credits are not allowed against the 10% tax on foreign dividends. See the discussion of tax treatment of dividends in Chapter 17.

Income from the acquisition of assets

There is a special income classification called “income from the acquisition of assets.”

This type of income is generally taxable and includes acquisition of gifts (except certain exempt gifts, as mentioned below), treasure finding, acquired rights, permanent improvements made by the lessee to a rental property which will result in a benefit to the landlord once the contract expires, and by purchase when the fair value of the asset exceeds the price paid by more than 10%. The amount of this type of income will be based on the fair value, as determined by an appraiser authorized by the tax authorities, or market quotation, where available.

In connection with these acquisitions, local and federal taxes (except income tax), appraisal expenses, notary fees, and the cost of litigation to establish rights to assets and commissions/fees paid may be considered deductible expenses by individual taxpayers.

Acquisitions considered to be tax exempt for Mexican residents include inheritances (even from an unrelated individual). Gifts between spouses and between direct ancestors/descendants are also exempt for Mexican residents, regardless of the amounts. The annual exemption for gifts from other individuals (including gifts between siblings) is limited to three times the annual minimum wage. Any gifts in excess of this amount will be considered taxable income to the recipient.

Income derived from prizes such as lottery winnings is subject to a special tax regime. There are no separate tax regimes applicable to gifts and inheritances.

Other income

Other taxable income includes gains on government concessions or royalties related to such concessions, exchange rate gains, and earnings from foreign investments, and authorship royalties (unless exempt). In general, any type of income from capital investments or operations not taxed under other sections of the law or specifically exempt would also be taxable.

Interest (other than from certain Mexican bank deposits and fixed income securities) is subject to a reduction for inflation indexing.

Unrealized foreign currency exchange gains are also taxed as interest on the accrual basis. Therefore, fluctuations in the Mexican peso value of an amount held in foreign currency may result in a “virtual” gain, which is taxable in the annual tax return, even if there was no actual currency exchanged to/from Mexican Pesos.

Non-residents

As mentioned under “Territoriality and residence” above, non-residents, including Mexican citizens, are subject to tax only on Mexican-source income, as defined for each type of income in Chapter 16.

Similarly, the provisions of tax treaties should always be considered, as these may override the provisions stated in the Mexican income tax law.

Salaries

Non-resident employee wages, salaries and other remuneration received for dependent personal services rendered in Mexico are taxed on a graduated scale that exempts the first MXN 125,900. Any income in excess of that amount but not exceeding MXN 1,000,000 is subject to tax at 15%. All income in excess of MXN 1,000,000 is subject to a 30% tax rate. The tax is determined considering the accumulated income during a 12-month period, not necessarily a calendar year.

Income from dependent personal services is exempt if the remuneration is paid by a non-resident employer that does not have a permanent establishment in Mexico and if the services are rendered within a period in which the employee has been in Mexico for less than 183 days (consecutive or not) in any 12-month floating period.

Independent personal services

The source rules regarding independent personal services are the same as for salaries, (i.e., services rendered in Mexico are considered Mexican source income). A service is considered fully rendered in Mexico unless it can be proven that part of the service was rendered outside Mexico, in which case only the portion of the service provided in Mexico would be subject to tax.

When the service is paid by a resident individual or entity, the withholding tax, which is final, is 25% on the gross fees paid without any deduction.

Income from independent personal services is exempt if the amount is paid by a non-resident entity or individual that does not have a permanent establishment in Mexico, as long as the individual providing the service is physically present in Mexico for less than 183 days (consecutive or not) in any 12-month floating period.

Dividends

Dividends distributed by Mexican entities are subject to a 10% tax withholding on the gross amount distributed, or lower tax treaty rate, as applicable.

Other income

Other types of Mexican-source income — such as interest, rental income, capital gains and royalties — are subject to tax, generally on the same withholding basis as foreign corporations. (See Chapter 16.)

Gifts and inheritances received by a non-resident individual from a resident individual or their estate may not be taxable in certain cases. Specific advice should be sought in this situation.

In addition, as mentioned at the beginning of this Chapter, the provisions of the many tax treaties executed by Mexico should be analyzed, as these may provide a more favorable tax treatment.

Deductions

Business-related deductions

Salaried employees are not allowed personal deductions of any sort for expenses that might be incurred in connection with their employment. Expenses directly related to the production of other taxable income, such as expenses of a professional practitioner or of an unincorporated business enterprise, expenses on rental property and the cost related to the sale of real estate property and shares are deductible when determining the taxable income, as discussed earlier in this Chapter.

Personal deductions and allowances

Resident taxpayers may claim the following personal deductions when supported by the corresponding electronic invoices:

- Medical expenses disbursed in Mexico, for the portion which has not been reimbursed by a medical insurance. These include medical, dental and hospital bills for the taxpayer, spouse or common-law spouse, descendants, parents, or grandparents, as long as the annual income earned by the family member does not exceed one annual minimum wage. Medicines are not deductible, unless included in a hospital bill
- Medical insurance premiums
- Funeral expenses up to an amount not exceeding one annual minimum wage, applicable to the family members indicated above
- Charitable contributions to tax exempt organizations that are authorized to receive donations
- Mortgage interest paid (adjusted for inflation) and expenses related to the purchase or improvement of the taxpayer personal residence, subject to certain limits
- Complementary contributions to a social security retirement fund (AFORE) or Mexican personal retirement account. This deduction is capped at 10% of individual's taxable income, and the contributions must not exceed five times the annual minimum wage
- School transportation for dependents, when it is mandatory by the educational institution
- Also, based on a presidential decree, the school tuition paid may also be deducted in the annual tax return, subject to certain limits

The total personal deduction amounts for the year is limited and may not exceed the lesser of the following:

- Five times the unit of measure and upgrade (UMA, for its Spanish acronym)
- 15% of the taxpayer's gross income, including exempt income

Complementary contributions to the social security retirement fund (AFORE), or to Mexican personal retirement accounts, are not considered for the limit indicated above regarding personal deductions.

Double taxation relief

Foreign source income is fully taxable in Mexico for tax residents.

However, the Mexican Tax Law provides relief from double taxation by allowing a limited foreign tax credit for taxes paid abroad by Mexican residents. In essence, the credit is allowed for foreign taxes paid on the foreign source income up to the amount of Mexican tax due on that income.

Similarly, the Law provides that tax treaty provisions override the provisions of the tax law, when they benefit the taxpayer.

Tax computation

A typical tax computation for individuals is illustrated in Appendix X.

Personal allowances and credits

The personal allowances and credits available are given in Appendix IX. For credits, also see below.

Tax rates

The tax rate schedule for individuals shown in Appendix VII has a maximum rate of 35%. Some examples of the amount of tax payable by individuals at different levels of taxable income are shown in Table 11.

Table 11. Examples of effective individual tax rates for residents

Annual Income	Tax	Tax rate
100,000.00	7,592	7.59%
250,000.00	36,106	14.44%
550,000.00	107,633	19.57%
1,050,000.00	259,142	24.68%
2,100,000.00	611.155	29.10%
3,900,000.00	**1,223,174**	**31.36%**

Foreign tax credits

An individual may claim a foreign tax credit in the annual tax return, subject to certain limitations, for any foreign income tax paid on foreign-source taxable income.

Other taxes

Local taxes on income

Some states impose taxes on salaries and wages, which are payable by the employer.

Such tax may be from 2% to 3% of gross wages, without a cap.

Some states may also assess a local tax on specific activities such as independent personal services, rental income and sales of real estate.

Gift, estate and inheritance taxes

No specific gift, estate or inheritance taxes exist in Mexico, other than real estate transfer taxes that may apply in some states upon the conveyance of property by inheritance. Also, no estate or inheritance taxes are levied by the federal or local governments on the value of assets at the date of death. For federal income tax purposes, inheritances are tax exempt as are gifts from a spouse or lineal ancestor/descendant (parent, grandparent, child, grandchild, etc.). However, an income tax and, in certain cases, withholding taxes may apply for the transfer of property to other persons not mentioned above.

In most circumstances, to maintain the income tax exemption, gifts and inheritances must be disclosed in the recipient's annual income tax return. Gifts from other sources exceeding three times the annual minimum wage are subject to federal income tax on the excess. Moreover, transfers of property at death are not taxable for income tax purposes as concerns the transferor and Mexican resident transferees, although there may be real estate acquisition transfer tax considerations (usually ranging from 1% to 5% of the value of transferred property.)

During the period before an estate is finally distributed, the legal representative is required to pay income tax for the account of the heirs on the earnings of the estate considered as a unit. The tax paid in this way is considered final unless the heirs or beneficiaries of legacies elect to include their portion of the income in their own annual returns, in which case they may take credit for a proportionate amount of the tax paid by the legal representative.

Chapter 21

Taxation of trusts

Investor considerations

- Mexican trusts generally may only be created with domestic banks as trustees; however, insurance, bonding, brokerage and non-bank financial entities can create trusts for specified purposes
- Generally, trusts are not taxable entities but rather are conduits of income to beneficiaries
- Trusts have frequently been used to hold real property in the border zones and coastlines, where ownership by foreigners has been prohibited or otherwise limited
- When business activities of a non-resident are carried out through a trust, a permanent establishment is deemed to exist for tax purposes, although applicable tax treaty provisions should be reviewed to determine if this rule is overridden
- Foreign investors should know that there are certain tax incentives for trustees and beneficiaries who participate in Mexico through publicly traded Mexican Real Estate Investment Trusts or Energy and Infrastructure Investment Trusts

Use of trusts

Trusts are not often used for tax planning but rather for other purposes, such as to guarantee loans and to enable foreigners to hold the rights to certain restricted residential real estate (especially along border zones and coastlines.)

There are, however, two special types of trusts that do provide tax incentives for trustees and beneficiaries: Mexican Real Estate Investment Trusts (MREITs) and Energy and Infrastructure Investment Trusts (*Fibra E*), These provide good opportunities for participating international investors. Consultation on the planning of financing structures and exit strategies is advised.

Types of trusts

The organization of trusts (*fideicomisos*) in Mexico is governed by the Banking Law (*Ley de Instituciones de Crédito*) and the Law of Credit Instruments and Operations (*Ley General de Títulos y Operaciones de Crédito*).

Trusts in Mexico are not legal entities: They cannot open bank accounts or own property in their own names. Even so, trusts are required to obtain a taxpayer identification number as they serve as conduits of income to the beneficiaries.

In general, only banking institutions can be trustees authorized to carry out fiduciary operations. With that exception, and the fact that beneficiaries may only be individuals or corporate entities living or in existence at the time a trust is created, the rules applicable to trusts are quite flexible and can be organized for any lawful purpose.

Trusts established by entities other than banks (insurance, bonding, brokerage and non-bank financial entities can now create trusts for specified purposes) are governed by their applicable regulatory body laws.

All trusts are of the same basic type, and their terms can be as complicated or as simple as required by the purposes for which they are created. Trusts may be revocable or not.

Note that when a trust is formed to hold title to real property, the trust instrument must be notarized and entered in the general property register of the locality.

Aspects of taxation of trusts

Generally, trusts are not considered taxpayers. However, when they are created to carry out business activities in Mexico, they are treated as conduits of income to beneficiaries (taxpayers) or, if these have not been named, to the trustor (grantor.)

However, trusts set up to maintain the assets of approved funds have no tax obligation, if certain requirements as to their income are satisfied.

Taxation of beneficiaries

Where business activities are carried out through a trust, the trustee (i.e. a bank) is responsible for making advance payments of income tax on such activities and for determining the annual taxable income (*utilidad fiscal*) in accordance with the procedures applicable to corporations.

Although the taxable income is attributable to the beneficiaries, these duties are usually carried out by the management committee or principal beneficiary of the trust. **Corporate beneficiaries** should include their proportion of such tax profits in their own annual income tax returns and treat their proportion of the advance payments made by the trust as advance payments on account of their annual income tax liability. The losses, if any, cannot be transferred to beneficiaries until the trust is liquidated. **Individual beneficiaries** must treat their proportion of the profits and advance payments as arising from business activities of unincorporated enterprises, as discussed in Chapter 20.

In the case of rentals of real property held in trust, the income is considered to belong to the grantor, even though the beneficiaries are third parties, unless the transfer of title is considered irrevocable and the grantor has no further rights to reacquire the property. The income is then considered to belong to the beneficiaries. In either case, the trustee is held responsible for making advance payments of income tax in May, September and January at 10% of the gross rental income collected during the preceding four months, when beneficiaries are individuals. (See also “Mexican Real Estate Investment Trust” below.)

In other cases, the income realized from assets held in trust will be considered as taxable to the beneficiaries. The appropriate capital gains treatment, depending on the beneficiary, would be accorded to sales of trust assets.

Tax treatment of the grantor

The transfer of assets to an irrevocable trust will normally be treated as a sale, taxable to the grantor, unless the trustor keeps the right to reacquire the assets. Rent on real property placed in trust but not yet on an irrevocable basis is also taxed to the grantor.

Taxation of the trust formation

Transfers of real property to an irrevocable trust represent transactions subject to income tax on the property’s appreciation as well as to the tax on the acquisition of real estate. If real or personal property is placed in trust for the benefit of other individuals without reasonable compensation to the grantor, income tax on donations received may be payable by donees, other than a spouse or direct family members, if the value exceeds three times the annual minimum wage.

Tax incentives for special trusts

Mexican Real Estate Investment Trusts (MREITs)

Mexican tax authorities grant some tax incentives to MREITs whose main activity is the construction or acquisition of real estate property for sale or lease or when the real estate constituting the patrimony is intended for lodging.

The treatment of this kind of trust differs from that of those described above basically because the trustees and beneficiaries are exempt from making advance payments of income tax on the income received by the MREITs.

In addition, the transfer of real estate made by grantors will not be considered a sale in accordance with the Mexican Income Tax Law if the grantor is a beneficiary of the trust or otherwise retains the right to reacquire the property.

Energy and Infrastructure Investment Trusts (FIBRA E)

The Mexican tax authorities have provided certain tax incentives to parties investing in shares of Mexican companies through energy and infrastructure investment trusts (*Fideicomiso de Inversión en Energía e Infraestructura* or *FIBRA E* in Spanish), provided those companies are engaged in exclusive operations (operating entity), which could consist of:

- Midstream/Downstream
  (does not include the exploration for and extraction of hydrocarbons or the marketing and supply of same)
- The generation, transmission and distribution of electric power
- Certain infrastructure investment projects

Trustee duties

In this type of trust, the trustee must be a credit institution or a brokerage firm residing in Mexico and must issue secured publicly traded debt certificates for 100% of its net worth that are registered with the National Banking and Securities Commission.

