Taxation and Investment Mexico 2016

Reach, relevance and reliability

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1.0 Investment climate

1.1 Business environment

The United Mexican States or, as it is more conventionally called, “Mexico,” has a population of 112,336,538 million, covers a land area of 1,964,375 square kilometers (1,220,606 square miles) and has Spanish as its official language.

Mexico is a federal republic formed by 32 states. The political system comprises federal, state and municipal governments. The government is divided into three branches: executive, legislative and judicial. Each branch has specific competencies granted by the constitution. The president leads the executive branch. The legislative branch has both federal and local legislative powers, with responsibility for promulgating and issuing laws and regulations. The judicial branch is formed by the Supreme Court of Justice, the Electoral Court and federal and local courts that are responsible for interpreting and enforcing Mexican law.

Mexico’s economy is driven by external trade. Export earnings are fueled by manufacturing, although petrol, tourism, agriculture and mining also contribute to revenue.

The US is Mexico’s largest trading partner owing to its geographical proximity and the benefits of the North American Free Trade Agreement (NAFTA). Despite increasing competition from China and India, many foreign firms still choose Mexico for assembly facilities and other operations. Other major export markets include Canada, Japan and Spain. Key countries from which Mexico imports goods include Germany, Japan and Korea.

Mexico has 11 free trade agreements (FTAs) with 46 countries and regions, 32 reciprocal investment promotion and protection agreements with 33 countries, and nine economic complementation and partial scope agreements. The main benefit granted under the commercial agreements is the application of preferential rates on the import of goods that are considered as originating goods from the FTA member nations.

Mexico is an active participant in multilateral and regional forums, such as the Word Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC) and the Latin American Integration Association for the development of Latin American Countries (ALADI). Mexico also is a member of the Organization for Economic Cooperation and Development (OECD).

OECD member countries		
Australia	Hungary	Norway
Austria	Iceland	Poland
Belgium	Ireland	Portugal
Canada	Israel	Slovakia
Chile	Italy	Slovenia
Czech Republic	Japan	Spain
Denmark	Korea (ROK)	Sweden
Estonia	Latvia*	Switzerland
Finland	Luxembourg	Turkey
France	Mexico	United Kingdom
Germany	Netherlands	United States
Greece	New Zealand	
Enhanced engagement countries		
Brazil	India	South Africa
China	Indonesia	

OECD accession candidate countries		
Colombia	Costa Rica	Lithuania

* Accession date 1 July 2016.

As a member of the WTO, Mexico has removed most export limitations and substantially reduced export taxes and direct export subsidies. Mexico has joined the Wassenaar Arrangement to implement export controls for conventional weapons and their parts and components, dual use goods, software and susceptible diverted technologies for the manufacture and proliferation of conventional and other weapons of destruction.

Mexico has several export incentive programs and special temporary import programs to encourage export sales. The legislation promoting in-bond facilities in Mexico (maquiladoras) makes the country an attractive place to manufacture goods for export to the US and other markets. Additionally, to encourage and support national exports and promote foreign investment in Mexico, the government implemented the Decree Establishing Sector Promotion Programs (PROSEC), which provides preferential duty treatment for goods to be used by Mexican producers in the manufacturing process. Recent legislation also creates special economic zones (SEZ) in Mexico that will offer tax, customs duty and administrative and regulatory benefits to companies setting up in the zones (see below under 1.5).

Customs clearance of goods is done electronically, which facilitates import and export operations.

Mexico has agreements with Korea (ROK) and the US that allow the exchange of information related to customs transactions. US and Mexican customs officers also may make joint inspections of goods.

Based on the framework of the exchange of customs valuation information agreements, the Mexican and US governments have been working on establishing mechanisms for mutual recognition for supply chain security programs granted by both governments to strengthen the trade and supply chain arrangements between the two countries.

Economic activity is concentrated in Mexico City. The six northern border Mexican states are home to much of the country's manufacturing, particularly maquiladoras producing goods that are exported.

Price controls

Mexico generally does not have price controls.

Intellectual property

In accordance with the Federal Copyright Law, the National Copyright Institute (INDA – an independent agency of the Ministry of Education), is responsible for the administrative enforcement of copyright legislation. INDA is authorized to conduct investigations, request inspections, address copyright violations and impose sanctions.

The law grants an author "personal" and "property" rights; personal rights recognize the author as the first and sole perpetual owner of the rights to his/her works and property rights allow the author to "exploit the work exclusively or authorize others to exploit the work". Penalties apply for violation of the copyright law.

The Industrial Property Law protects the exclusive right to use trademarks throughout the registration period. Trademark protection covers the goods and services registered under Nice Classification standards. Mexico also is part of the Paris Convention for the Protection of Industrial Property.

Patents allowing the owner the exclusive right to exploit an invention are granted for up to 20 years and are non-renewable.

1.2 Currency

The official currency in Mexico is the peso (MXN).

1.3 Banking and financing

Many foreign multinational groups dominate Mexico's financial system. Their affiliates compete with independent financial firms operating as public development banks, public credit institutions, private commercial banks, private investment banks, savings and loan associations, and mortgage banks. Other components of the financial system include securities market institutions, development trust funds, insurance companies, credit unions, factoring companies, mutual funds and bonded warehouses. The banking sector remains highly concentrated, with a handful of large banks controlling a significant market share, and the remainder comprised of regional players and niche banks.

Mexico City is the country's main financial center, although Guadalajara and Monterrey (the country's second and third ranked cities, respectively) also are important financial, industrial and commercial centers.

1.4 Foreign investment

Mexico offers an attractive business environment, legal certainty, an extensive free trade agreement network and a developed economic sector. Foreign investment has been simplified by legislative changes, a reduction in legal and administrative bureaucracy and local content requirements, the elimination of most import license requirements and an overhaul of the intellectual property legislation. There are no general restrictions or limitations on the remittance of dividends or repatriation of capital.

The Foreign Investment Law (*Ley de Inversión Extranjera* or LIE) and regulations specify the rules for foreign investment activities in Mexico. Foreign investment is permitted in all sectors except those specifically reserved for the Mexican government or Mexican nationals or companies. In other cases, foreign investors may hold up to 100% of the capital stock of a Mexican corporation or a 100% partnership share. Investment in a classified or regulated sector, such as domestic port services, shipping companies or railways must be approved by the Foreign Investment Commission.

The LIE specifies three areas in which foreign investors may not participate or where there is a ceiling on participation:

- Activities that are performed exclusively by the Mexican state, including petroleum and hydrocarbons. (Notwithstanding the provisions of the LIE, the Mexican Constitution allows the Mexican state to assign such activities to public corporations through entitlements and private Mexican companies by means of public contracts, awarded after a competitive tender).
- Activities that may be carried out only by the Mexican state and Mexican companies (e.g. domestic transportation of passengers).
- Specific regulations on foreign investment specifying maximum participations in accordance with the LIE, e.g. national air transport (maximum 25% of foreign-owned capital) and broadcasting (maximum 49% foreign investment). A foreign direct or indirect participation greater than 49% must be authorized by the National Foreign Investment Commission).

Under the LIE, the following entities must be registered with the National Registry of Foreign Investment (*Registro Nacional de Inversion Extranjera or RNIE*):

- Mexican companies with foreign participation;
- Foreign individuals or entities that routinely perform commercial activities in Mexico; and
- Stock or equity participation trusts holding real estate or other investments which grant rights in favor of foreigners.

Mexican companies with foreign participation must submit to the RNIE quarterly and annual reports reflecting any increase or decrease in the level of foreign investment in the company's capital and, where the company performs restricted economic activities, demonstrating that the foreign interest does not exceed the percentage specified by the LIE.

Foreign investment may occur via:

- Participation of foreign investors in the capital stock of Mexican companies;
- Activities performed by Mexican companies with majority of foreign capital stock; and
- Participation of foreign investors in the activities and actions contemplated by the LIE and its regulations.

Foreign ownership of Mexican real estate

A Mexican entity with foreign investment (foreign shareholders or partners) may acquire Mexican real estate. However, if the property is located within the "restricted zone" (an area of 100 km across the Mexican border and 50 km across the Mexican beaches) and is acquired for residential purposes, the Mexican entity (as well as foreign individuals or corporations) may not acquire the property directly. "Residential purposes" means that the property will be lived in by the owner or a third party. In such cases, a Mexican trust must be created into which the property is settled, with the Mexican entity, a foreign individual or a foreign entity appointed as a beneficiary. The maximum duration of the trust is 50 years, although it may be renewed. The trust also must obtain a permit from the Ministry of Foreign Affairs (MFA) to own the real estate in the restricted zone. It is possible that the Mexican Congress may decide to remove this restriction on foreign investment in the near future.

A Mexican entity with foreign investment and that agrees to a "Calvo Clause" may acquire property located in the restricted zone for nonresidential purposes and must notify the MFA of the acquisition within 60 days. The Calvo Clause broadly states that a foreign purchaser agrees to will be considered Mexican for purposes of the purchase and waives any rights to have a dispute resolved by a court outside Mexico. Failure to honor that commitment will lead to forfeiture of the interest or participation in the property. The LIE defines "nonresidential purposes" as time share accommodation; activities relating to industrial, commercial or tourism; and commercial activities (e.g. sales or transfers, urbanization, construction or the development of real estate).

Foreigners may acquire real estate outside the restricted zone if they obtain the relevant permit from the MFA.

Real estate trusts

Trusts have become important investment vehicles for foreigners who seek to invest their capital in Mexico. Trusts are regulated by, among others: the General Law for Negotiable Instruments and Credit Transactions, the LMV and the ITL.

To improve the attractiveness of the Mexican real estate market for capital investors, the congress included in the ITL special tax benefits for real estate investment trusts (FIBRA).

According to the ITL, for a trust to qualify as a FIBRA and be entitled to the associated tax benefits, it must meet the following requirements:

- Be executed according to Mexican laws and with a Mexican trustee;
- Have as its main purpose the acquisition or construction of real estate in Mexico that will be leased (including the right to obtain income from the lease). The trust agreement must specify the terms and conditions under which the investments in real estate will be carried out;
- The real estate must be constructed or acquired by the FIBRA with the intention of being leased and must not be sold within four years of the date on which the construction or acquisition of the real estate was completed;
- The trustee of the FIBRA must issue certificates to represent the FIBRA that can be placed as public offerings on the Mexican security market and registered with the RNV; or acquired by a group of at least 10 unrelated persons; provided none of the individuals is a sole holder of more than 20% of the total certificates issued; and
- The trustee of the FIBRA distributes to the holders of the relevant certificates issued, at least once a year and no later than 15 March each year, at least 95% of the total taxable profit accrued during the immediately preceding fiscal year.

The trust must have a trust committee comprised at least 25% by independent members of the relevant trust.

According to the LMV, rights of minority shareholders of the certificates include:

- Holders representing at least 20% of the certificates may oppose in court resolutions passed at certificate holders' meetings that they either did not attend or at which they voted against such resolution, within 15 days of the date the resolution was adopted.
- Holders representing 15% of the certificates may execute a civil liability action against the entity that manages the entrusted assets.

1.5 Tax incentives

Accelerated rates of depreciation are available for investments made during the 2016 to 2018 fiscal years for taxpayers with revenues of at least MXN 100 million; for those that make investments in the construction or expansion of transport infrastructure; and those whose activities relate to the treatment, processing or transport of oil, natural gas and petrochemicals.

The maquiladora regime has played an important role in enhancing the competitiveness and in facilitating modernization of the Mexican economy. The FIBRA (real estate investment trust) regime has been maintained with some adjustments (see above under 1.4). Other incentives also apply to national cinematographic and theatrical production, as well as for innovation (CONACYT), and investment in energy and infrastructure (FIBRA E).

A law that became effective on 2 June 2016 creates special economic zones (SEZ) in Mexico that will offer tax, customs duty and administrative and regulatory benefits to companies setting up in the zones. The SEZ law aims to stimulate growth, reduce poverty, facilitate the supply of basic services and attract investment to economically underdeveloped areas, mainly in the southern states of the country.

Maquiladoras

The maquiladora regime (or IMMEX) is designed to promote exports and encourage foreign investment.

Maquiladoras are Mexican companies that process, transform, assemble or repair imported materials, parts and components into finished goods that are subsequently exported. Maquiladora companies typically are owned by a foreign corporation (often a US company since many maquiladoras are located near the US border) with whom the maquiladora contracts to produce semi-finished or finished goods for shipment to the foreign company. To qualify to operate under maquiladora status, a foreign investor must have a corporate presence in Mexico (which may be up to 100% ownership of a Mexican corporation). The foreign parent provides most of the machinery and equipment (M&E) required for the maquiladora activities, as well as the raw materials or the parts to be processed and/or assembled; these items are imported by the maquiladora but remain the property of the foreign company. One of the most relevant characteristics of a maquiladora is that goods can be imported only on a temporary basis and remain in Mexico for a limited period of time. The foreign principal company must be resident in a tax treaty country.

There are different types of maquiladora: industrial (used for manufacturing), services, holding, outsourcing and shelter maquiladoras.

Maquila operations generally create a PE in Mexico for the foreign principal that provides the raw materials and M&E to the maquila company; PE status would expose the foreign principal to Mexican income tax. However, as explained below, one of the benefits of the maquiladora regime is that PE status should not apply if the maquiladora complies with certain requirements, in particular, special transfer pricing rules.