Each year, the trustee must distribute at least 95% of the tax result among the holders of the debt certificates. For that purpose, it must consider taxable income to be the portion of the tax result pertaining to its shareholding percentage in the operating entity as well as the proportionate capital loss at 15% from the transfer of shares (deferred loss); it must also take the respective authorized income tax deductions at the trust level as well as a proportionate deduction at 15% of the capital gain on said transfer of shares (deferred gain.)

The trustee must keep a capital contributed account (CUCA, for its Spanish acronym) for the trust as if it were carrying out business activities in Mexico. The CUCA balance of the trust will not be reduced unless the distributions made by the trust exceed the tax result distribution. Also, when distributions exceed not only the tax results but also the CUCA balance, the excess distribution will be subject to income tax according to the type of holder of the debt certificates.

Operating entities

Operating entities (those conducting the exclusive operations) in which energy and infrastructure investment trusts invest:

- Must distribute 100% of their tax result to their stockholders, including the trust, as if they were engaged in business operations through a business trust, with no income or 10% tax withholding on dividends or profits distributed
- Are not required to make monthly provisional income tax payments

Transfer of shares issued by the operating entity

For income tax purposes, the original stockholders of operating entities that transfer shares to the trust must consider the transfer as if they were selling, exclusively for income tax purposes, land, fixed assets or deferred expenses rather than shares. At the same time, the capital gain or the capital loss must be included in the taxable income computation in the period in which the transfer occurs, except for the capital gain that can be deferred when certain conditions are met.

Capital gains may be deferred when the consideration received consists in secured publicly traded debt certificates and the deferred gain will be allocated among the certificates. Accordingly, capital gains can be recognized at 15% annually. The capital gain deferral will end at the earliest based on when:

1. The debt certificates are sold.
2. The shares originally transferred are sold by the trustee.
3. The assets giving rise the deferred gain are sold by the operating entity.

The seller must provide the trustee with all information on the respective profit or loss, so that the trustee may consider the profit to qualify as a deferred expense or the deductible loss as deferred income, which must be amortized or included in the taxable income computation each year at the rate of 15%, as of the period in which the shares are acquired.

Holders of debt securities

The sale of debt securities (placed among the general investing public) is considered exempt when the sale is conducted by parties that are exempt from that tax or by parties residing in Mexico or abroad.

The distribution of the tax result by the trustee to the holders of debt certificates (including the accrual of the deferred income or the deduction of the deferred expense) is subject to 35% income tax withholding when made to individuals residing in Mexico and 30% when the payment is made to entities or individuals residing abroad.

Individuals residing in Mexico receiving the above-mentioned distribution of the trust tax result must consider that distribution to qualify as income from business and professional activities.

Individuals or entities residing abroad who participate in the trust creates a permanent establishment for income tax purposes. However, those parties are exempt from compliance with the formal tax obligations contained in the law, including registering at the tax office.

Chapter 22

Value-added tax (VAT)

Investor considerations

- VAT is levied on transfers of goods and services at a standard rate of 16% and at a zero rate for some transactions
- Mexican VAT is a cash basis tax
- Certain other transactions are exempt (i.e., sale of land or receivables)
- Imported goods and services are subject to VAT
- The VAT return is due on a monthly basis; no annual tax return is required
- A monthly VAT information return is required
- Charges for the use of assets (e.g., rentals and royalties) are subject to VAT
- Credit against VAT liability (which may result in overpayment and refund) may be taken for VAT paid on all imports and purchases, except as noted
- Credit for VAT paid may not be taken in proportion to revenues that are exempt from VAT or for VAT paid on goods and services that do not represent deductible expenses under the income tax law or are out of the scope of the Mexican VAT Law
- With the exception of purchases made by foreign tourists, there is no mechanism to recover VAT paid by non-residents

Scope of value-added tax (VAT)

The federal value-added tax (*Impuesto al Valor Agregado* or IVA, for its acronym in Spanish) represents a one-time tax, payable by the ultimate consumer of all types of products and services.

However, each business entity involved in the process — from the sale of raw materials to the production and distribution of finished products to the ultimate consumer — is generally required to bill its customers the tax on its products (output VAT) and to pay the tax to its suppliers on its purchases of goods and services (input VAT), crediting the amounts so paid against the amounts due on its own activities. The taxpayer must remit the excess of the VAT collected from its customers over the VAT it paid to its suppliers to the tax authorities monthly. If the amount paid exceeds the amount collected, a refund can usually be requested for the difference, credited against other VAT obligations or offset against other federal tax obligations.

In general, VAT does not represent an additional cost to most business enterprises because even though all types of business enterprises (including government departments and agencies) are required to accept charges of the tax by suppliers on their purchases of goods and services, such amounts will normally be eligible for offset against the liability of the business enterprises for the VAT collected on their billings to customers.

There are some exceptions, principally when the sales of an enterprise are “exempt” from VAT, in which case the enterprise is treated as the last consumer and will have to absorb any charges for VAT (input VAT) on its purchases, except insofar as its activities are subject to the zero rate, as mentioned below. However, input VAT paid on goods or services used to produce items that are exempt from VAT may be deducted for corporate income tax purposes (see the “Deductions” section in Chapter 15.)

With few exceptions, VAT is a cash basis tax in the sense that only the receipt of payment for goods or services triggers the output VAT liability, and an input VAT credit can be claimed only when the taxpayer pays VAT to its suppliers of goods and services or when the liability to a creditor is satisfied through any other form of extinction or compensation.

Thus, the net amount payable or refundable by each enterprise will generally be the difference between the tax that was effectively paid and the tax that was effectively collected.

Taxable transactions

In general, VAT is payable on all sales of goods, independent services, rentals, and imports of goods and services, although a number of significant exceptions are provided in the law, as well as certain defined activities which are taxed at the zero rate. (See “Exports” and “Tax rates” below and Appendix XII.)

Sales of goods

The law defines a sale as any transfer of tangible or intangible goods, including those made on a conditional basis or through irrevocable trusts. The taxable amount of a sale includes the sales price as well as all other amounts charged to the purchaser for other taxes, duties, interest or charges of whatever nature.

Independent services

Taxable services are those rendered within Mexico by one person to another on an independent basis, transportation of persons or goods, insurance and reinsurance, agency activities, technical assistance, and transfers of technology. The taxable amount includes not only the price of the service, but also charges to the customer for other taxes, living allowances, expenses, reimbursements, interest, etc.

As an exception, when the interest arises from loans granted by financial system companies, from loans granted under credit lines or from financial leasing transactions, the VAT related to such interest will be paid as the interest is accrued, instead of when paid or collected.

Starting June 2020, non-residents rendering electronic platforms and/or intermediaries (marketplaces) services are required to register and collect the VAT when its services are considered rendered in the Mexican territory to the extent certain conditions are met.

Rental of goods

For purposes of VAT, any type of rental of tangible property in exchange for a fee is taxable, regardless of the legal form utilized, subject to certain exceptions. Rentals of real property for residences and property used for agricultural purposes are exempt.

Imports of tangible goods

VAT is payable by the importer to the customs authorities on all definitive imports, in addition to normal import duties. The base for calculation of the import VAT takes into consideration the taxable value of imports of tangible goods, which is the value declared for import duties, plus the amount of customs duties and taxes (including duties) paid upon the importation of the goods into Mexico.

The VAT paid to customs authorities upon importation of goods is creditable in the same month, which is the same rule that applies for VAT paid to Mexican suppliers in general; it offsets from the VAT collected from customers to determine the net amount to be remitted to the government.

Any VAT payable on imports is entirely the responsibility of the resident importer and must be paid before withdrawing any goods from customs.

Imports of intangible assets and services

Imported services are also taxed. The purchase or licensing of intangible assets from non-residents for use in Mexico is a taxable import.

In the case of imports of intangible assets or services, no VAT is actually paid at the moment of importation, although the tax forms reflect a “virtual” payment or cashless transaction offsetting credit in the same monthly return — except when the taxpayer also has “exempt” VAT sales (output tax transactions), in which case there could be a net cost to the company after reflecting the tax effect of deducting the VAT paid.

Services rendered by non-resident commission agents outside Mexico (commissions) on exports of merchandise are not subject to VAT. In other cases, imported services are generally subject to VAT as described above.

Imports under a temporary regime

Temporary regimes, such as those used in for manufacturing processes or by in-bond processing, as well as automotive bonded warehouses, are subject to payment of VAT. Nonetheless, a tax credit may be available when complying with specific requirements.

Exports

Exports are zero rated, and consequently VAT is not payable on exports, including exports of in-bond processing companies, commissions or mediation fees and technical fees for services provided to foreign residents when the benefit is received abroad, and rights to intangible assets. Even though the exporter does not collect VAT on export sales or these services, it has the right to recover input VAT charges on its purchases of goods and services by means of a credit or refund.

Additionally, a zero rate applies to independent personal services provided by residents in Mexico that are used solely by and for the benefit of persons abroad without a permanent establishment in Mexico.

Port services are also zero rated for export shipments.

Tax rate

VAT is payable on all types of operations at a general rate of 16%, except for almost all food products, medicines and other specific products, which are taxed at the zero rate. A reduced rate within certain border areas of the Mexican territory is applicable at an 8% VAT rate.

Payments of VAT

The excess of VAT effectively collected from customers over VAT effectively paid to vendors (or to the customs authorities on imports) is generally required to be remitted to the tax authorities monthly as a definitive payment.

The procedure for determining VAT payable consists of crediting directly against VAT due (effectively collected), the tax effectively paid for expenses related to acquisitions and imports of goods and services, as well as expenses related to the temporary use of assets (i.e., rentals). Such expenses should be those that are indispensable for realizing taxable activities, including those that are taxable at the zero rate.

When taxpayers carry out mixed activities (taxable, exempt or not within the scope of the law), they should identify VAT effectively paid for each item to determine the amount not creditable paid on non-taxable items, as well as determining the proportional amount not creditable from items not identifiable.

Taxpayers subject to VAT withholding

Certain taxpayers are required to withhold VAT on payments to suppliers of goods and services, including payments made to parties' residing abroad for purchases or leases, among others.

Some examples that might require VAT withholding by the payer for the asset or service include payments to foreign persons for leased assets in Mexico, and purchases from foreign residents of inventory located in Mexico when such foreign resident does not have a permanent establishment within Mexican territory.

VAT refunds and overpayment certification process

Favorable balances in VAT returns must be claimed by the taxpayers as a credit against the tax due in subsequent months, until such balance is used up or requested as a refund for the total balance of the overpaid VAT.

Chapter 23

Other indirect taxes

Investor considerations

- A specific tax is levied on transfers of real property and the rights thereto
- Excise tax is levied on certain items (e.g., alcoholic beverages, cigarettes, gasoline) and services (e.g., gambling and telecommunications), often at substantial rates
- Various state and municipal taxes are levied, generally at much lower rates, on items that are not subject to federal taxes
- Holders of mining concessions are subject to substantial rates based on their activities

Tax on acquisition of real estate

A local tax on the acquisition of real estate is levied on all types of transfers of real property and the rights thereto. In general terms, subject to the review of each state's law or the Mexico City Financial Code, this tax is payable by the person or entity who becomes the owner of the property whether by purchase, donation, inheritance, contribution, merger, spin-off, liquidation, or through a trust.

Real estate is defined as land or as land and the structures attached thereto. In Mexico City, the tax is calculated at a progressive rate based on the value of each property aside from the respective notary fees and other transfer costs. The tax base is the highest between the transfer price, the fair market value and the appraisal value of the property. Notary fees and other transfer costs often increase the purchase price by two or more additional points.

Federal excise and vehicle taxes

The federal government, through the Production and Service Tax Law, often levies substantial federal excise taxes on the supply of alcoholic beverages, cigarettes and other tobacco products, gasoline and diesel, energy and flavored drinks, fossil fuels, food with high caloric content and pesticides; as well as commission services related to the mentioned products, gambling and telecommunication services.

In general terms, exports of goods are exempt from excise tax and excise tax paid on the acquisition of exported goods cannot be credited.

Federal taxes are also levied on the acquisition of new vehicles, depending on how the car is acquired.

In addition, most of the states apply a vehicle ownership tax which is paid by corporations and individuals for the simple fact of owning a car, regardless of the use that is given to it, must be paid every year, rates and method varies depending on each state law and regulations.

State and municipal taxes

Taxes levied by states and cities in Mexico are much lower than the federal levies, and in most cases are also lower than those of comparable entities in the United States and other countries. Municipal taxes are usually of minor importance. The states and municipalities may not tax transactions subject to federal VAT, of which they receive a substantial share from the federal government. Other transaction activities, such as banking, also may not be taxed at the local level.

Additional state taxes include:

Payroll tax

States apply an employee payroll tax, which employers pay directly to each applicable State Ministry of Finance and Public Credit. The tax rate is 3% in Mexico City and varies from 1% to 4% for the rest of the states, depending on local laws and specific regulations.

Property taxes

Tax paid on property owned by a corporation or business is assessed at the local level by the state or municipality where the property is located. The tax is calculated based on the assessed value of the land and real estate.

Title transfer taxes

As stated above, the transfer of real estate is almost without exception subject to a variable transfer tax rate. The tax is levied by most states and Mexico City (CDMX).

Independent opinion for CDMX and other states tax compliance

In the case of Mexico City and other states, a special purpose statutory tax opinion on the status of state taxes issued by an independent public accountant is required by the local authorities.

Mining fees

Holders of mining concessions and allocations are subject to an annual 7.5% special mining fee. The fee is based on revenue from the extraction activity minus allowable deductions except (i) investments, excluding exploration and prospecting expenses; (ii) interests; and (iii) inflationary annual adjustment.

The tax obtained shall be paid through tax return filing no later than the last business day of March of the following year.

Additional mining fees shall apply based on work and exploration activities performed within a period of time, at rates averaging 50% to 100% of the fixed fee per hectare of the concessioned surface (i.e., MXN 175,9). For holders that do not perform work or exploration activities, an annual 0.5% rate shall apply to the income derived from the sale of gold, silver and platinum.

Chapter 24

Tax treaties

Investor considerations

- Mexico has tax treaties and agreements to exchange tax information with several countries and is in the process of negotiating others
- Most of Mexico's tax treaties follow the OECD model
- Tax treaties provide more flexibility in the type of activities that can be conducted in Mexico, without being considered a permanent establishment
- These treaties reduce or eliminate certain withholding taxes

Tax treaty policy

Several tax treaties have been executed with Mexico's most important trade and investment partners and other countries of strategic interest.

Treaty models

Mexican treaties are modeled after the 1977 OECD Model Convention and its relevant updates. Mexico has formally observed some reservations on to the OECD commentaries which by law can otherwise be used as guidance for the application or interpretation of tax treaties.

Treaty provisions

Treaties mainly restrict the definition of a permanent establishment, reduce or eliminate certain withholding taxes, and contain exchange of information guidelines and mutual agreement provisions for their proper application (see Appendix V.)

Multilateral instrument status

In accordance with the Base Erosion and Profit Shifting Plan ("BEPS"), which is an initiative published by the OECD to combat internationally harmful tax practices, Mexico signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) — also known as Action 15 of the BEPS plan — along with various countries on July 6, 2017.

The MLI was ratified in 2022 by the Mexican Senate. Therefore, its effects will be applicable as of January 2024.

One of the key impacts of the application of Mexican Double Tax Treaties once the MLI enters into application will be the principal purpose test (PPT), which in broad terms provides that tax benefits included in Double Tax Treaties would not apply if one of the principal reasons for having the Treaty access structure was driven by tax instead of business or commercial reasons.

ATAD III

The European Commission published on December 22, 2021, the text of a draft Directive laying down rules to prevent the misuse of shell entities for tax purposes and to amend Directive 2011/16/EU on Administrative Cooperation (DAC.)

This Directive provides indicators of minimum substance ("minimum substance test") applicable to all entities, regardless of their legal form, that are engaged in an economic activity and that are considered a tax resident and thus eligible to receive a tax residency certificate in a European Member State, as well as legal arrangements, such as partnerships, that are deemed residents for tax purposes in a Member State.

The minimum substance test involves seven steps to determine whether an entity should be regarded as a "shell". If European entities fail to comply with the minimum substance test, the corresponding authorities may not issue tax residency certificates to said entities.

Once adopted, this proposed Directive should be transposed into national law by the Member States before June 30, 2023 and come into effect on January 1, 2024.

The ATAD III developments should be closely followed by multinational companies that have investment structures through European entities into Mexico (e.g., some of the most common structures involve the Netherlands, Luxembourg, Spain, the United Kingdom). If such investment vehicles cannot satisfy the ATAD III substance test and thus obtain a tax residency certificate, then the capacity to benefit from Mexico Tax Treaties will be impacted.

BEPS 2.0: Pillar One and Pillar Two

The OECD has proposed a two-pillar approach to address tax issues from the challenges of the digitalizing economy. Mexico, as a member of the OECD, is expected to participate in this initiative.

Pillar One proposes to allocate a greater share of (residual) profits to market/user jurisdictions by moving away from the traditional arm's-length principle (ALP) approach in certain respects and creating a standalone nexus rule without reference to physical presence. The current scope is intended to cover both highly digitalized businesses as well as consumer-facing companies with cross-border activity. The goals of Pillar Two is expressed as addressing remaining BEPS challenges by ensuring large companies pay a minimum level of tax on income regardless of where it arises.

On the basis of the foregoing, in February 2022, the Mexican Congress started the discussions of the application of Pillar One and Pillar Two in the Mexican tax dispositions. However, those discussions are still ongoing. And while Mexico is expected to adhere to the initiative, no public statements have been made by the Mexican tax authorities yet.

Mexico has executed tax treaties with several countries following the OECD Model. It is the intention of the Mexican government to execute similar agreements with other countries as a prelude to signing comprehensive tax treaties (see Appendix VI.)

Through general rules, the Mexican tax authorities issue a list of countries that are considered to have a "Comprehensive exchange of information treaty" with Mexico (see Table 12). This is the list of countries that, under the Mexican tax authorities' criteria, are effectively exchanging information with Mexico. Specific benefits are granted under Mexican tax law for those countries, such as second tier foreign tax credit and the reduction of other reporting obligations regarding investments in tax havens or preferred tax regimes.

As of January 1, 2022, the countries listed in Table 12 have agreements of this nature with Mexico (and other agreements or tax treaties that might contain such an agreement are awaiting ratification or being negotiated.)

Table 12. Countries with comprehensive exchange of information treaty with Mexico

Albania	Curacao	Kuwait	Republic of El Salvador
Andorra	Cyprus	Latvia	Republic of Korea
Anguilla	Czech Republic	Lebanese Republic	Republic of Libera
Antigua and Barbuda	Denmark	Liechtenstein	Romania
Argentina	Dominican Republic	Lithuania	Russia
Armenia	Ecuador	Luxembourg	Saint Kitts and Nevis
Aruba	Estonia	Malaysia	Saint Martin Island
Australia	Eswatini	Malta	Samoa
Austria	Faroe Islands	Marshall Islands	San Marino
Azerbaijan	Finland	Mauricio	Saudi Arabia
Bahamas	France	Moldova	Senegal
Bahrein	Georgia	Monaco	Serbian
Barbados	Germany	Mongolia	Seychelles
Belgium	Ghana	Montenegrin	Singapore
Belize	Gibraltar	Montserrat	Slovak Republic
Bermuda	Greenland	Morocco	Slovenia
Bosnia and Herzegovina	Guernsey	Namibia	South Africa
Botswana	Hashemite Kingdom of Jordan	Nauru Republic	Spain
Brazil	Hellenic Republic	Netherlands	St. Lucia
British Virgin Islands.	Hong Kong	Netherlands Antilles	St. Vincent and the Grenadines
Brunei Darussalam	Hungary	New Zealand	Sweden
Bulgaria	Iceland	Nigeria	Switzerland
Cameroon	India	Niue	Tunisia
Canada	Indonesia	North Ireland	Turkey
Cape Verde	Ireland	North Macedonia	Turks and Caicos Islands
Cayman Islands	Isle of Man	Norway	Uganda
Chile	Israel	Oman	Ukraine
China	Italy	Panama	United Arab Emirates
Colombia	Jamaica	Paraguay	United Kingdom
Commonwealth Dominica	Japan	Philippines	United States
Cook Islands	Jersey	Poland	Uruguay
Costa Rica	Kazakhstan	Portugal	Vanuatu
Croatia	Kenyan	Qatar	

Chapter 25

Green taxes and regulatory issues

Mexico is increasingly focusing on addressing Environmental, Social and Governance (ESG) criteria, as the country tries to find ways to solve complex problems related to these three areas. At the same time, companies are also shifting their strategies beyond merely maximizing revenue and aligning themselves more with ESG values.

We define each of the ESG criteria as follows:

Environmental. This parameter involves taking action regarding climate issues, including the reduction of the emission of greenhouse gases, and the measurement and management of environmental impact.

This criterion is relevant because the last report of the Intergovernmental Panel on Climate Change (IPCC) reveals that, if the goal of reducing the CO2 emissions by 2030 to limit global warming to 1.5° C is not met, there will be no way of remediating the effects of climate change.

Companies in Mexico must mitigate the effects of climate change by reducing their carbon emissions, investing in green technology, as well as promoting and participating in the transition into a net-zero carbon economy.

The local congresses of certain Mexican states have moved forward regarding the areas of taxation and environment: they have established “green taxes” that are designed to discourage the emission of pollutants of legal entities and individuals to the water, soil and subsoil, as well as the atmosphere, among other activities that cause such damages to the environment.

As such, these green taxes are focused on taxing individuals and legal entities that have committed acts that may result in damages to the environment or those that intend to do such activities. The green taxes, coupled with environmental legislation, serves to deter bad actors and activities before the damage is done. These taxes are already in force in some states, including Baja California, Campeche, Coahuila, Estado de México, Nuevo León, Oaxaca, Querétaro, Quintana Roo, Tamaulipas, Yucatán y Zacatecas.

In addition to the above, the Senate of the Republic passed the General Law of Circular Economy on November 17, 2021, which is pending approval in the Chamber of Deputies. The law stipulates the efficiency of natural resources, the monitoring of Circular Economy criteria and the promotion of a culture of environmental responsibility.

Considering the growing relevance of the ESG parameters discussed above and the advances that the local congresses have made in the Mexican states, we expect more and more states will follow the trend of imposing green taxes.

Social. This parameter involves creating business and corporate value that improve public trust through social commitments. It means, among other concepts, contributing to diversity and inclusion, promoting security and data privacy, along with incorporating metrics that assist with the measurement of impact.

PwC's Global CEO Survey of 2022 notes that 59% of Mexican general directors think that social inequity inhibits the attraction or retention of talent with key abilities.[1]

Governance. This parameter involves, among other aspects, creating diversity in business councils or boards, maintaining ethics in business, avoiding anticompetitive practices while complying with legislation and tax transparency.

In this regard, it is necessary to start with changes to corporate and leadership behaviors. The Annual Corporate Directors survey, elaborated by PwC US in 2021, stated that in the search for new directors, ethnic diversity must be prioritized over industry or operational experience.

Companies must incentivize the diversity of the board of directors to reduce the breach of salary inequity between men and women, as well as to make efforts towards increasing transparency in all aspects of organizational governance.

Regarding tax transparency, there is no current obligation in Mexico to elaborate reports in accordance with international standards to inform the public about economic, environmental and social impacts of an organization. An example of international reporting standards is the GRI 207 regarding taxation, designed to reflect the taxes that an organization pays, improve transparency, and promote trust and credibility of the tax practices of organizations.

Indeed, a number of Mexican agencies are making progress regarding ESG, including

- **CINIF (Mexican Financial Reporting Standards Board).** The board is responsible for the accounting standards in Mexico, to reach the convergence between Mexican accounting standards and International Financial Reporting Standards
- **BIOFIN Mexico (Biodiversity Finance Initiative).** A cross-sectorial initiative that aims to analyze the context of public policies, stakeholders, expenditures, and investments that impact the environment
- **CNBV (National Banking and Securities Commission).** An independent agency of the Ministry of Finance and Public Credit that is working in partnership with BIOFIN Mexico. They have recognized the relevance of fostering sustainability in the Mexican financial system by considering the importance of financial and non-financial social and governance information. The commission participates in workstreams of international initiatives and organizations regarding sustainability

As the above demonstrates, the implementation of ESG criteria is in full development in Mexico. We are in a moment of transition, adapting to a new business outlook that is less about pure economics and more about purpose. For this reason, regulations related ESG criteria will continue to change and be incorporated into business practice over the next few years. In this regard, the creation of strategies oriented to address the ESG criteria is a task for every company in the short and long terms.

1 PricewaterhouseCoopers, Global CEO Survey 2022 – Capítulo México, January 19, 2022.

Chapter 26

Mandatory disclosure regime (MDR)

Based on the Mexican Tax Reform of 2020, tax advisors and taxpayers in certain circumstances must disclose transactions or schemes ("Reportable Schemes or Transactions") to the Mexican tax authorities that result in a Mexican tax benefit. In this regard, a scheme is defined as any plan, project, proposal, advice, instruction or recommendation made expressly or tacitly with the purpose of executing a series of legal acts; while a tax benefit is defined as the monetary value arising from any reduction, elimination or temporary deferral of a tax payment. (Note that a reportable transaction does not include a filing or other procedure carried out with the tax authorities or the defense of a taxpayer in a tax controversy.)

A transaction should be reported when 1) it generates or could generate, directly or indirectly, a tax benefit in Mexico, and 2) it has at least one of the following 14 hallmarks that:

I. Precludes the foreign tax authorities from exchanging tax or financial information with the Mexican tax authorities.

II. Avoids the application of the preferred tax regime rules (Mexican Controlled Foreign Company or "CFC" rules) or the fiscally transparent entity rules contained in the tax legislation.

III. Consists of one or more legal acts that result in the transfer of a tax loss carryforward to a person other than the one that generated the tax losses.

IV. Includes one or more payments or interconnected operations that return, wholly or partially, an initial payment to the initial payor or its members/shareholders or related parties.

V. Involves a non-Mexican resident that applies an income tax treaty to prevent double taxation on income that is not subject to tax in the country of tax residency of such taxpayer or where the income is subject to a reduced rate when compared with the general corporate rate abroad.

VI. Involves related party transactions that result in transfer pricing considerations connected to the transfer of certain intangibles, business restructures with no consideration, temporary use of goods or rights with no consideration, among other transfer pricing considerations.

VII. Avoids the status of Permanent Establishment under either the domestic tax legislation or an income tax treaty.

VIII. Involves the full or partial transfer of a depreciable asset to a related party taxpayer that will depreciate the asset going forward.

IX. Involves a hybrid mechanism.

X. Avoids the identification of the beneficial owner of gross income or assets.

XI. Involves the execution of related party transactions to generate taxable income with the aim to amortize tax losses that are close to expiration and trigger a deduction in the entity that generated the losses or a related party of such entity.

XII. Avoids the application of the 10% withholding tax on dividends.

XIII. Involves in the case of a leasing and a subleasing whereby the lessor is the sublessor or the sublessor is a related party of the lessor.

XIV. Involves transactions that result in a book to tax difference of more than 20% except in the case of depreciation.

In addition, the transaction should be considered a reportable scheme, any mechanism that avoids the application of the listed hallmarks.

There are certain instances in which the taxpayer is the party required to report the transactions with the Mexican tax authorities, including:

- When the tax advisor does not provide the identification number of the reportable transaction to the taxpayer
- Schemes implemented prior 2020 which generate tax benefits in 2020 or beyond
- The Reportable Transactions are designed, organized, implemented and managed by the taxpayer
- There is a legal provision that prevents the tax advisor from disclosing the transaction
- The tax advisor and the taxpayer agree that the latter reports the transaction to the tax authorities
- The tax advisors do not fall within the Federal Tax Code's definition of "tax advisors"

On February 2, 2021, a threshold rule was published by the Mexican Ministry of Finance and Public Credit through the Official Gazette. In summary, this threshold rule establishes that the provisions set forth for the Mandatory Disclosure Rule will not be applicable for customized schemes, provided that the aggregate amount of the tax benefit obtained or expected to be obtained in Mexico does not exceed MXN 100 million (circa USD 5 million). In the event a taxpayer is involved in more than one customized scheme, the amount of the tax benefit obtained or expected to be obtained in Mexico from all the customized reportable schemes should be considered in aggregate to determine the MXN 100 million threshold. This rule is not applicable to transactions falling within the scope of Section I of Article 199 of the FTC (transactions that prevent the exchange of information.)

In those cases where there is a scheme that generates tax benefits in Mexico, but which does not fall within the 14 hallmarks or where there is a legal provision that prevents the tax advisor from disclosing the transaction, such tax advisor should issue to the taxpayer a certificate indicating the reasons why the scheme was not subject to the disclosure.

Chapter 27

Summary of major events and changes

According to data from the World Bank, Mexico is among the 15 largest economies in the world and is the second in Latin America. However, over the past three decades, the country has underperformed in terms of growth, inclusion and poverty reduction compared with peers.