Numerous changes have been made to the maquiladora regime over the years. Under the current regime, effective from January 2015, maquiladoras certified by the Mexican tax authorities (SAT) have been allowed to import basic raw materials, parts or components and M&E on a temporary basis, for as long as the maquila program is in force, without the payment of value added tax (VAT). VAT at 16% is initially payable on temporary imports but the maquiladora is entitled to a corresponding credit for the full amount of the VAT paid, which must be reported to the SAT. Maquiladoras that do not have the necessary certification may obtain a bond issued by a financial institution in order to be entitled to the VAT credit. Maquiladoras also have been allowed a suspension of the duties payable on the import of materials and M&E.

In addition to the indirect tax benefits available to maquiladoras, there are income tax benefits. These benefits include an additional tax deduction equal to 47% of certain benefits provided to employees (e.g. contributions to pension and retirement funds, overtime payments, the exempt portion of profit sharing, Christmas bonuses, vacation premiums, food coupons, savings funds, etc.) and, as noted above, protection for the foreign principal company from exposure to the creation of a PE in Mexico. There are two methods by which a maquiladora may prevent the creation of a Mexican PE: (i) adopt the safe harbor rules; or (ii) elect to obtain an advance pricing agreement (APA) from the SAT via a private letter ruling. Under the safe harbor rules, a maquiladora must report taxable income corresponding to the higher of:

- 6.9% of the value of its assets (taking into account the value of all assets employed in the maquila operations, including foreign-owned assets (both fixed assets and raw materials/inventory)); and
- 6.5% of its costs and expenses (taking into account operating costs and expenses as computed under Mexican GAAP).

Maquiladoras are permitted to obtain no more than 10% of the company's revenue from sources other than the provision of manufacturing or assembling services to a foreign principal.

FIBRA E

FIBRA E aims to provide a stable vehicle for participants (i.e. investors, fund managers and the trust itself) in large-scale energy and investment projects and enable them to benefit from a favorable tax regime, including the following benefits:

- Operating companies are considered "pass-through" entities for tax purposes (tax is paid at the level of each investor) and are exempt from making monthly provisional income tax payments;
- Dividends from operating companies to shareholders are not subject to certain provisions in the Income Tax Law (ITL) and can be paid free of Mexican dividend withholding tax;
- The sale of trust-issued securities placed by the FIBRA E on the Mexican stock market may be tax exempt for individuals and nonresidents; and
- Formal obligations associated with having a permanent establishment (PE) in Mexico are eliminated for nonresidents, with regard to their equity holding in the trust.

The FIBRA E is suitable for all types of company (both private and those with state participation) involved with projects that generate stable cash flows (such as transmission and distribution lines in the power industry).

Special economic zones

As noted above, a new SEZ law has been introduced. The executive branch of the government will issue a decree (declaration) to establish the SEZs and specify the incentives and benefits that will be available in each zone.

SEZs will be designated geographic areas in Mexico where qualifying investors may carry out activities such as manufacturing, agribusiness, processing, production and storage of raw materials and inputs and scientific and technological innovation and development; the provision of support services for these activities, such as logistical, financial, computer, professional and technical services and any other services necessary to fulfill the objective of the law; and the import of goods for the above purposes.

SEZs may be established on privately-owned or state-owned real property. Where a zone is sited on state-owned property, it will be subject exclusively to the laws and the jurisdiction of the federal authorities, to reflect the public interest and the prioritized nature of the zones.

The declaration establishing the zones also will establish the incentives available in the zones, including income tax, value added tax (VAT) and customs duty benefits. Such benefits will be temporary (although they must be provided for at least eight years), and the amount of the tax relief or reductions will be granted on a progressively decreasing scale.

The income tax incentives will have to be used to promote productive investment, generate employment and trained workers, to drive the creation of high value-added jobs and increase compensation for workers employed in the zones. The law does not provide details on the income tax incentives that will be available, but these will be described in the declaration.

VAT benefits will be granted for goods imported into the SEZs, as well as services performed in the zones:

- Goods imported into the SEZs and related services performed by Mexican resident companies will be subject to a 0% VAT rate.
- Imports of goods into the SEZs by nonresidents (both entities and individuals) will be exempt from VAT.
- Goods removed from the SEZs to be sold in the rest of the country will be subject to the standard VAT rate of 16%.
- Goods removed from the SEZs to be exported will be exempt from VAT.
- Activities performed in the SEZs will be exempt from VAT, and companies performing the services will not be considered VAT payers.

The executive branch will establish a customs regime to regulate imports and exports of foreign, domestic and nationalized goods, and will establish facilities, requirements and controls for imports and exports and the performance of activities in the SEZs. The regime will be subject to the Customs Law and will seek to promote the development, operation and functioning of such zones; for this purpose, international best practices and Mexico's domestic economic circumstances will be taken into account. Benefits may include expedited procedures to direct goods to the customs regime, deferral of customs duties until goods are removed from an SEZ and a measure allowing companies to opt for the lowest customs tariff available based on the duty applicable to the goods after they have undergone manufacturing, production or repair processes in an SEZ.

Additional incentives will be established to encourage the generation of capital and jobs, the development of socioeconomic infrastructure and the productivity and competitiveness of the SEZs.

Each of the SEZs will have a "Single Counter Service" to simplify and expedite the necessary procedures to construct, develop, operate and manage the zones; carry out productive economic activities; or establish and operate companies in the "area of influence" (defined as the urban and rural settlements adjacent to the SEZ that may receive economic, social and technological benefits from the zone).

1.6 Exchange controls

There are no restrictions on the import or export of capital. Repatriation payments can be made in any currency. Both residents and nonresidents can hold bank accounts in any currency anywhere in the world; however, for some foreign currency accounts located in Mexico, the currency must be the US dollar and these accounts may be held only by companies and not individuals.

2.0 Setting up a business

2.1 Principal forms of business entity

The most common means of investment for foreign corporations or individuals wishing to do business in Mexico is the incorporation of a Mexican company, in which foreigners may own and participate in the capital stock.

The legal provisions governing the incorporation of companies apply at a federal level, so that regardless of the place of incorporation within Mexico, companies are regulated by: (i) the Mexican Law Governing Commercial Companies (*Ley General de Sociedades Mercantiles* or LGSM) and (ii) the Securities Market Law (*Ley del Mercado de Valores* or LMV).

The LGSM provides for seven different types of commercial company. The ITL grants the same tax treatment to all types, although two types of company are the most common choice for foreign investors doing business in Mexico:

- The variable capital limited liability stock corporation (*sociedad anónima de capital variable* or SA); and
- The non-stock variable capital limited liability corporation (*sociedad de responsabilidad limitada de capital variable* or SRL).