The economy grew by an estimated 2% per year between 1980 and 2018, and grew by 4.8% in 2021, after falling by 8.2% in 2020. Supported by increased mobility and demand from the United States, the service and manufacturing sectors posted strong performances during the first half of 2021.

However, the recovery lost impetus during the second half of 2021 due to supply chain shortages, an increase in COVID-19 cases and decline in investments. To enable a better and sustained recovery in the medium term, the country will also need to address some of the most pressing pre-crisis challenges to growth and inclusion.

Inflation in September 2022 reached its highest level since 2000. The upward trend in inflation began in 2021 due to the impact of the interruption in supply chains on the prices of merchandise and later agricultural products and services.

As a result, the Bank of Mexico has increased its reference interest rate 14 times by February 2023, reaching 11%, a new all-time high.

The latest Public Finance report issued by the Ministry of Finance and Public Credit (April–June 2022) showed that Mexico's growth outlook improved to 2.4% per year from 2%: In the first half of the year, GDP growth was 2% annually, and in quarterly variations it has registered three consecutive periods of expansion. Oil revenues amounted to MXN 594.2 billion, showing a real growth of 29.4%, compared with January–June 2021.

It is estimated that the Mexican economy will have a slight growth driven by the increase in exports to the United States, mainly from the automotive sector. According to the UN World Investment Report 2022, for the second consecutive year, Mexico held 10th place among the ten nations that attracted the most Foreign Direct Investment (FDI). Additionally, the Ministry of Economy reported that Mexico captured USD 35.3 billion in FDI in 2022, an amount higher by 12% than 2021.

In 2018, Mexico signed with 11 countries, the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP), which provides greater investment and employment opportunities, since it reduces trade barriers and establishes common standards for member countries. The association also proposes to eliminate barriers in public sector purchases and establishes standards for labor rights, intellectual property and environmental protection.

In July 2020, the United States Mexico Canada Agreement (USMCA) went into force, replacing NAFTA.

Appendixes

Appendix I. Corporate tax rates

Quick rates and dates

Corporate income tax (CIT) rates	
Headline CIT rate (%)	30
Corporate income tax (CIT) due dates	
CIT return due date	31 March
CIT final payment due date	31 March
CIT estimated payment due dates	Estimated payments of CIT are due by the 17th day of each month.
Personal income tax (PIT) rates	
Headline PIT rate (%)	Residents: Graduated progressive rates up to 35%. Non-residents: Varies depending on type of income. For salaries, progressive rates up to 30%.
Personal income tax (PIT) due dates	
PIT return due date	30 April
PIT final payment due date	30 April
PIT estimated payment due dates	Estimated payments of PIT are due by the 17th day of each month, except salaries and specific type of income.

Appendix II. Tax depreciation rates

Maximum annual depreciation rates for income tax purposes, calculated on a straight-line basis only.

Type of asset	Rate per annum %
Deferred charges	5
Another deferred expenses and intangible fixed assets, including certain payments for patents, trademarks, technical assistance, or transfer of technology	15
Pre-operating expenses	10
Fixed assets normally used by business enterprises:	
Buildings and other construction	5
Railroad	5
Railroad cars, locomotive and ships	6
Furniture and office equipment	10
Airplanes, except for aviation companies and airplanes used for crop-dusting	10
Heavy-duty trucks and trailers, buses, automobiles, and light trucks	25
Airplanes for crop-dusting	25
Computers (laptops and PCs), servers, printers, optical readers, barcode readers, scanners, external hard drives and computer networking hubs	30
Acquisition of machinery and equipment for the generation of energy from renewable sources or from efficient electricity cogeneration systems. Renewable sources include solar, wind, hydraulic energy (kinetic or potential), energy from any natural or artificial body of water, the oceans, geothermal energy, and energy from biomass or waste	100
Adaptations on facilities or improvements in fixed assets to facilitate access and use of it to people with disabilities	100
Equipment for research and product development	35
Tools and dies	35
Machinery and equipment for the following activities:	
Generation, conducting, transmission and distribution of electricity, processing grain products, sugar and sugar products, edible oils, and ocean, river and lake transportation companies	5
Manufacture of electric transportation equipment, fixed infrastructure for the transport, storage and processing of hydrocarbons and shipments for the processing and storage of hydrocarbons	10
Manufacture of products derived from coal; primary production of metals; tobacco products	6
Production of pulp, paper and similar products	7
Manufacture of motor vehicles and parts; railway and ship construction; manufacture of metal products; scientific and professional machinery and instruments; production of food and beverages (except grains, sugar, edible oils and their derivatives)	8
Tanning and manufacture of leather products; chemical, petrochemical and pharmaco-biological products; manufacture of basic products for plastics and rubber products; printing and publishing	9
Manufacture of clothing and textiles; finishing, dyeing and stamping of textile products	11
Mining industry	12
Construction of airplanes	12
Overland transportation (freight and passenger)	12
Air transportation	16
Radio and television transmission and telegraph	16
Construction	25
Farming, fishing, cattle rising and sylviculture	25
Restaurants	20
Manufacturing, assembly and processing of magnetic components for hard drives and cards for the computer industry	50
Other types of activities not specified above	10

Note: In the case of enterprises whose operations include more than one type of the business activities mentioned in the law, the depreciation rate to be used will be that provided for the principal activity, determined on the basis of the relative volume of income in the previous year.

Appendix III. Corporate income tax and employee profit sharing calculations

2021	Taxable income	Profit sharing
Net income per books before taxes	MXN 10,000,000	MXN 10,000,000
Add non-deductible expenses:	180,000	180,000
Excess provision for bad debts over specific losses deductible	920,000	920,000
Entertainment and other miscellaneous non-deductible expenses (a)	200,000	200,000
Inflationary annual adjustment (b)		
Non-deductible exempt salaries (47% or 53%) (*3).	500,000	
	11,800,000	**11,300,000**
Deduct:		
Depreciation of fixed assets, adjusted for inflation, in excess of book depreciation	300,000	300,000
Taxable Income	11,500,000	11,000,000
Employee profit sharing paid in the year (based on prior year results) (*1)	100,000	
NOL's amortized from prior ears (*2)	120,000	
Net taxable income		**11,000,000**
Corporate income tax @ 30%	3,384,000	
Employee profit sharing @ 10%		**1,000,000**

* The only differences between the tax base for income tax and Employees' Statutory Profit-Sharing (ESPS) are:
1. ESPS paid in the period
2. Amortized tax losses
3. 47% or 53% of non-deductible exempt salaries. Fully deductible for ESPS.

Notes:
a. Includes non-deductible travel expenses and automobile depreciation that do not meet all deductibility requirements.
b. Inflationary annual adjustment is calculated taking the monthly average of certain accounts receivable and accounts payable and most liabilities and applying the annual increase in the National Consumer Price Index.

Appendix IV. Withholding taxes – Taxation of shareholders

Dividend/profit distribution tax rates

A dividend or profit distribution must be grossed up by a factor of 1.4286, if in excess of the after-tax earnings account (*Cuenta de Utilidad Fiscal Neta*, CUFIN). Consequently, the company paying the dividend is subject to a corporate tax at an effective tax rate of 42.86%. The tax so anticipated is creditable currently or in the following two years, against corporate tax liabilities of the same distributing company.

For individual shareholders there is also a new 10% tax on dividends received from Mexican corporations to the extent the dividends are from profits generated after 2013. The 10% tax must be withheld by the Mexican corporation, and it is a final tax. In addition, the individual must report the dividend in his annual tax return and pay income tax up to 35% less the deemed credit allowed for the 30% Mexican corporate tax paid. If the dividend is received from a foreign entity the Mexican individual should trigger a 10% additional income tax.

After-tax earnings account (CUFIN) — determination of account balance

In broad terms, the CUFIN account represents a Mexican company's cumulative net taxable income less reinvested earnings, income taxes, profit sharing distributions, dividends paid and other non-deductible items. The annual taxable income (i.e. *Utilidad Fiscal*, UFIN) is a concept intended to reflect the true economic earnings of the company.

The starting point in determining the annual UFIN of a company is the company's net taxable income for the year after any deductions for net operating loss carryforwards and the profit sharing paid for the prior year. The company's net taxable income is then reduced by income taxes, profit sharing of the year and, in general, certain other non-deductible expenses incurred by the company during the year, to arrive at the company's UFIN for the tax year. Upon the determination of this amount, the resulting amount is then added to the accumulated CUFIN balance (adjusted for inflation) from previous years.

Taxpayers are required to keep separate CUFIN accounts for pre-2014 earnings, as well as any reinvested CUFIN from 2014 to 2016, to properly treat each category with its appropriate tax treatment explain above.

For 2014, the determination of the balance of CUFIN must be carried out as follows:

Balance of after-tax earnings account of the previous year*

Plus:

After-tax earnings of the current fiscal year.

Dividends received from Mexican entities.

Dividends received from a Preferred Tax

Regime (Tax Haven).

Less:

Dividends paid by the company

Capital Redemptions

Equals = Ending balance of the after-tax earnings account.

*Note: Prior to adding the UFIN of the year, the beginning balance in the CUFIN account is adjusted for inflation from the date of the last inflation adjustment up to the last month of the current tax year. The current year UFIN, however, is not included in the adjustment. If a dividend is distributed during the year, the CUFIN account is adjusted for inflation from the beginning of the period up to the month prior to that in which the dividend is distributed.

The CUFIN is then increased by the amount of dividends received from other companies' resident in Mexico, by the amount of distributions from a joint venture arrangement and by previously recognized income and dividends or gains received from investments in preferred tax regimes. In turn, any deemed and actual dividends or other income distributions made in cash or in kind along with any capital reductions which in accordance with the Mexican Income Tax Law affect CUFIN are subtracted from the company's CUFIN balance. For purposes of this calculation, dividends and other distributions which are reinvested in the company as a capital contribution within 30 days of the date of distribution are not included. Dividends received from other Mexican companies generally increase CUFIN regardless of whether or not such dividends are attributable to the distributing company's CUFIN account.

In determining the amount of the CUFIN account that exists at the date of a distribution, the balance as of the end of the prior tax year is used. However, such amount is adjusted to take into account any dividends received (an upward adjustment) or paid (a downward adjustment) by the corporation during the period of time between the close of the prior tax year and the payment date of the dividend, plus an inflationary adjustment for that same period. As such, current year earnings are not considered for purposes of determining whether there is a sufficient CUFIN account balance to cover the distribution. Annual earnings are only counted once the annual return is filed, usually by March 31 following the end of the fiscal year.

Computation of after-tax earnings for the year

Taxable Income

Less:

Income Tax due for the year.

Non-deductible expenses, except general reserves
and provisions and the Employees Statutory Profit Sharing Paid.

Equals = After-tax earnings

Appendix V. Withholding taxes – Payments to non-residents

Income tax must be withheld from payments to non-residents, both corporations and individuals, made by resident corporations and individuals. The tax under current Mexican law is applicable to gross income in each case, unless otherwise indicated in the notes following Table I.

Additionally, income tax withholding of 40% is applicable in lieu of the regular withholding for a broad range of payments (except dividends and certain types of interests) made to foreign-related parties whose revenue is deemed from a Mexican tax perspective to be subject to a Preferred Tax Regime (PTR). Payments to a foreign resident are considered from a Mexican tax perspective as subject to a PTR if the recipient of such payments is not subject to tax in its residency jurisdiction or if it is subject to tax at a rate lower than 75% of the tax that would have been due and paid in accordance with Mexican tax rules on a transactional basis.

However, there are currently Miscellaneous Tax Regulations that provide an exception to the application of the 40% tax withholding rate for payments to a PTR even if between related parties so long as the recipient of the payment resides in a jurisdiction having an in force broad exchange of information agreement with Mexico.

Table I - Withholding tax rates provided by the Mexican Income Tax Law

Payment	WHT (%)
Professional fees for services rendered in Mexico and payments to Members of boards of directors and advisory boards	25
Lease payments:	
Lease of real property	25
Lease of containers, airplanes, and ships authorized by the Mexican Government to be commercially exploited in the transportation of goods or persons	5
Time-sharing services (1)	25
Charter agreements	10
Sales:	
Real property located in Mexico (1)	25
Shares of Mexican companies (1, 2)	25
Transfers of ownership of Mexican public debt by other than the original creditors (intended to cover debt-for-equity swaps) (1)	25
Derivative transactions:	
On capital (1)	25
On debt (3)	Same rates applicable to interest
Interest (4):	
Paid to foreign government financing entities, to duly registered foreign banks and other entities that provide financing with funds obtained by issuing publicly traded debt instruments abroad, registered with the Ministry of Finance and Public Credit (5)	10
Interest on debt instruments placed abroad (6)	4.9
Interest payments to specific foreign financial institutions (7)	4.9
Other interest payments (not otherwise included above) paid by Mexican financial institutions to residents abroad.	21
Paid to foreign suppliers of M&E, to others to finance purchases of such assets or inventory or working capital loans if the lender is duly registered	21
Paid to reinsurance entities	15
Other interest payments	35
Financial leases (on the portion deemed to qualify as interest or finance charge)	15
Dividends	10
Royalties (8):	
For the use of railroad cars	5
For the use of copyrights on scientific, literary, or art works, including motion pictures and radio and television recordings, as well as software and payments for the transmission of video and audio signals via satellite, cable, optic fiber, and similar media	25
On patents, invention or improvement certificates, trademarks, brand names, and advertising	35
For the use of drawings or models, plans, formulas, or procedures, and of scientific, commercial, and industrial equipment; on amounts paid for information regarding scientific, commercial, and industrial experience; and for technical assistance	25
Short-term construction and the respective installation, maintenance, technical direction, or supervision (9)	25
Reinsurance premiums	2
Income obtained by athletes and artists (1)	25
Income derived from prizes (e.g., lottery tickets or raffles) (10)	1 / 21
Other income (11) (debt waivers, indemnifications, rights to participate in business, investments, etc.)	35

Notes on Table I:

1. The non-resident may elect to pay tax at the rate of 35% on the net taxable profit, in the case of:
   a. Time-sharing services
   b. Share sales
   c. Sales of real property
   d. Activities of sportsmen/artists
   e. Short-term construction

And to the extent that the following specific requirements are met:

   a. For time-sharing services, the appointed resident legal representative must keep audited financial statements available for inspection by the Mexican Tax Administration. Since FY 2022, Mexican legal representative should meet specific solvency criteria with respect to the tax obligation of the non-Mexican resident entity for which he is assuming joint liability, and a notice of the representative appointment must be made.
   b. For share sales, a Mexican resident representative must be appointed in addition to the filing of a tax report issued by an authorized public accountant, and the foreign taxpayer revenue on the sale of shares should not qualify as subject to a PTR; otherwise, the net gain taxation alternative should not be available. Note that additional requirements should be met.
   c. There is an option to defer Mexican income tax arising from the sale of shares within the same group due to a corporate reorganization, provided certain pre-closing requirements are met (i.e., previous authorization from the tax authorities is required.)
   d. No legal representative is required for sales of real property by public deed.
   e. A tax rate of 40% on the net gain would apply in debt for equity swap transactions provided that the non-resident recipient of the income has a legal representative resident in Mexico, and this election is available if the income obtained by the foreign taxpayer is not subject to a PTR.