Formalities for setting up a company

Mexico's legal system is based on civil, rather than common, law and as a result, the incorporation process varies from that followed in common law countries. Incorporation takes two to five business days once all the required documentation has been completed and submitted.

In accordance with Mexico's civil legal system, state appointed officers—either *Notarios Públicos* (appointed by local governments) or *Corredores Públicos* (appointed by federal authorities)—are required to carry out public certification of legal acts. The officers must be lawyers that are granted "public faith" status by the government to perform this function. Generally, the role of such certifying officers is to formalize the consent of the shareholders or partners of the company and, therefore, the shareholders or partners (or their representatives) must appear before the officers to execute the relevant incorporation documents.

The process to incorporate a company is as follows:

- Obtain from the Ministry of Economy (MOE) a permit to use the corporate name of the company.
- Draft the bylaws of the company, based on the provisions of the LGSM or LMV and/or any shareholders' agreement or other kind of agreement when different groups of shareholders or partners will be equity holders of the company.
- Execute the incorporation deed containing the company's bylaws before a public faith officer (including any powers of attorney granted to officers of the relevant company).
- File with the Public Registry of Commerce of the company's domicile the public deed containing the articles of incorporation of the company (and powers of attorney, if appropriate).
- Obtain a tax identification number from the SAT, which will allow the company to open bank accounts and pay taxes electronically.
- File and register with other Mexican authorities (e.g. the Foreign Investment Registry). Renewal filings and the periodic provision of information to such authorities also will be required during the lifetime of the company.

The information required to incorporate either an SA or an SRL (or an investment protection corporation, *Sociedad Anónima Promotota de Inversión* – SAPI) is almost identical, as follows:

- There must be at least three alternative names for the new company, which must be provided to the MOE to obtain a permit for the incorporation of the company.
- The names of the persons who will be shareholders or partners of the company (at least two are required and may be individuals or entities) must be provided. The shareholders or partners may grant a special power of attorney to the persons that will appear before the Mexican certifying officer to incorporate the company on their behalf. Any powers of attorney also must be valid and enforceable in accordance with Mexican law and if granted abroad, must be granted before a notary and comply with international treaties signed by Mexico, such as the Inter-American Convention on the Legal Regime of Powers of Attorney to be used Abroad, the Washington Protocol on the Uniformity of Powers of Attorney and the Hague Apostille Convention. The power of attorney also must be translated into Spanish by an expert translator appointed by the relevant court.
- The amount of the capital stock of the Mexican company and each shareholder or partner's participation in that stock.
- The name of each member of the board of directors or the name of the sole administrator of the company, as appropriate, together with the names of the company's examiner and main officers.
- The names of the persons that will receive powers of attorney from the company and limitations on those powers (generally such persons would be carrying out the day-to-day management of such company).
- The rules regarding the dissolution and liquidation of the company.

Forms of entity

Requirements for an SA

The SA has been widely used in Mexico as an investment vehicle.

Capital: The capital stock is divided into shares. There is no maximum or minimum required share capital. The shares are considered to be negotiable credit instruments that can be used in exchange operations, such as endorsements. The minimum capital stock agreed by the shareholders must be fully paid-up on incorporation.

The general rule is that stock is freely transferrable but it is common for an SA to specify restrictions in its bylaws to limit the transferability of shares. Shareholders may elect to include restrictions on: the transfer of shares, exclusion clauses for shareholders, the exercise of retirement or separation rights, or the right to redeem shares. They also can establish the relevant price at which transfers must take place or the method to be used to determine that price.

Similar to a SAPI, an SA may convert from an ordinary private corporation to a publicly held company listed on the Mexican stock exchange, by including the relevant provisions in its bylaws of the SA. Amongst the provisions of the LGSM are clear and transparent exit mechanisms for minority shareholders who do not wish to retain their shareholdings. In all cases, if an SA intends to make public offerings, it will need to be regulated according to the provisions of the LMV.

Founders, shareholders: The SA may have an unlimited number of shareholders but there always must be at least two founders/shareholders, which may be individuals or corporate entities. Each shareholder's participation is recorded in the company's stock ledger book. Each shareholder's liability is limited to the full payment of its capital contributions.

Board of directors: Shareholders representing 25% of the voting rights have the right to appoint a member to the board of directors. An SA may have a sole director. There are no restrictions on the nationality or country of residence of the director(s).

Management: The management of a SA is undertaken by one or more directors who need not be shareholders of the company but are appointed by the shareholders.

Taxes and fees: No capital duty or other fees are payable on incorporation.

Types of share: A SA may issue shares with no par value. Nonvoting and preference shares also are permitted.

Control: Shareholders representing 25% of the voting rights may execute a civil liability action against the directors for the benefit of the corporation in accordance with the terms of the LGSM.

Ongoing maintenance: In accordance with the provisions of the LGSM, an SA is required, amongst other obligations, to:

- Execute a shareholders meeting at the corporate domicile of the corporation at least once a year at which the shareholders: (i) approve the annual financial statements and profits of the company, and (ii) ratify the board of directors and the report presented by the examiner;
- Maintain corporate ledgers recording shareholders' names, nationalities, capital stock variations and transfers of capital stock; and
- Appoint a sole director or board of directors to carry out the instructions provided by the shareholders' meetings and to direct the activities performed by the company.

Liability: In addition to the full payment of their capital contributions, the shareholders, directors and even officers of the SA will be jointly and severally liable for tax purposes when the company:

- Did not obtain a taxpayer´s identification number;
- Changes its address while being subject to a tax audit by the relevant authorities;
- Did not correctly record its earnings, or destroyed or modified accountability documents of the company; or
- Ceases or postpones its activities without giving prior notice to the SAT.

Shareholders, directors and subsidiaries of the company also will be liable for fraud against third parties carried out by the company.

Directors and officers of the SA are required to keep confidential all company information provided to them to fulfill the requirements of their positions, unless the information is requested by a competent Mexican authority. The confidentiality obligation remains in force for at least one year after the individual's office has ceased.

Requirements for an SRL

The SRL is another common form used by foreign investors.

Capital: The SRL's capital is divided into participation units instead of shares; therefore, evidence of participation as a partner is not provided via a stock certificate but instead in an equity participation recorded in the special partners' ledger of the company (no physical title exists). A participation unit may be transferred only with the approval of the other partners. Each partner may own only one equity participation and each equity participation can have a different value. The minimum capital stock agreed by the partners must be fully paid-up on incorporation.

A capital increase requires the approval of the other partners and the acceptance of a new partner requires a special quorum. As a general rule, the special quorum requires a majority vote by the holders of the equity participations, unless a higher quorum is established in the bylaws of the SRL.

An SRL structure may not be used for an initial public offering through the Mexican stock exchange.

Founders, shareholders: A SRL must have a minimum of two partners and a maximum of 50.

Board of directors: Shareholders representing 25% of the voting rights have the right to appoint a member to the board of directors. An SRL may have a sole director. There are no restrictions on the nationality or country of residence of the director(s).

Management: The management of a SRL is undertaken by one or more directors who need not be partners of the company.

Taxes and fees: No capital duty or other fees are payable on incorporation.

Types of share: As stated above, each partner may own only one equity participation and each equity participation can have a different value. Equity participations with no par value are not permitted. The amount of each partner's participation is evidenced in the equity participation ledger book.

Liability: Each partner is liable only for the full payment of its individual capital contribution.

Branch of a foreign corporation

A foreign company can set up a branch in Mexico, but it must obtain approval from the Ministry of the Economy to set up a branch office in Mexico.

Although a few companies have established branches in Mexico, they are at a disadvantage for several reasons. Branches may not own real estate and they may not deduct payments to the head office for interest, royalties, fees or other services. Establishing a branch takes longer and is more expensive than establishing a corporation, and branch charters usually contain more restrictions than corporate charters. As branch offices are not legally separate from the head office, the head office can be held responsible for the liabilities of a branch.

A branch of a foreign corporation formally registered to do business in Mexico, as well as any other PE for income tax purposes, generally is taxed the same as a Mexican corporation.

2.2 Regulation of business

Registration and filing requirements

The LGSM requires that all transactions, such as the incorporation, merger, dissolution and liquidation of a corporation and the necessary public notifications, are recorded via the electronic system overseen by the Ministry of Economy.

The LMV regulates three different types of stock exchange company:

- The investment promotion corporation (*Sociedad Anónima Promotora de Inversión* or SAPI);
- The publicly trading stock company (*Sociedad Anónima Promotora de Inversón Bursatil* or SAPIB); and
- The publicly traded stock company (*Sociedad Anónima Bursátil* or SAB).

According to the LMV, the SAPI is not subject to the supervision of the National Banking and Securities Commission (*Comision Nacional Bancaria y de Valores* or CNBV), which is the commission in charge of supervising the public offering of stock in the Mexican security market, except when its capital stock or the securities that represent its capital stock are intended to be publicly traded and registered in the National Securities and Intermediaries Registry (*Registro Nacional de Valores* or RNV). SAPIBs and SABs should request that the securities that represent their capital stock are registered in the RNV. The LMV has a strict policy stating that all securities placed on the Mexican Securities Market first must be registered in the RNV and approved by the CNBV.

These types of company were created by Mexican legislators to encourage the participation of Mexican companies in the Mexican securities market, as well as special regulations to maintain a controlled public offering of issued stock. In accordance with the LMV, such companies follow the same incorporation process established in the LGSM for an SA.

Companies regulated under the LGSM and the SAPI are subject to a number of ongoing regulatory requirements in accordance with the LMV, including to:

- Convene a shareholders'/partners' meeting at the corporate domicile of the company at least once a year at which the shareholders/partners will approve the annual financial statement of the company and profits, ratify the board of directors and, in the case of the SA and the SAPI, ratify the report presented by the examiner.
- Maintain corporate ledgers recording the names and nationalities of the holders of capital stock, together with variations in the holdings and stock transfers. In accordance with the LGSM, the names of the shareholders/partners that appear in such records are, with respect to third parties, the legal holders of the shares/equity participation.
- Appoint a sole manager or board of directors to carry out the instructions of the shareholders'/partners' meetings and to direct the activities performed by the company.

Mergers and acquisitions

Large mergers and acquisitions must be authorized in advance by the Federal Competition Commission. Failure to obtain authorization can result in the imposition of penalties, suspension of the merger or acquisition, or the denial of the merger or acquisition. Before a merger or acquisition, it is necessary to verify the type of entity that will be involved to ensure compliance with the relevant legal and tax regulations.

Mergers, spinoffs and acquisitions are taxed as transfers of property. Mergers and spinoffs will not be taxed if they meet certain requirements, such as:

- Notification to the tax authorities;
- Filing a tax return for the last fiscal year, as well as any required information statements through the surviving company in the case of a merger, or through the designated company in the case of a spin-off where a company does not survive;
- In a merger, the surviving company should continue during the year after the merger to engage in the same activities in which it and the merged companies engaged before the merger (with some exceptions); and
- If a merger is going to take place within five years of a previous merger or spin-off, authorization must be obtained from the tax authorities.

Monopolies and restraint of trade

The Federal Competition Commission is responsible for enforcing the Competition Law. The Commission has broad investigative and enforcement powers to address monopolies and restraints of trade.

Mexico's antitrust law prohibits monopolies and certain horizontal restrictive practices deemed to be "absolute monopolistic practices." Price fixing, restrictions on production and distribution, market sharing and concerted bidding in public tenders are prohibited.

The law also prohibits the following practices (among others) by firms that have substantial power in the marketplace and that restrain or intend to restrain competition: vertical market sharing; restrictions on resales; tie-ins; exclusivity contracts; refusals to deal; and boycotts. Substantial market power is subject to a case-by-case investigation based on factors such as: the market participation of the economic agent and whether it has the unilateral power to fix prices; presence of barriers to market access; existence and market power of competitors; access of the economic agent and its competitors to inputs and other raw materials; and recent market performance.

Although the law technically prohibits monopolies per se, in practice, focus is placed on the abuse of monopoly power. The president of the Federal Competition Commission and other officials have made it clear that the law will be applied only against companies that engage in prohibited practices, not against those that merely have the potential to exercise monopolistic powers.

Anti-money laundering legislation

Recently-introduced anti-money laundering legislation (Federal Law for the Prevention and Identification of Transactions with Illegal Resources, *Ley Federal para la Prevencion e Identificación de Operaciones con Recursos Ilicitios* or ALML) imposes additional burdens on Mexican companies.

The main purpose of the ALML is to protect the financial system and the national economy from transactions carried out in Mexico with illegal resources. It creates obligations for entities and/or individuals that carry out what the law describes as "vulnerable activities." Companies and/or individuals performing such activities must submit a report in a prescribed format with the SAT.

"Vulnerable activities" are defined to include: (i) real estate development or rentals; (ii) gambling; and (iii) the provision of professional advice and/or services, as an independent party, without an employment relationship with the client when advising on corporate matters such as the incorporation process of a company; mergers; acquisitions; and capital increases.

2.3 Accounting, filing and auditing requirements

For corporate purposes, companies are obliged to maintain a shareholders' minutes book of meetings held, regardless of whether the meetings are ordinary, extraordinary or special. Companies must maintain a shareholder registry in which the company officially recognizes the shareholders and records the company's shares, as well as a registry of its capital (both increases and decreases) and share purchases.