2. The sale of shares through the Mexican Stock Exchange is subject to a 10% withholding tax on the gain. When the investor is a resident in a country with which Mexico has signed a tax treaty, such withholding will not apply if certain requirements are satisfied. Note that sale of shares through the Mexican Stock Exchange may be subject to 35% tax rate on net gain (instead of the 10% or potential exemption) in certain cases indicated in the law: when the shares being transferred were not publicly acquired, when certain ownership and share transfer volume thresholds are exceeded, when the shares are sold via restricted offers within the stock exchange, among others.
3. The applicable WHT rate (based on the different WHT tax rates for interest) for debt-derivative transactions is applied on a net basis; that is, gross income less authorized deductions. However, if the transaction is liquidated in kind, the applicable withholding rate (on the same net basis) is 10%.
4. Interest payments to non-residents are exempt from income tax when they are paid on the following:
   a. Loans to the federal government or to the Bank of Mexico (Central Bank) or bonds issued by the latter organization to be acquired and paid abroad.
   b. Loans for three or more years granted or guaranteed by duly registered foreign financial entities that promote exports through special financing.
   c. Preferential loans granted or guaranteed by foreign financial entities to institutions authorized to receive tax-deductible donations in Mexico, provided these institutions are properly registered and use the funds for purposes consistent with their status.
   d. Loans derived from bonds issued by the federal government or the Bank of Mexico placed on a recognized national stock exchange, to the extent the beneficial owner is a foreign resident.
5. The 4.9% WHT rate is applicable when the interest is paid to banks resident in countries with which Mexico has signed a tax treaty. Please refer to restrictions on 4.9% application included in item 6, which may be applicable if the foreign bank receives the interest payments from a Mexican group subsidiary.
6. The 4.9% WHT rate applies provided the placement is handled through banks or brokerage firms residing in a country with which Mexico has signed a tax treaty, if there is compliance with the information requirements established in the general rules issued by the Mexican tax authorities. Failure to comply with these requirements, triggers a 10% withholding. The 4.9% and 10% WHT rates mentioned in the preceding paragraphs do not apply and instead a 35% WHT rate is applicable to interest when the direct or indirect beneficiaries of the interest, either individually or jointly with related parties, receive more than 5% of the interest and are either:
   a. Holders of more than 10% of the voting shares of the debtor, either directly or indirectly, either individually or jointly with related parties, or
   b. Business entities holding more than 20% of their shares, either directly or indirectly, and either individually or jointly with parties related to the debtor.
7. The 4.9% tax WHT rate is applicable to interest payments made to foreign financial institutions in which the Mexican Federal Government or the Mexican Central Bank has equity participation.
8. The WHT tax rate is applied to the gross amount of the payment.
9. The non-resident taxpayer may elect to pay 35% tax on the net profit if the taxpayer has a Mexican resident legal representative and so advises the customer, who then makes no withholding. When business activities last for more than 183 days, the foreign taxpayer is deemed to have a permanent establishment in Mexico for tax purposes and is taxed in the same manner as a local resident corporation.
10. The 21% federal rate is applied only in the case of non-qualifying prizes (i.e., income derived from prizes that is subject to a state taxation that exceeds a rate of 6%.)
11. A 35% income tax WHT rate is applicable for 2022.

The statutory withholding rates mentioned before may be reduced by applying tax treaty provisions, as discussed in Table II.

Payments to residents of treaty countries

Mexico has embarked on a policy of negotiating a network of tax treaties with its principal trading and investment partners. These treaties provide reduced withholding tax rates (WHT.)
As of August 2022, Mexico has treaties in with the following countries:

Table II - Income tax withholding on dividends, interest and royalties based on tax treaties

Recipient	WHT (%)			
	Dividends			
	Portfolio	Substantial holdings	Interest	Royalties
Argentina	15	10 [2]	12	10/15 [42]
Australia	15	0 [1]	10/15 [25]	10
Austria	10	5 [4]	10	10
Bahrain	0	0	4.9/10 [20]	10
Barbados	10	5 [1]	10	10
Belgium [37]	10	0/10 [2]	10/15 [16]	10
Brazil	15	10 [6]	15	10/15 [27, 29]
Canada	15	5 [4]	10	10
Chile	10	5 [6]	5/15 [26]	5/10 [29, 30]
China	5 [7]	5 [7]	10	10
Colombia	0	0	5/10 [17]	10
Costa Rica	12	5	10	10
Czech Republic	10 [7]	10 [7]	10	10
Denmark	15	0 [3]	5/15 [17]	10
Ecuador	5 [7]	5 [7]	10/15 [16]	10
Estonia	0	0	4.9/10 [38]	10
Finland	0	0	10/15 [24]	10
France	0/5 [9]	0/5 [9]	5/10 [17, 29]	10 [29]
Germany	15	5 [1]	5/10 [18]	10
Greece	10 [7]	10 [7]	10	10
Hong Kong	0	0	4.9/10 [20]	10
Hungary	15	5 [1]	10	10
Iceland	15	5 [1]	10	10
India	10 [7]	10 [7]	10	10 [31]
Indonesia	10 [7]	10 [7]	10	10
Ireland, Republic of [36]	10	5 [4]	5/10 [17, 29]	10
Israel	10	5 [10]	10	10
Italy [37]	15 [7]	15 [7]	10 [29]	15
Jamaica [43]	10	5 [3]	10	10
Japan	15	5 [8]	10/15 [25]	10
Korea, Republic of	15	0 [1]	5/15 [17]	10
Kuwait	0	0	4.9/10 [20]	10
Latvia	10	5	5/10 [39]	10
Lithuania	15	0	10	10
Luxembourg	15	8 [11]	10	10
Malta	0	0	5/10 [17]	10
Netherlands	15	0 [12]	5/10 [21]	10 [28]

Recipient	WHT (%)			
	Dividends			
	Portfolio	Substantial holdings	Interest	Royalties
New Zealand	15 [7, 13]	15 [7, 13]	10	10
Norway	15	0 [3]	10/15 [16]	10
Panama	7.5	5 [32]	5/10 [17]	10 [33]
Peru	15	10 [2]	15	15
Philippines	15	5/10 [44]	12.5 [45]	15 [45]
Poland	15	5 [3]	10/15 [19]	10
Portugal	10 [7]	10 [7]	10	10
Qatar	0	0	5/10 [40]	10
Romania	10 [7]	10 [7]	15	15
Russia	10 [7]	10 [7]	10	10
Saudi Arabia [43]	5 [7]	5 [7]	5/10 [18]	10
Singapore	0	0	5/15 [17]	10
Slovak Republic	0 [14]	0 [14]	10	10
South Africa	10	5 [1]	10	10
Spain [22]	10	0/10 [36]	4.9/10 [21]	10
Sweden	15	0 [3]/5 [5]	10/15 [16]	10
Switzerland	15	0 [34]	5/10 [35]	10
Turkey	15	5	10/15 [41]	10
Ukraine	15	5	10	10
United Arab Emirates	0	0	4.9/10 [20]	10
United Kingdom	0	0	5/10/15 [21, 23]	10
United States	10	5 [4, 15]	4.9/10/15 [20, 23]	10
Uruguay	5 [7]	5 [7]	10	10

As of August 2022, the treaties with the following countries are pending ratification while waiting for the completion of specific formalities by the respective governments to become effective, have not been published yet in the Official Gazette, or are under negotiation: Egypt, Guatemala, Lebanon, Malaysia, Marshall Islands, Monaco, Morocco, Nicaragua, Oman, Pakistan, Slovenia, Thailand, Vanuatu and Venezuela.

Notes on Table II:
The numbers in parentheses refer to the following numbered notes. The applicable tax rates on dividends paid abroad in accordance with the tax treaties executed by Mexico are detailed below; however, under domestic law, no withholding is applied on distributions of profits subject to corporate-level tax generated prior to 2014, when the 10% dividend WHT started applying.
There are certain specific cases of interest paid to parties residing abroad that might be exempted by certain tax treaties (e.g., interest paid to a pension fund or paid by a bank, interest paid on certain loans granted or guaranteed by certain entities for exports under preferable conditions), which are not detailed in the information below.
The Mexican tax authorities have the ability to require the foreign-related party provide a sworn statement through its legal representative confirming that the item of income for which a treaty benefit is claimed that would otherwise be subject to double taxation, except in specific in accordance with Mexican Miscellaneous Tax Regulations.

1. This rate applies when the recipient corporation that is the beneficial owner of the dividend (except for civil partnerships) directly owns at least 10% of the capital of the distributing corporation. In the case of Barbados, Hungary and South Africa, the specific exclusion of civil partnerships is not included. Note that Mexico and Germany executed in October 2021 a protocol amending the tax treaty with the aim of implementing measures to prevent the base erosion and profit shifting which is still pending to enter into application.
2. This rate applies where the company that is the beneficial owner of the dividends directly or indirectly owns at least 25% of the capital of the distributing company. In the case of Argentina specifically, there must be a direct ownership of 25% of the capital of the distributing company. In the case of Belgium, no WHT would apply if the beneficial owner holds for an uninterrupted period of at least 12 months shares representing directly at least 10% of the capital of the company paying the dividends or to pension funds if certain requirements are met.
3. This rate applies where the company that is the beneficial owner of the dividends (except for civil partnerships) directly owns at least 25% of the capital of the company distributing the dividends.
4. This rate applies where the recipient corporation that is the beneficial owner of the dividend owns at least 10% of the voting shares of the paying corporation. The Mexico-US tax treaty contains a most-favored nation clause.
5. This rate applies where a company that is the beneficial owner of the dividends (except for civil partnerships, although limited liability partnerships are included) directly owns at least 10% of the voting shares of the company distributing the dividends.
6. This rate applies where a company that is the beneficial owner of the dividends owns at least 20% of the voting shares of the company paying the dividends.
7. This is the maximum WHT rate for dividends, with no distinction for substantial holdings. In the case of Ecuador and India, the tax payable on dividends paid to residents in Mexico must not exceed a limit established in the treaty.

8. The 5% rate applies when a company that is the beneficial owner of the dividends owns at least 25% of the voting shares of the company paying dividends during the six months prior to the end of the tax period in which dividends are paid. Under certain particular rules and provided this ownership requirement is satisfied, dividend payments are only subject to tax in the country of residence of the recipient of the dividends.
9. No withholding applies when more than 50% of the shares of the recipient corporation are owned by residents of France or Mexico or when the beneficial owner of the dividend is a resident individual. Accordingly, the WHT applies to dividends when more than 50% of the recipient corporation's shares are owned by residents of other countries. However, the WHT must not exceed 5% when the party receiving the dividend is the effective beneficiary of said dividend. Dividends paid by a company resident in France to a resident of Mexico, other than a company that directly or indirectly holds at least 10% of the capital stock of the first-mentioned company, may also be taxed in France, in accordance with the law of France. But if the recipient of the dividends is the beneficial owner, the tax thus charged must not exceed 15% of the gross amount of the dividends.
10. The 5% rate applies where the company that is the beneficial owner of dividends directly or indirectly owns at least 10% of the capital of the company distributing the dividends. There is a 10% tax rate that applies when these same ownership requirements are satisfied, but the company paying dividends is a resident of Israel (provided dividends are paid from earnings taxed in Israel at a tax rate lower than the regular corporate tax rate in Israel.)
11. The applicable tax rate on the gross amount of the dividends when the recipient company that is the beneficial owner (except for civil partnerships) directly holds at least 10% of the capital of the corporation paying the dividend must not exceed 5% in the case of Luxembourg and 8% in the case of Mexico. The protocol of the Mexico-Luxembourg tax treaty states that this rate might be reviewed in the future by the contracting states if the WHT is not fully creditable and can be adjusted under the principle of avoiding double taxation, provided the adjusted WHT rate is not lower than 5%.
12. Dividends paid by a company resident in Mexico to a company resident in the Netherlands (which is the beneficiary of said dividends) are subject to a maximum tax of 5% on the gross amount of the dividends if the beneficial owner is a company that directly or indirectly owns at least 10% of the capital of the company paying said dividends. However, as long as a company resident in the Netherlands is not subject to Dutch income tax on dividends received from a company resident in Mexico under the terms of the Dutch income tax law and any future amendments thereto, the dividends mentioned in the preceding paragraph may only be taxed in the Netherlands (not in Mexico.)
13. The Mexico-New Zealand tax treaty contains a most-favored nation clause that may be applicable in the future.
14. The exemption on dividend WHT is not applicable in the case of deemed dividends.
15. To the extent certain requirements provided in the Protocol are met, the WHT may be reduced to 0%.
16. The 10% rate applies to loans from banks. In the case of Belgium, the 5% rate is available for loans from banks and on interest paid from bonds that are regularly and substantially traded on a recognized securities market, and the 10% rate applies in all other cases.
17. The 5% WHT rate is applicable to interest paid to banks.
18. The 5% rate applies to interest on loans from banks, insurance companies, and retirement and pension plans. However, in the case of Saudi Arabia, interest income on loans from insurance companies is excluded for the reduced 5% WHT rate.
19. The 10% rate applies to interest on loans from banks, insurance companies, and securities regularly and substantially traded on a recognized national stock exchange.
20. The 4.9% rate applies to interest on loans from banks and insurance companies and to interest on securities regularly and substantially traded on a recognized national stock exchange.
21. In the case of the Netherlands, the 5% rate applies to interest on loans from banks and to interest on securities regularly and substantially traded on a recognized national stock exchange. In the case of the United Kingdom, the 5% rate extends to interest paid to insurance companies. In the case of Spain, the 4.9% rate applies to interest on loans from banks, interest on securities regularly and substantially traded on a recognized national stock exchange, and interest paid to insurance companies.
22. The updated WHT rates of the Tax Convention are effective as of September 27, 2017.
23. The 10% rate on interest applies in the case of interest paid to the original seller of M&E and interest paid by banks.
24. The 10% rate applies to interest on loans from banks and to interest derived from bonds or securities that are regularly and substantially traded on a recognized securities market, as well as to interest paid by the purchaser of M&E to a beneficial owner that is the seller of the M&E.
25. The 10% rate applies to interest on loans from banks and insurance companies, to interest on securities regularly and substantially traded on a recognized national stock exchange, to interest paid to the original seller of M&E in a sale on credit, and to interest paid by banks.
26. The 5% rate is applicable to interest on loans granted by banks and insurance companies, securities traded on a recognized securities market, and the sale on credit of M&E.
27. It is understood that the definition of royalties applies to any type of payment received for the provision of technical assistance services. The 15% rate applies to royalties arising from the use of, or the right to use, trademarks.
28. The original rate is 15% but has been reduced to 10% as long as the Netherlands does not impose a WHT.
29. The reduced WHT rate results from the application of the most-favored nation clause.
30. The 5% rate applies to industrial, commercial, and scientific equipment.
31. The 10% rate also applies to fees for technical assistance, which are payments of any kind, other than those mentioned in Articles 14 and 15 of the treaty as consideration for managerial or technical or consultancy services, including the provision of services of technical or other personnel.
32. This rate applies where the company that is the beneficial owner of the dividends directly owns at least 25% of the capital of the distributing company.
33. The treaty broadly defines royalties and includes payments related to certain software.
34. This rate applies where the company that is the beneficial owner of the dividends directly or indirectly owns at least 10% of the capital of the distributing company.
35. The 5% rate applies on the gross amount of the interest paid to, among others, banks and insurance institutions.
36. No withholding applies where the company that is the beneficial owner of the dividends (except for civil partnerships) directly owns at least 10% of the capital of the company distributing the dividends or when the dividends are distributed to a pension fund.
37. The updated protocol of the Italy Tax Convention is applicable since April 16, 2015. In the case of Belgium, the new protocol entered into force in general since January 1st 2018.
38. The 4.9% rate applies on the gross amount of the interest paid to banks and pension funds or pension schemes; the 10% rate applies on the gross amount of the interest paid in any other case.
39. The 5% rate applies on the gross amount of the interest paid to and by banks; the 10% rate applies on the gross amount of the interest in all other cases.
40. The 5% rate applies on the gross amount of the interest if the beneficial owner of the interest is a bank; the 10% rate applies on the gross amount of the interest in all other cases.
41. The 10% rate applies on the gross amount of the interest if it is paid to a bank; the 15% rate applies on the gross amount of the interest in all other cases.
42. The 10% rate applies on the gross amount of royalties derived from the use of intellectual property over literary, theatre, musical, artistic, or scientific works; the use of patents, designs, models, plans, formulas or secret procedures, computer programs, commercial equipment, industrial equipment, scientific equipment, or for information related to industrial, commercial, or scientific experiences or the rendering of technical assistance services; the 15% rate applies on the gross amount of the royalty in all other cases.
43. Even though the tax conventions are currently in force, the reduced WHT rates and provisions related to other are applicable since January 1, 2019, per articles 30 and 29 of the Jamaica and Saudi Arabia Tax Conventions, accordingly.
44. The 5% and 10% rates apply if the beneficial owner is an entity owning at least 70% or 10% of the equity of the distributing entity, respectively.
45. The 12.5% and 15% rates apply if the beneficial owner of the interest is a resident of the other Contracting State (Philippines.)