Accounting standards are set by regulatory bodies, such as the Mexican Council of Investigation and the Development of Financial Information Standards. Mexican companies are required to prepare their financial statements in Spanish and according to Mexican Financial Information Standards (NIF, formerly Generally Accepted Accounting Principles or PCGA). Accounting registries and books of account must be recorded in Spanish.

Corporations with gross income exceeding MXN 100 million, assets exceeding MXN 79 million or with at least 300 employees (in every month during the tax year) may file with the tax authorities a special report (*dictamen fiscal*) prepared by an independent public accountant. If the report is filed, the tax authorities will not audit on general principles, but instead review to verify that the audit was properly carried out.

3.0 Business taxation

3.1 Overview

The principal taxes affecting companies doing business in Mexico are the federal corporate income tax, withholding taxes, VAT, tax on real property and social security contributions that must be made on behalf of employees. Some taxes are levied at the state and municipal levels.

Under mandatory profit sharing rules, employers are required to distribute and pay 10% of their "adjusted" taxable income to employees. The actual distribution of profits must be paid within 60 days after the corporate income tax return has been submitted (and no later than 31 May of the following year).

As noted above under 1.5, incentives are available for maquiladoras.

Mexico has transfer pricing, thin capitalization and controlled foreign company rules, as well as a general anti-avoidance rule.

The Congress approves a federal revenue law on an annual basis, which generally includes a list of the federal taxes to be imposed during the year. The Ministry of Finance is authorized to issue regulations to implement the tax law. The SAT is the body charged with collecting tax and enforcing compliance.

Mexico Quick Facts for Companies	
Corporate income tax rate	30%
Branch tax rate	30%
Capital gains tax rate	30%
Basis	Worldwide income
Participation exemption	No
Loss relief	
− Carryforward	10 years
− Carryback	No
Double taxation relief	Yes, credit system
Tax consolidation	No, but there is a tax integration regime
Transfer pricing rules	Yes
Thin capitalization rules	Yes
Controlled foreign company rules	Yes
Tax year	Calendar year
Advance payment of tax	12 installments
Return due date	31 March
Withholding tax	
− Dividends	10%
− Interest	4.9%/10%/15%/21%/35%/40%
− Royalties	25%/35%/40%
− Branch remittance tax	10%
Capital tax	No
Net wealth tax	No
Payroll tax	State level

Social security contributions (approximate)	30%
Real estate tax	State/municipal level
Real estate transfer tax	2%-5%
Environmental tax	Varies
VAT (standard rate)	16% (standard rate)/0% (export rate)

3.2 Residence

A company is resident in Mexico if its place of effective management is located in Mexico.

3.3 Taxable income and rates

Residents are taxed on their worldwide income. Nonresident companies are taxed only on their Mexican-source income. Income is deemed to derive from Mexican sources when the assets or activities are in Mexico or when the sales or contracts are carried out in the country, regardless of where title passes.

The corporate tax rate is 30%. The same rate applies to Mexican branches of foreign companies.

Taxable income defined

The gross income of a resident legal entity includes all income received in cash, in kind, in services or in credit, including income derived from abroad. This includes all profits from operations; passive income, such as interest, royalties and rents; and capital gains. The taxable income of a company is its gross income in a tax year less allowable expenses and losses. Revenue and expenses are recognized on an accruals basis.

The taxation of dividends paid by resident entities to resident shareholders depends on whether the profits out of which the dividends are paid have been subject to tax at the corporate level. If the profits already have been taxed, the shareholder is entitled to credit for the underlying corporate income tax paid. Dividends received by a Mexican resident corporate entity from another Mexican resident corporate entity are exempt from corporate income tax.

The Mexican payer company must keep a record of the profits that have been taxed in a special account, known as the "CUFIN" account. If dividends are distributed from a source other than the CUFIN account, the distribution is subject to 30% income tax at the level of the distributing entity (and may reach 42.86% due to gross-up). The tax, however, may be carried forward for up to two years.

As from 1 January 2016, Mexican companies with investments in renewable sources of energy may write-off the cost of those investments in one year and create a special net profit account (the "CUFIER"). If dividends are paid from this account, the payer will not be required to pay additional corporate tax. If dividends are not paid from the CUFIER account, the distribution is subject to the 30% income tax at the level of the distributing entity, as described above.

Payments received in the form of royalties for the use of patents, trademarks, trade names and service fees are taxable in Mexico.

Corporate capital gains or losses arising from the sale of fixed assets are treated as ordinary income or losses, taxable at the normal corporate rate. In calculating the taxable gains arising from the sale of land, buildings, equity shares and other capital interests, companies may apply an official schedule of inflation adjustments to the acquisition cost of the asset.

Deductions

Business expenses are deductible if they are properly documented, necessary for the taxpayer's business operations and supported by relevant invoices. Examples of allowable deductions include:

- Returns received, or discounts or rebates granted during the tax year;
- Cost of goods sold;
- Expenses net of discounts, rebates or returns;

- Investments (depreciation under the straight line method, adjusted for inflation);
- Bad debt credits and losses arising from natural disasters and other acts of God;
- Contributions to employee pension or retirement funds (with some limitations); and
- Accrued interest, subject to the thin capitalization rules.

An employer can deduct a certain percentage of specified benefits provided to employees (e.g. contributions to pension and retirement funds, overtime payments, the exempt portion of profit sharing, Christmas bonuses, vacation premiums, food coupons and savings funds, among other benefits), provided certain conditions are satisfied. Employee profit sharing paid during the year may be credited against taxable gains for income tax purposes.

Dividends are not deductible by the distributing corporation or included in the gross income of the recipient (although they are included in the income base for calculating profit sharing). Other nondeductible items include:

- Items that do not meet the formal invoice requirements, income tax or VAT payments;
- Inflation adjustments made as a result of ad hoc tax payments;
- Provisions for employee liability and indemnity reserves;
- Goodwill;
- Payments made other than on an arm's length basis to a related or unrelated individual, entity, trust, joint venture, investment fund or any other legal person subject to a preferential tax regime.

In response to the OECD base erosion and profit shifting (BEPS) initiative, limitations are imposed on the deduction of payments made to related parties in Mexico and abroad:

- Interest, royalties and technical assistance fees paid to a foreign company (whether the foreign company is a controlled or controlling company) that fall within any of the following categories:
  - The foreign entity is a transparent entity (except where shareholders or members are subject to an income tax and the payment is made on arm's length terms);
  - The payment is disregarded for tax purposes in the country or territory in which the foreign entity is located; or
  - The foreign entity does not consider the payment to be taxable income (unless the foreign entity recognizes the payment as taxable income in the same fiscal year or in the following year).
- Payments made to related parties in Mexico and abroad are nondeductible if they also are deductible for the related parties, other than where the related party accrues the income.

The income tax law aims to recognize the "real" reduction in debt that occurs as a result of inflation and as a corollary, the decrease in the return on assets. The legislation provides that any excess of the inflationary reduction in debt over the amount of interest paid is taxable as an "inflationary profit," but any excess of the inflationary increase in the value of assets over the return on assets is tax deductible. The system treats both foreign exchange losses and net gains from the sale of financial instruments (e.g. petro bonds) as interest.

Depreciation

Depreciation is calculated on a straight-line basis. Depreciation rates are set by the government and vary by industry and type of asset.

Losses

Tax losses may be carried forward and deducted from the taxable profits obtained in the following 10 fiscal years. The carryback of losses is not permitted. Losses not carried forward therefore are forfeited.

3.4 Capital gains taxation

Capital gains arising from the sale of fixed assets, shares and real property are considered normal income and are subject to the standard corporate tax rate. Mexican law allows the proceeds from the sale of real property, shares and other fixed assets to be indexed for inflation.

Nonresidents that sell shares of a Mexican company are subject to tax at 25% on the gross proceeds or 35% on the net proceeds if the nonresident has a representative in Mexico (provided the nonresident is neither located in a tax haven nor benefits from a preferential tax regime). A tax return relating to the sale must be filed and a *dictamen fiscal* obtained from a Mexican public accountant certifying that the reported gain is calculated correctly.

Nonresidents that realize gains on the sale of publicly traded shares are subject to a 10% withholding tax on the net gain. The withholding will be made by the intermediary (i.e. the broker).

3.5 Double taxation relief

Unilateral relief

A resident taxpayer that is taxed in Mexico on foreign-source income is, in principle, granted both a direct and an indirect tax credit that may be used against the taxpayer's liability to Mexican income tax to the extent the foreign income is taxable in Mexico. This is an ordinary foreign tax credit, i.e. it is limited to the proportion of the income tax due on the resident's total taxable income for the year calculated under Mexican law which is attributable to the foreign-source income.

Income tax paid by a nonresident company that distributes dividends to another nonresident company, that, in turn, distributes dividends to a Mexican corporation, may be credited against the Mexican corporation's income tax liability if the following conditions are satisfied:

- The dividend and the income tax are accrued by the Mexican corporation;
- The Mexican corporation owns at least 10% of the first-tier company;
- The first-tier company owns at least 10% of the second-tier company; and
- The Mexican government has concluded a broad exchange of information agreement with the country in which the second-tier company is resident.

Tax treaties

Mexico has a broad tax treaty network, with most treaties following the OECD model treaty. Treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other and protect companies resident in one country from discriminatory taxation in the other. Mexico's treaties generally contain OECD-compliant exchange of information provisions. Mexico also has concluded a number of tax information exchange agreements with various jurisdictions.

To obtain benefits under one of Mexico's tax treaties, the beneficiary must produce a tax residence certificate or a copy of its tax return filed for the most recent fiscal year that shows that the beneficiary is resident in the treaty partner country. Any relevant conditions in the treaty also must be satisfied, including the filing of an information return related to the tax situation of Mexican residents and nonresidents with a permanent establishment in Mexico or the filing of the special report (*dictamen fiscal*) if that option was exercised.

The Mexican tax authorities may in some cases request proof that double taxation would, in fact, arise in the absence of treaty benefits, by means of an affidavit signed by the taxpayer's legal representative, explaining the rules in the beneficiary's jurisdiction and providing any relevant documentation.

Mexico Tax Treaty Network			
Australia	Finland	Kuwait	Russia
Austria	France	Latvia	Singapore
Bahrain	Germany	Lithuania	Slovakia

Barbados	Greece	Luxembourg	South Africa
Belgium	Hong Kong	Malta	Spain
Brazil	Hungary	Netherlands	Sweden
Canada	Iceland	New Zealand	Switzerland
Chile	India	Norway	Turkey
China	Indonesia	Panama	Ukraine
Colombia	Ireland	Peru	United Arab Emirates
Czech Republic	Israel	Poland	United Kingdom
Denmark	Italy	Portugal	United States
Ecuador	Japan	Qatar	Uruguay
Estonia	Korea (ROK)	Romania	

3.6 Anti-avoidance rules

Transfer pricing

Mexican taxpayers engaging in transactions with domestic and foreign related parties are required to charge or pay the prices that would be agreed between independent parties in comparable transactions, i.e. all transactions must comply with the arm's length principle. Mexico's transfer pricing rules generally follow the OECD transfer pricing guidelines.

As discussed in 1.5 above, maquiladora operations must comply with special transfer pricing rules to avoid creating a PE for a foreign principal.

Taxpayers should prepare and retain documents proving that transactions with foreign related parties were agreed using prices that would have been used by independent parties in comparable transactions. Taxpayers also are required to file with their tax returns a detailed information return on transactions with foreign related parties. Penalties apply for failure to comply.

Mexico recognizes six transfer pricing methods:

1. Comparable uncontrolled price method (CUP);
2. Resale price method (RPM);
3. Cost plus method (CPM);
4. Profit split method (PSM);
5. Residual profit split method (RPSM); and
6. Transactional operating margin method (TOPMM).

A hierarchy of methods is required in the order 1. to 6. above, with the CUP being the first choice. If this is rejected, the RPM can be considered, and so on. The taxpayer must demonstrate that the chosen method was the most appropriate or reliable based on all the available information.

Transactions within the scope of the transfer pricing rules are: the purchase and sale of goods; financing operations; the provision or receipt of services; the use, enjoyment or transfer of tangible assets; the use or transfer of intangible assets; and stock transfers.

General regulations allow shared expenses incurred on a pro rata basis with nonresidents to be deductible if certain requirements specified in the regulations are met, despite a specific provision to the contrary in the ITL.

In addition to the general deductibility requirement included in the published regulations (e.g. the expenses must be necessary for the company to carry out its activities), there must be a justifiable connection between the expenses incurred and the benefit received, or expected to be received, by the company. If the expenses were incurred between related parties, the taxpayer must demonstrate that the allocation was agreed on arm's length terms. Specific transfer pricing documentation must be maintained for prorated expense transactions between related parties.

The tax authorities are empowered to verify that transactions with related parties have been executed in accordance with the arm's length principle; if not, the tax authorities may make any necessary adjustments and request: unpaid taxes; restatement for inflation; interest; and fines that may range between 55% and 75% of the unpaid tax (subject to reduction where documentary requirements are met).

Unilateral and bilateral advance pricing agreements (APAs) may be negotiated, but transfer pricing documentation still must be retained for five years after the filing of the tax return. Mutual agreement procedures may apply under Mexico's tax treaties.

County-by-country (CbC) reporting

As from 2016, as part of Mexico's implementation of recommendations under the OECD BEPS initiative, taxpayers undertaking transactions with related parties must file no later than 31 December of the following fiscal year detailed returns satisfying the three-tiered approach to transfer pricing documentation, including the master file, local file and CbC report.