Appendix VI. Tax treaties

Tax treaties in force

Argentina (1)	Cook Islands (2)	Israel	Poland	United States
Aruba (2)	Costa Rica	Italy	Portugal	Uruguay
Australia	Czech Republic	Japan	Qatar	
Austria	Denmark	Jamaica	Romania	
Bahamas (2)	Ecuador	Korea	Russia	
Bahrain	Estonia	Kuwait	Samoa (2)	
Bailiwick of Guernsey (2)	Finland	Latvia	Santa Lucia (2)	
Bailiwick of Jersey (2)	France	Liechtenstein (2)	Saudi Arabia	
Barbados	Germany (3)	Lithuania	Singapore	
Belgium	Gibraltar (2)	Luxembourg	Slovak Republic	
Belize (2)	Greece	Malta	South Africa	
Bermuda (2)	Hong Kong	Netherlands	Spain	
Brazil	Hungary	Netherlands Antilles (2)	Sweden	
Canada	Iceland	New Zealand	Switzerland	
Cayman Islands (2)	India	Norway	Turkey	
Chile	Indonesia	Panama	Ukraine	
China	Ireland	Peru	United Arab Emirates	
Colombia	Isle of Man (2)	Philippines	United Kingdom	

Treaties under negotiation or not in force yet

Egypt	Lebanon	Nicaragua	Slovenia
Guatemala	Malaysia	Oman	Thailand
Iran	Morocco	Pakistan	Venezuela

1 Only regarding international transportation
2 For comprehensive exchange of information
3 Note that Mexico and Germany executed on October 8, 2021 a protocol amending the Double Tax Treaty with the aim of implementing measures to prevent the base erosion and profit shifting which is pending to enter into application

Appendix VII. Individual tax rates

Calendar year 2022

Annual Tax rates

Lower limit	Upper limit	Fixed fee	% Tax on excess over lower limited
0.01	7,735.00	0.00	1.92
7,735.01	65,651.07	148.51	6.40
65,651.08	115,375.90	3,855.14	10.88
115,375.91	134,119.41	9,265.20	16.00
134,119.42	160,577.65	12,264.16	17.92
160,577.66	323,862.00	17,005.47	21.36
323,862.01	510,451.00	51,883.01	23.52
510,451.01	974,535.03	95,768.74	30.00
974,535.04	1,299,380.04	234,993.95	32.00
1,299,380.05	3,898,140.12	338,944.34	34.00
3,898,140.13	And above	1,222,522.76	35.00

Sample computation of annual tax

Annual tax

Assumptions

Non-taxable benefits equal 20% of total remuneration

Computation

Annual gross remuneration	100,300.00
Less—Non-taxable benefits (20%)	20,060.00
Taxable remuneration	80,240.00
Lower limit of bracket	65,651.08
Excess over lower limit	14,588.92
Marginal tax	
(14,588.92 at marginal tax rate of 10.88%)	1,587.27
Tax on lower limit	3,855.14
Net tax liability	**5,442.41**

Appendix VIII. Monthly individual withholding tax rates

Calendar year 2022

Monthly withholding tax rates

Lower limit	Upper limit	Fixed fee	% tax on excess over lower limited
0.01	644.58	0	1.92
644.59	5,470.92	12.38	6.4
5,470.93	9,614.66	321.26	10.88
9,614.67	11,176.62	772.1	16
11,176.63	13,381.47	1,022.01	17.92
13,381.48	26,988.50	1,417.12	21.36
26,988.51	42,537.58	4,323.58	23.52
42,537.59	81,211.25	7,980.73	30
81,211.26	108,281.67	19,582.83	32
108,281.68	324,845.01	28,245.36	34
324,845.02	And above	101,876.90	35

Salary subsidy

A limited refundable credit applies when determining the tax withholding on monthly salaries lower to MXN 7,382.33 as reflected in the following table:

Taxable income		Monthly salary Tax credit
Lower limit	Upper limit	
0.01	1,768.96	407.02
1,768.97	2,653.38	406.83
2,653.39	3.472.84	406.62
3,472.85	3,537.87	392.77
3,537.88	4,446.15	382.46
4,446.16	4.717 18	354.23
4,717.19	5,335.42	324.87
5,335.43	6,224.67	294.63
6,224.68	7,113.90	253.54
7,113.91	7,382.33	217.61
7,382.34	And above	0.00

Sample computation of monthly net withholding tax

Assumptions

Non-taxable benefits equal 20% of total remuneration

Computation

Monthly gross remuneration	MXN 78,000.00
Less—Non-taxable benefits (20%)	15,600.00
Taxable remuneration	62,400.00
Lower limit of bracket	42,537.59
Excess over lower limit	19,862.41
Marginal tax	
(19,862.59 at marginal tax rate of 30%)	5,958.72
Tax on lower limit	7,980.73
Tax liability	**MXN 13,939.45**

Appendix IX. Personal allowances

As noted in Chapter 20 “Taxation of individuals,” resident taxpayers may claim certain deductions to reduce the taxable income.

Expenses

The following expenses are deductible as long as they are supported by the corresponding electronic invoices:

- Medical expenses disbursed in Mexico, for the portion which has not been reimbursed by a medical insurance. These include medical, psychological and nutritional services, dental and hospital bills for the taxpayer, spouse or common-law spouse, descendants, parents, or grandparents, as long as the annual income earned by the family member does not exceed one annual unit of measurement and upgrade (MXN 37,844.40 in 2023). Medicines are not deductible, unless included in a hospital bill
- Medical insurance premiums are also deductible
- Funeral expenses up to an amount not exceeding one annual unit of measurement and upgrade, applicable to the family members indicated above
- Charitable contributions to tax exempt organizations that are authorized to receive donations. The deductible amount should not exceed 7% of the taxpayer’s previous year taxable income
- Mortgage interest paid (adjusted for inflation), related to the purchase of the taxpayer personal residence, subject to certain limits
- Complementary contributions to the social security retirement fund (AFORE) or to a qualified personal retirement account
- School transportation for economic dependents, when it is mandatory by the attending school. Also based on a presidential decree, the school tuition paid may also be deducted in the annual tax return, subject to certain limits

To claim the deductions related to medical expenses, school tuition and transportation, the disbursement should be made through the following payment mechanisms: wire transfer from the taxpayer’s bank account, credit/debit card or check issued by the taxpayer.

The total personal deduction amount for the year is limited to the lesser of the following:

- Five times the annual UMA (MXN 189,222 in 2023)
- 15% of the taxpayer’s gross income, including exempt income

Complementary contributions to the social security retirement fund (AFORE) or to a qualified personal retirement account, charitable contributions and school tuition are not considered for the limit indicated above regarding personal deductions.

Credits

Foreign Tax Credit

An individual may claim a foreign tax credit in the annual tax return, subject to certain limitations, for any foreign income tax paid on foreign-source taxable income.

Appendix X. Individual income tax calculation

Calendar year 2022

Assumptions

The following assumptions are made in the tax computation below.
The individual is a tax resident alien who earns salary and other personal income.

Types of income	MXN
Salary, allowances and bonus	1,000,000
Certain fringe benefits	100,000
Investment income from abroad, on which a foreign tax of 30% was paid to the foreign country on a non-resident basis	55,000
Long-term capital gains on sales of shares in Mexican stock market	30,000
Total income	**1,185,000**

Allowable deductions	MXN
Medical expenses	30,000
Charitable contributions	15,000.00
Total deductions	**45,000.00**

Tax computation

	MXN	
Income- Salary, allowances, bonus, and fringe benefits		1,100,000
Less- Earned income exclusions:		
Non-taxable fringe benefits	-100,000.00	
Excludable portion of Christmas bonus	-2,019.00	
Excludable portion of vacation premium	-1,009.00	
Total exclusions		**- 103,028**
Net taxable earned income		996,972
Add -Foreign-source investment income		55,000
Total income subject to tar		**1,051,972**
Deductions:		
Medical expenses	-30,000	
Charitable contributions	-15,000	
Total deductions		**- 45,000**
Taxable ordinary income		**1,006,972**
Income tax (Art. 152 MITL)		245,374
10% Income tax on sales inMexican stock market		3,000
Less - Foreign tax credit		-16,500
Net tax liability		231,874

Note: The foreign tax credit allowed is the lesser of the foreign tax paid on the foreign-source income (as in the example) or the foreign tax credit limitation, which is computed by applying the regular tax tables to the foreign source portion of total taxable income only.

Appendix XI. Social security contributions and benefits

Contributions

Percentage of wages	% Employee	% Employer
Sickness, maternity Benefits in kind		
Fixed quota [3]		20.40 [1]
Additional quota [3]	0.40	1.10 [2]
Benefits in cash [3]	0.25	0.70
Benefits in kind for retired personnel [3]	0.375	1.05
Life and disability [3]	0.625	1.75
Retirement Savings Account [3]	-	2.00
Old age [3]	1.125	3.150
Day-care centers and social benefits [3]	-	1.00
Occupational risks [3]	-	(4)
Housing Fund - INFONAVIT [3]	-	5.00

Notes:
1. Multiplied by one general minimum wage, regardless of the salary in question.
2. Applicable to the excess over three general minimum wages.
3. Of the employee wage for social security purposes.
4. The percentage of the premium, which ranges from 0.50% to 15%, depends on the principal activity of the employer and its annual occupational risk incidence.

Wage ceiling

The wage ceiling for purposes of applying the above percentages will be an amount equal to the Unit of Measure and Upgrade (UMA, as per its acronym in Spanish) for the period of employment, multiplied by 25.

The maximum annual social security contributions, using a daily wage salary of MXN 200.00 and 2.5984% as occupational risk rate would be MXN 21,447.88 (including employer and employee contribution.)

Appendix XII. Value-added tax – Items subject to zero rate

The following groups are zero rated (i.e., no tax is payable on them) for VAT purposes. Nevertheless, business enterprises may take credit or claim a refund for VAT charged to them by suppliers of goods and services used in producing the income.

1. Sales or other transfers of the following:

a. Animals, vegetables and fruits not industrialized, except rubber, dogs, cats ad small species used as home pets. For these purposes, wood is considered not industrialized.

b. Patent medicines; specified basic foods, including meat, milk and eggs.

c. Natural water (except when presented in containers of less than ten liters capacity) and ice.

d. Palm, istle and agave fiber.

e. Tractors exclusively used to operate farm equipment, except those with crawler treads; power cultivators for small areas; plows and harrows; cultivators to spread and de-weed; harvesters; sprayers or applicators of liquid or solid fertilizers pesticides, herbicides, and fungicides; mechanical, electrical or hydraulic farm irrigation equipment; planters; equipment for silos, cutters and packers of livestock feed; grainers; equipment to manure and fertilize fields; airplanes for fumigation, hand- operated power chain saws and, with certain limitations, commercial fishing boats (the foregoing items are granted the zero rate only when sold as complete units.)

f. Fertilizers, pesticides, herbicides and fungicides if used exclusively in agriculture or livestock raising.

g. Hydroponic nurseries and related equipment to produce controlled temperature and humidity or to protect plants from the elements, and irrigation equipment.

h. Gold, jewelry, flatware, and artistic and ornamental pieces with a minimum 80% gold content, not for retail sale.

i. Books and magazines edited by the taxpayers themselves.

2. The following independent services:

a. Those furnished directly to farmers and ranchers for their agricultural and livestock activities and for well-drilling, lighting and the construction of reservoirs; electrical power for use in irrigation systems; land clearing and road building within their properties; agricultural irrigation and fumigation; harvesting, vaccination, sanitation, and insemination of livestock; and the capture and extraction of sea or freshwater species.

b. Grinding and milling wheat and corn.

c. Pasteurizing of milk.

d. Services rendered in hydroponic nurseries.

e. Cotton ginning.

f. Slaughter of cattle and barnyard fowl.

g. Reinsurance.

h. Supply of water for domestic use.

3. The rental of the machinery and equipment referred to in items (1)(e) and (g) above.

4. The export of tangible and intangible goods and services of the following nature:

a. Technical assistance and services and licensing or sale of intangibles.

b. Assembly operations of the in-bond processing companies (i.e. *maquiladora* fees.)

c. Advertising.

d. Commissions and intermediary fees.

e. Insurance, reinsurance, bonding, and rebonding.

f. Financial operations.

g. Independent personal services provided to residents abroad without an establishment or fixed base in Mexico, provided the service benefits the nonresident entirely abroad.

h. Filming or recording, so long as the requirements set forth in the VAT regulations are met.

5. International freight and related services rendered by Mexican residents.

6. International air transportation deemed taking place abroad, rendered by Mexican residents.

7. Foodstuffs* are zero rated, other than the following:

a. Beverages other than milk, even when classified as foods; this includes fruit and vegetable juices (with or without sugar) and concentrates, regardless of presentation, density or weight.

b. Syrups and concentrates for soft drinks sold in open containers using electrical or mechanical devices, as well as concentrates, powders, syrups, essences, and extracts used in making soft drinks.

c. Caviar, smoked salmon and eels.

d. Flavoring agents, microcapsules and food additives.

e. Gums or chewing gums.

f. Processed food for dogs, cats and small species used as home pets.

*The general rate specified in Article 1 of the VAT law (16%) is applicable to the sale of the foodstuffs referred to above when prepared for consumption at the location or establishment at which they are sold, even when there are no facilities in which to consume them.

Appendix XIII. Financial Statements

Changes to Mexican Financial Reporting Standards (MFRS) and Improvements to MFRS 2022.

The Mexican Financial Reporting Standards Board (CINIF, for its acronym in Spanish) has issued a series of MFRS that have taken effect in 2022, as well as amendments to existing Standards shown below:

2022

MFRS C-15 "Impairment in the value of long-lived assets".

Establishes the valuation, presentation and disclosure standards, highlighting the following, among others: a) new examples of evidence are added to assess whether there is impairment, b) the requirement to use a net selling price is changed to fair value less costs of disposal to carry out impairment tests; c) establishes the option of using estimates of future cash flows and a discount rate, in real terms and d) the calculation of impairment through the perpetuity value of intangible assets with indefinite useful lives is removed, modifying the impairment test. Early adoption of this standard must be prospectively.

Amendments to MFRS 2022

MFRS B-7 "Business acquisitions". Incorporates the accounting treatment of business acquisitions among entities under common control, establishing the "book value" method as the appropriate method for the recognition of these transactions, except when a) the acquirer has non-controlling shareholders whose interests are affected by the acquisition, and/of b) the acquirer is listed on a stock exchange. (*).

MFRS B-15 "Foreign currency translation". Confirms the practical expedient for not translate financial statements from the recording currency to the functional currency, provided they are financial statements exclusively for the Company's legal and tax purposes which a) are individual entities with no subsidiaries or parent company, or users that require complete financial statements prepared considering the effects of the conversion to functional currency, or b) are subsidiaries, associates or joint ventures with no users that require complete financial statements prepared considering the effects of the conversion to functional currency. (*).

MFRS D-3 "Employee benefits". Incorporates the procedure for the determination of the deferred ESPS and the incurred ESPS rate, when the entity considers the payment of ESPS will be at a rate lower than the current legal rate. (*).

Also, the following MFRS were modified, generating accounting changes and whose main modifications relate to the elimination of certain disclosure requirements.

MFRS B-1 "Accounting changes and corrections of errors" (*)

- MFRS B-10 "Inflation Effects" (*)
- MFRS B-17 "Determination of fair value" (*)
- MFRS C-6 "Property, plant and equipment" (*)

(*) Modifications originated by the improvements to these MFRS 2022 will come into force for the years beginning on January 1, 2022; early application is allowed for fiscal year 2021. Accounting changes that arise, if any, must be recognized through prospective application.

Modifications were also made to the MFRS, which do not generate accounting changes, consequently, no effective date is established. Those modifications imply only adjustments to the drafting and incorporation of certain concepts

B-3 "Statement of comprehensive income" (**)

- MFRS B-10 "Inflation Effects" (**)
- MFRS B-15 "Foreign currency translation" (**)
- MFRS C-3 "Accounts receivable" (**)
- MFRS C-16 "Impairment of receivable financial instruments" (**)
- MFRS B-6 "Statements of the Financial Position" (**)
- MFRS B-1 "Accounting changes and corrections of errors" (**)
- CIRCULAR 44 - "Accounting treatment for Investment Units" is abrogated. (**)

(**) Modifications originated from improvements to these MFRS 2022 do no give place to accounting changes, consequently, it is not necessary to establish an effective date for these improvements.

2021	**MFRS C-17 “Investment Property”.** Establishes the valuation, presentation and disclosure standards for the recognition of investment property in the financial statements of an entity. It opens the possibility that investment properties are valued at the entity’s choice, either at their acquisition cost or at fair value. It eliminates the supplementary nature of International Accounting Standard 40, Investment Properties and repeals Circular 55, Supplementary Application of IAS 40. Its initial adoption should be done retrospectively, based on MFRS B-1 “ Accounting changes and corrections of errors “ as of January 1, 2021. **MFRS -22 “Cryptocurrencies”.** Establishes the valuation, presentation and disclosure standards for the recognition in the financial statements of an entity owning or realizing a) cryptocurrencies, b) cryptocurrency mining expenses, and c) cryptocurrencies that are not owned by them. Provisions of this MFRS are effective for periods beginning on January 1, 2021 and allows its early application.
Amendments to MFRS 2020	**MFRS C-16 “Impairment of receivable financial instruments”.** Establishes the standards for the accounting treatment of the effects of the renegotiation of a financial instruments held to collect principal and interest (IFCPI by its Spanish acronym) that was not derecognized as consequence of renegotiation. **MFRS C-19 “Payable Financial Instruments” and MFRS C-20 “Financial Instruments held to collect principal and interest”.** Eliminates the requirement to periodically recalculate the effective rate during the life of the payable financial instrument (IFP by its Spanish acronym) and of the financial instrument held to collect principal and interest (IFCIP) when these Instruments have a variable interest rate not producing effects of relative importance. **MFRS D-4 “Income Taxes”.** Incorporates the guidelines for recognition and measurement of income taxes when there are uncertainties about uncertain tax positions in the determination of income tax. It also includes standards for the accounting recognition of income taxes produced by the distribution of dividends. **MFRS D-3 “Employee benefits”.** It is based on what is described in MFRS D-4 for the determination of both current and deferred ESPS. **MFRS D-5 “Leases”.** It incorporates the possibility of using a risk-free rate to discount future lease payments and thus recognize the lease liability of a lessee, instead of using the implicit or incremental interest rate. Restricts the use of the practical expedient that allows choosing not to separate non-lease components from those that are lease components, preventing non-lease important and identifiable components from being included in the measurement of right-of-use assets and lease liabilities. **Guidance for MFRS 4. “Determination of discount rates to recognize lease liabilities”** Incorporate the definition of “risk-free rate”. **IMFRS 22 “Recognition of the expected effect on hedging relationships for the expected changes in the reference interest rates”.** Establishes that as long as the uncertainty is not resolved when a change in the reference interest rates used in the recognition of a hedging relationship is anticipated, it should be assumed that the current reference interest rate of the hedged item or the hedging instrument will continue to exist until the end of the hedging and the requirements of its effectiveness will continue to be met. The accounting changes that arise from the application of these improvements will be applied retrospectively, prospectively or in advance, as appropriate.

Changes to International Financial Reporting (IFRS) 2015

Below is a summary of standards and amendments issued by the International Accounting Standards Board (ISAB) that have taken effective as of 2022:

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 as replacement for IFRS 4 Insurance Contracts. It requires a current measurement model where estimates are remeasured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin (CSM) representing the unearned profit of the contract which is recognised as revenue over the coverage period.

The standard allows a choice between recognising changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. The choice is likely to reflect how insurers account for their financial assets under IFRS 9.

An optional, simplified premium allocation approach is permitted for the liability for the remaining coverage for short duration contracts, which are often written by non-life insurers.

There is a modification of the general measurement model called the ‘variable fee approach’ for certain contracts written by life insurers where policyholders share in the returns from underlying items. When applying the variable fee approach, the entity’s share of the fair value changes of the underlying items is included in the CSM. The results of insurers using this model are therefore likely to be less volatile than under the general model.

The new rules will affect the financial statements and key performance indicators of all entities that issue insurance contracts or investment contracts with discretionary participation features.

Targeted amendments made in July 2020 aimed to ease the implementation of the standard by reducing implementation costs and making it easier for entities to explain the results from applying IFRS 17 to investors and others. The amendments also deferred the application date of IFRS 17 to 1 January 2023.

Effective date: 1 January 2023 (deferred from 1 January 2021).

Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16

The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment.

Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity’s ordinary activities.

Effective date: 1 January 2022.

Reference to the Conceptual Framework – Amendments to IFRS 3

Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

Effective date: 1 January 2022.

Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37

The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.

Effective date: 1 January 2022.

Annual Improvements to IFRS Standards 2018–2020

The following improvements were finalised in May 2020:

- **IFRS 9 Financial Instruments –** clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
- **IFRS 16 Leases –** amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.
- **IFRS 1 First-time Adoption of International Financial Reporting Standards –** allows entities that have measured their assets and liabilities at carrying amounts recorded in their parent's books to also measure any cumulative translation differences using the amounts reported by the parent. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.
- **IAS 41 Agriculture –** removal of the requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

Effective date: 1 January 2022.

Classification of Liabilities as Current or Non-current – Amendments to IAS 1

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability.

The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity.

They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

Effective date: 1 January 2023 (deferred from 1 January 2022).

Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2

The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Effective date: 1 January 2023.

Definition of Accounting Estimates – Amendments to IAS 8

The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

Effective date: 1 January 2023.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction – Amendments to IAS 12

The amendments to IAS 12 Income Taxes require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities.

The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognise deferred tax assets (to the extent that it is probable that they can be utilised) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with:

- right-of-use assets and lease liabilities, and
- decommissioning, restoration and similar liabilities, and the corresponding amounts recognised as part of the cost of the related assets

The cumulative effect of recognising these adjustments is recognised in retained earnings, or another component of equity, as appropriate.

IAS 12 did not previously address how to account for the tax effects of on-balance sheet leases and similar transactions and various approaches were considered acceptable. Some entities may have already accounted for such transactions consistent with the new requirements. These entities will not be affected by the amendments.

Effective date: 1 January 2023.

Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28

The IASB has made limited scope amendments to IFRS 10 Consolidated financial statements and IAS 28 Investments in associates and joint ventures.

The amendments clarify the accounting treatment for sales or contribution of assets between an investor and its associates or joint ventures. They confirm that the accounting treatment depends on whether the nonmonetary assets sold or contributed to an associate or joint venture constitute a 'business' (as defined in IFRS 3 Business Combinations.)

Where the non-monetary assets constitute a business, the investor will recognise the full gain or loss on the sale or contribution of assets. If the assets do not meet the definition of a business, the gain or loss is recognised by the investor only to the extent of the other investor's interests in the associate or joint venture. The amendments apply prospectively.

** In December 2015 the IASB decided to defer the application date of this amendment until such time as the IASB has finalised its research project on the equity method.

Appendix XIV. Checklist for aquiring a business enterprise

I. Investor considerations

History and current status of the enterprise

What is for sale?

- ☐ Entire business or
- ☐ only controlling interest (with possible minority owner problems) or assets?

Why is the business for sale?

- ☐ Evaluation of the industry in which the enterprise operates, including growth potential and stability

Status of target business within its industry:

- ☐ Reputation
- ☐ Competitive position

Capital structure of entity:

- ☐ Types of shares
- ☐ Business owned by a few or many shareholders?
- ☐ Major shareholders
- ☐ Analysis of different classes of equity
- ☐ Should business be restructured?
- ☐ If so, what form should be used?

- ☐ Special trade arrangements
- ☐ Record of profitability
- ☐ Background of owners, directors, officers

Markets and competitors

Markets served

- ☐ Potential new markets
- ☐ Effects on company's markets of any relevant current or pending legislation
- ☐ Expanding market
- ☐ Proposed new products
- ☐ Main competitors

Capital required

- ☐ Working capital
- ☐ Highly leveraged or cash-rich

Location and premises

- ☐ Where located?
- ☐ Leased or owned property
- ☐ Space available for expansion
- ☐ Accessibility of services
- ☐ Transportation available
- ☐ Professional valuation of premises (appraisal)

Management evaluation

- ☐ Key employee information
- ☐ Present salaries and other forms of remuneration
- ☐ Details of service agreements and pension schemes
- ☐ Industry experience
- ☐ Turnover

Production evaluation

- ☐ Standards for industry
- ☐ Capacity utilization
- ☐ Quality of plant and equipment, including buildings
- ☐ Nature and amount of work subcontracted
- ☐ Intangibles
- ☐ Details of patents, tools and dies
- ☐ Raw materials used and principal suppliers
- ☐ Terms of purchases
- ☐ Any significant forward purchase commitments?

Workforce evaluation

- ☐ Number of employees and staff at each main factory and office
- ☐ Qualifications
- ☐ Labor relations with Unions
- ☐ Salaries
- ☐ Fringe benefits provided
- ☐ Safety record

Sales and marketing

- ☐ Analysis of current position and potential opportunities
- ☐ Share of market
- ☐ Sales promotion methods
- ☐ Export methods and distribution
- ☐ Nature of relationship between company and its selling agents

  Sales by:
  - ☐ Product
  - ☐ Major customers
  - ☐ Geographical market

- ☐ Extent to which company is involved in fixed-price and long-term contracts
- ☐ New product potential
- ☐ Pricing of products
- ☐ Governmental pricing controls

II Legal counsel's considerations

Corporate, statutory and regulatory documents

- ☐ Articles of incorporation
- ☐ Bylaws
- ☐ Share certificates
- ☐ Shareholders' Meetings Minute Book
- ☐ Share Registry Book
- ☐ Board of Directors' Meetings Minute Book
- ☐ Capital Variations Registry Book
- ☐ Description of shares or assets being acquired
- ☐ Registration requirements (National Registry of Foreign Investments, Ministry of Finance and Public Credit, Public Registry of Commerce)
- ☐ Antitrust provisions
- ☐ Description of liabilities assumed
- ☐ Lawsuits
- ☐ Taxpayer identification number
- ☐ Controlling beneficiary documentation

Contractual obligations

- ☐ Loan agreements
- ☐ Government and/or long-term contracts
- ☐ Property leases
- ☐ Purchase or sale commitments
- ☐ Licenses
- ☐ Franchises
- ☐ Mortgages
- ☐ Insurance policies
- ☐ Allocation of contractual obligations
- ☐ Warranty obligations
- ☐ Pledge
- ☐ Professional Services
- ☐ Administrative Services
- ☐ Warrants and Guarantee Agreement
- ☐ Commission Agreements
- ☐ Specialized services requirements as consequence of FY 2021 tax and labor reform
    - ☐ Specialized services must be identified and monitored
    - ☐ The contractor of such service should be jointly liable for employer tax and labor obligations with the service renderer
    - ☐ Certain documentation must be obtained from the service renderers
- ☐ Other

Management/labor obligations

- ☐ Union/ Individual contracts, see comments on specialized services in the prior section.
- ☐ Changes in labor environment as a result of acquisition
- ☐ Pension plan
- ☐ Fringe benefits
- ☐ Social security
- ☐ Work guidelines
- ☐ Mixed Commissions of Security and Health, Employees' Profit Sharing and Training

Property titles and liens

- ☐ Real property
- ☐ List and description
- ☐ Appraisals
- ☐ Title documents
- ☐ Title insurance policies
- ☐ Mortgages
- ☐ Tangible personal property list by category
- ☐ Valuation
- ☐ Existing liens

Patents, trademarks and industrial property and copyrights owned by the business

- ☐ Expiration date of patents
- ☐ Registration and ownership
- ☐ Trademarks or Trade Names Registry
- ☐ Improvement model
- ☐ Business secrets
- ☐ Copyrights
- ☐ License agreements
- ☐ Competitor's patents, trademarks, industrial property, and copyrights

II Accountant's considerations

Review of current situation

- ☐ Past trading results
- ☐ Accounting policies, compliance with standards and the law and consistency of application

Financial statements

Balance sheet:

- ☐ Assets:
  - ☐ Accounts receivable
  - ☐ Inventory
  - ☐ Land and building(s)
  - ☐ Machinery and equipment
  - ☐ Intangible assets
  - ☐ Goodwill
  - ☐ Liabilities: short and long-term
  - ☐ Equity

Income statement:

- ☐ Gross profit ratio
- ☐ Sales
- ☐ Other income
- ☐ Expenses
- ☐ Gross profit
- ☐ Profit and cash-flow forecasts and bases of assumptions

Statement of changes in financial position:

- ☐ Cash flow statement
- ☐ Pension arrangements:
  - ☐ Unfunded liabilities
  - ☐ Purchase commitments
- ☐ Future prospects:
  - ☐ Cash flow projections
- ☐ Financing required

Taxation

- ☐ All returns filed
- ☐ Unpaid assessments
- ☐ Adequacy of current provision for income taxes
- ☐ Possible additional taxes for prior years
- ☐ Statute of limitations
- ☐ Characteristics of liabilities
- ☐ Rulings requests in progress
- ☐ Particulars of important matters in dispute
- ☐ Court cases
- ☐ Comments on adequacy of overall provision; estimated deficiency or surplus
- ☐ Details of losses and allowances available to carry forward
- ☐ Asset tax open items prior to repeal
- ☐ Foreign tax credit carry forward
- ☐ Dividend tax credit carry forward
- ☐ CUFIN balances. Pre-2014/Post-2013. Reinvestment of CUFIN
- ☐ Value-added tax due or overpaid
- ☐ Extent to which tax planning schemes have been used in the past and assessment of any resulting potential exposure
- ☐ Determine and monitor constantly whether a reportable scheme may arise for those transactions which on an aggregated basis derive in benefits higher than 100 million Mexican pesos and update the Mexican Federal Tax Code scenarios.
- ☐ Mexican resident issuers are now obligated to inform about direct transfers of shares made between non-Mexican resident shareholders with no Permanent Establishment in Mexico. Failing to comply this obligation would imply the Mexican resident issuer as jointly liable for any tax triggered by its shareholder.

Appendix XV. Checklist for structuring an investment

Corporation

Investor considerations

- ☐ Limitations on foreign ownership, depending on activities
- ☐ Advantages/disadvantages of incorporating
- ☐ Limited liability
- ☐ Pro rata expenses are nondeductible on subsidiaries
- ☐ Hybrid entities/instruments
- ☐ Incorporation and maintenance costs
- ☐ Taxed as entity
- ☐ Taxation of amounts to be distributed to shareholders
- ☐ Statutory audit option
- ☐ Financing through capital or debt
- ☐ Minimum capital requirements
- ☐ Leverage – Financing with USD or MNX loan
- ☐ Advantages/disadvantages of liquidation
- ☐ Repatriation of capital and profits

Legal counsel considerations

- ☐ Type of entity
- ☐ At least two shareholders required
- ☐ Applicable authorizations
- ☐ Articles of incorporation
- ☐ Bylaws
- ☐ Corporate name options
- ☐ Registration requirements (National Registry of Foreign Investments, Ministry of Finance and Public Credit, Public Registry of Commerce)
- ☐ Taxpayer identification number
- ☐ Social security affiliation
- ☐ Share certificates
- ☐ Book of Shareholders
- ☐ Book of Shareholders' Meetings Minutes
- ☐ Book of Board of Directors' Meetings Minutes
- ☐ Book of Capital Variations' Registry
- ☐ Annual Shareholders' Meeting
- ☐ Other formalities

Accountant considerations

- ☐ Financial statements filing requirements
- ☐ Tax advantages/disadvantages of incorporating
- ☐ Tax regime
- ☐ Tax planning opportunities

Branch

Investor considerations

- ☐ Advantages/disadvantages of operating as a branch
- ☐ Foreign companies can set up branch operation
- ☐ Limitations of foreign participation depending on their activities
- ☐ Losses can be offset against income of non-resident parent
- ☐ Reasonable pro rata expenses deductible
- ☐ Parent company is liable
- ☐ Remittances to the home office are non-deductible
- ☐ Capital provided by parent
- ☐ Repatriation of capital and profits
- ☐ No exchange controls
- ☐ Advantages/disadvantages of closing a branch office

Legal counsel considerations

- ☐ Requirements to establish branch
- ☐ Authorization from the Ministry of Economy
- ☐ Registration requirements ((National Registry of Foreign Investments, Ministry of Finance and Public Credit, Public Registry of Commerce)
- ☐ Documentation

Accountant considerations

- ☐ Separate financial statements
- ☐ Taxation of a branch
- ☐ Branch profits tax considerations
- ☐ Payment of remittances
- ☐ Tax planning opportunities

Partnership

Investor consideration

- ☐ Limitations of foreign investment participation, depending on their activities
- ☐ Requirements for partners
- ☐ Advantages/disadvantages of operating as a partnership

Legal counsel considerations

- ☐ Incorporation requirements
- ☐ Authorization from the Ministry of Economy
- ☐ Registration requirements (Public Registry of Commerce, National Registry of Foreign Investments)
- ☐ Documentation

Accountant considerations

- ☐ Taxed as conduit or entity
- ☐ Tax planning opportunities

Joint Venture (Asociación en Participación)

Investor considerations

- [ ] It is an agreement, not a legal entity
- [ ] Administration of a joint venture
- [ ] Obligations in a joint venture (between parties, vis a vis third parties)
- [ ] Term of a joint venture
- [ ] Advantages/disadvantages of participating in a joint venture
- [ ] Active partner and silent partner needed

Legal counsel considerations

- [ ] Requirements
- [ ] Drafting of the agreement

Accountant considerations

- [ ] Separate financial statements
- [ ] Taxed as a corporation for tax purposes

Appendix XVI. Business informations services

Government Agencies and Embassies

Australian Embassy
Ruben Darío 55
Col. Bosque de Chapultepec
11580, México, CDMX
Sitio web

Austrian Embassy
Sierra Tarahumara Pte. 420
Lomas de Chapultepec, V Secc.
11000, México, CDMX
Sitio web

Belgium Embassy
Alfredo Musset 41
Col. Polanco
11550, México, CDMX
Sitio web

Brazil Embassy
Lope de Armendáriz 130
Col. Lomas Virreyes
11000, México, CDMX
Sitio web

British Embassy
Paseo de la Reforma 350
Piso 20 Torre del Ángel
Col. Juárez
06600, México, CDMX
Sitio web

Canadian Embassy
Schiller 529
Col. Polanco
11580, México, CDMX
Sitio web

Chilean Embassy
Andres Bello 10, piso 18
Col. Polanco
11560, México, CDMX
Sitio web

Chinese Embassy
Av. San Jerónimo 217 B
Col. La Otra Banda
01090, México, CDMX
Sitio web

Colombian Embassy
Paseo de la Reforma 412, piso 19
Col. Juárez
06600, México, CDMX
Sitio web

Costa Rican Embassy
Río Po 113
Col. Cuauhtémoc
06500, México, CDMX
Sitio web

Delegation of the European Union Embassy
Paseo de la Reforma 1675
Lomas de Chapultepec
11000, México, CDMX
Sitio web

Denmark Embassy
Tres Picos 43
Col. Polanco
11580, México, CDMX
Sitio web

Finnish Embassy
Monte Pelvoux 111, piso 4
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

French Embassy
Campos Eliseos 339
Col. Chapultepec Polanco
11560, México, CDMX
Sitio web

German Embassy
Horacio 1506
Col. Los Morales Polanco
11530, México, CDMX
Sitio web

India Embassy
Musset 325
Col. Polanco
11550, México, CDMX
Sitio web

Ireland Embassy
Blvd. Manuel Avila Camacho 76, piso 3
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

Israeli Embassy
Sierra Madre 215
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

Italian Embassy
Paseo de las Palmas 1994
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

Japan Embassy
Paseo de la Reforma 243, piso 9
Col. Renacimiento, Cuauhtémoc
06500, México, CDMX
Sitio web

Netherlands Embassy
Volcán 150, piso 2, edificio Qubica
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

New Zealand Embassy
Jaime Balmes 8, piso 4
Col. Los Morales Polanco
11510, México, CDMX
Sitio web

Norwegian Embassy
Blvd. Virreyes 1460
Col. Lomas Virreyes
11000, México, CDMX
Sitio web

Republic of Korea Embassy
Lope Diaz de Armendáriz 110
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

Russian Federation Embassy
José Vasconcelos 204
Col. Hipódromo Condesa
06140, México, CDMX
Sitio web

Saudi Arabia Embassy
Paseo de la Palmas 2075
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

Singapore Consulate
Ruben Darío 69
Col. Bosque de Chapultepec
11580, México, CDMX
Sitio web

South African Embassy
Andrés Bello 10, piso 9, edificio Forum
Col. Polanco
11560, México, CDMX
Sitio web

Spanish Embassy
Galileo 114
Col. Polanco
11550, México, CDMX
Sitio web

Swedish Embassy
Av. Paseo de las Palmas 1225
Lomas de Chapultepec, VIII Secc
11000, México, CDMX
Sitio web

Swiss Embassy
Paseo de las Palmas 405
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

United Arab Emirates
Paseo de la Reforma 505
Col. Lomas de Chapultepec
11000, México, CDMX
Sitio web

United States - US Embassy
Paseo de la Reforma 305
Col. Cuauhtémoc
06500, México, CDMX
Sitio web

Private Business Entities

American Chamber of Commerce of México
Paseo de la Reforma 295, piso 3
Col. Cuauhtémoc
11510, México, CDMX
Sitio web

British Chamber of Commerce
Andrés Bello 10, piso 10, edificio Forum
Col. Polanco
11560, México, CDMX
Sitio web

Chamber of Commerce México-Brazil
22 de Diciembre 41-A
Col. Lomas Manuel Ávila Camacho
53910, Estado de México
Sitio web

China Chamber of Commerce
Río Guadalquivir 50, piso 2
Col. Cuauhtémoc
06500, México, CDMX
Sitio web

Colombian Chamber of Commerce in México
Río Marne 17
Col. Renacimiento, Cuauhtémoc
06500, México, CDMX
Sitio web

Franco-Mexican Chamber of Commerce
Protasio Tagle 104
Col. San Miguel Chapultepec
11850, México, CDMX
Sitio web

Italian Chamber of Commerce in México
Calle Marsella 39
Col. Juárez, Cuauhtémoc
06600, México, CDMX
Sitio web

Japanese Chamber of Commerce in México
Fujiyama 144
Col. Las Águilas
01710, México, CDMX
Sitio web

Mexican Council on Foreign Relations (COMEXI)
Av. Insurgentes Sur 1647, piso 1 interior A
San José Insurgentes, Benito Juárez
03900, México CDMX
Sitio web

Mexican-German Chamber of Commerce and Industry
Av. Santa Fe 170
Col. Lomas de Santa Fe
01210, México, CDMX
Sitio web

Spanish Chamber of Commerce
Homero 1430
Col. Polanco
11510, México, CDMX
Sitio web

Our Network

Office in Mexico City

Mexico City

Mariano Escobedo 573
Colonia Rincón del Bosque
11580, México, CDMX

Guadalajara

Av. Prolongación Américas 1905, piso 8
Colonia Colomos
Providencia Sector Hidalgo
44660, Guadalajara, Jalisco

León

Blvd. Paseo de los Insurgentes 3356
Corporativo Puerta Bajío, torre 2 Nivel 4, oficina 2
Colonia San José de las Piletas
37300, León, Guanajuato

Monterrey

Avenida Rufino Tamayo 100
Colonia Valle Oriente
66269, San Pedro Garza García, Nuevo León

Puebla

Avenida 31 Poniente 4128, piso 8
Colonia Ampliación Reforma Sur
72160, Puebla, Puebla

Querétaro

Blvd. Bernardo Quintana Sur 302, Manzana 3
Fraccionamiento Centro Sur
76090, Querétaro, Querétaro

Tijuana

Tapachula 11550, interior B
Colonia Chapultepec
22020, Tijuana, Baja California

PwC Mexico contacts

Ana Paula Jiménez
Senior Partner
ana.paula.jimenez@pwc.com
Perfil LinkedIn

Felipe Córdova
Trust Solutions Leader Partner
felipe.cordova@pwc.com
Perfil LinkedIn

Marta Milewska
Tax and Legal Services Leader Partner
marta.milewska@pwc.com
Perfil LinkedIn

Eduardo Reyes
Consulting Solutions Leader Partner
eduardo.reyes.bravo@pwc.com
Perfil LinkedIn