Thin capitalization

Under the thin capitalization rules, interest paid by a Mexican resident company on a loan from a nonresident related party is nondeductible for income tax purposes to the extent the amount of debt exceeds three times the shareholders' equity (i.e. the debt-to-equity ratio of the payer exceeds 3:1).

Although the excess interest is not deductible, it is not reclassified as a constructive dividend. The thin cap rules are not applicable to financial institutions, and the limit of three times the shareholder's equity may be extended if taxpayers obtain a favorable APA from the tax authorities, agreeing that the transactions are carried out at market prices.

Debts incurred for the construction, operation or maintenance of productive infrastructure linked to strategic areas, or for the generation of electricity, are excluded from the thin capitalization rules.

Controlled foreign companies

Companies, individuals and resident foreigners must pay tax on all earnings from companies or accounts in low-tax jurisdictions. Foreign-source income is deemed to come from a low-tax jurisdiction if it is not subject to taxation abroad or if it is subject to a local income tax at a rate that is less than 75% of Mexico's statutory rate (i.e. less than 22.5%, while the statutory rate is 30%).

Passive income (i.e. dividends, interest, royalties, capital gains, income from the sale and use or enjoyment of immovable property, and income obtained without any consideration) derived directly or indirectly by a Mexican resident through a branch or any legal entity located in a jurisdiction with a preferential tax regime, will be subject to taxation in Mexico in the year in which the income is derived.

Specific rules permit the nontaxation of active income in certain cases. Taxpayers earning income from a preferential tax regime must file an annual information return in February, as must taxpayers generating income from a jurisdiction on the black list and those that conduct transactions through fiscally transparent foreign legal vehicles or entities.

A temporary procedure allows companies and individuals to repatriate investments made abroad, including investments in countries with preferential tax regimes. Entities resident in Mexico and nonresidents with a PE in Mexico will be deemed to have met their tax obligations when they repatriated previously unreported offshore investments (made until 31 December 2014), provided they had paid the tax on such funds within the first six months of 2016 and the repatriated funds remain in Mexico for at least three years.

Payments to a CFC generally are subject to a 40% withholding tax.

Some exceptions to the rules apply.

General anti-avoidance rule

The ITL allows the tax authorities to deem transactions to have occurred between related parties and to calculate the Mexican-source income arising from such transactions. This rule is intended to be applied to counter tax avoidance associated with preferential tax regimes and multinational companies. However, the scope may be broader based on the actual wording of the rule, given that it makes reference to Mexican-source income.

This is the only general substance-over-form rule in the Mexican tax legislation. The Mexican tax regime generally is formalistic and standard Mexican policy has been to provide for specific anti-avoidance rules.

BEPS

The Mexican government has contributed to the development of the OECD action plan under the base erosion and profit shifting (BEPS) project and has actively participated in the detailed work streams. It considers a uniform and internationally coordinated approach to be most effective in preventing BEPS. The following table summarizes the steps Mexico has taken to implement the BEPS recommendations:

Action	Notes on local country implementation	Expected timing
VAT on business to customers digital services (Action 1)	Not yet known	Not yet known
Hybrids (Action 2)	The 2014 tax reform introduced a rule that disallows a deduction for payments made in the form of interest, royalties or technical assistance fees to a nonresident entity that controls or is controlled by a Mexican taxpayer if the nonresident recipient is considered transparent and its owners are not subject to tax in that jurisdiction, if the country of residence of the recipient considers the payment to be disregarded or the recipient does not include the payment as part of its taxable income. A deduction is also disallowed for payments made to both Mexican and nonresident related parties if the payments are deductible for the related party, other than where the related party accrues the income.	1 January 2014
CFCs (Action 3)	CFC provisions already exist in Mexico and these were updated in 2014. It is not yet known if there will be further updates to the rules.	Not yet known.
Interest deductions (Action 4)	Not yet known.	Not yet known.
Harmful tax practices (Action 5)	Not yet known.	Not yet known.
Prevent treaty abuse (Action 6)	The 2014 tax reform introduced provisions addressing the application	1 January 2014

	of tax treaties in transactions between related parties. Under these provisions, the Mexican tax authorities can require foreign taxpayers to prove they are resident in the treaty jurisdiction by having a legal representative submit a sworn declaration stating that double taxation would arise in the recipient's country of residence if treaty benefits are not granted.	
Permanent establishment status (Action 7)	Not yet known.	Not yet known.
Transfer pricing (Actions 8-10)	Mexico has existing transfer pricing rules that generally follow the OECD transfer pricing guidelines. It is not yet known how the proposed changes will be implemented.	Not yet known.
Disclosure of aggressive tax planning (Action 12)	Not yet known.	Not yet known.
Transfer pricing documentation (Action 13)	The 2016 tax reform amended the Income Tax Law to implement the transfer pricing (master file/local file) documentation requirement. Mexican companies must submit the required documents by the end of the year (i.e. 31 December) following the fiscal year.	31 December 2016, to be reported by 31 December 2017.
CbC reporting (Action 13)	The 2016 tax reform introduced CbC reporting by large multinational enterprises based in Mexico. The rules conform to the minimum standard in Action 13. Mexico is one of the countries that signed a multilateral competent authority agreement for the automatic exchange of CbC reports.	31 December 2016, to be reported by 31 December 2017.
Dispute resolution (Action 14)	Not yet known.	Not yet known.

3.7 Administration

Tax year

The tax year is the calendar year.

Filing and payment

Corporate taxpayers must make 12 advance income tax payments on the 17th day of the month. Advance payments are based on the preceding five most recent fiscal years in which a profit could be calculated, even if there was a loss in the immediately preceding fiscal period. All companies must use the calendar year for financial and tax purposes. Companies may apply for a reduction in the advance payments, although any delay in making the payments will result in interest charges. Higher charges are applicable for unauthorized delays.

The annual tax return must be filed no later than 31 March of the year following the tax year, with the balance of tax due at that time.

Taxpayers that have their financial statements audited by a certified public accountant may file these statements (along with the auditor's opinion on the taxpayer's compliance with the tax law) by 15 July of the year following the tax year.

An information tax return that includes information on withholding, donations and salaries, etc. must be submitted to the tax authorities no later than 15 February of each year.

Penalty interest for the late payment of tax is assessed at 0.75% per month if an extension has been granted; otherwise the rate is 1.13%. Penalty rates are adjusted monthly.

Consolidated returns

The 2014 tax reform abolished the tax consolidation regime. However, taxpayers that were within the mandatory five-year deferral period as at 31 December 2013 have the option to continue to consolidate until the end of that period and must pay the deferred tax using the mechanism established in the 2014 transition rules.

An optional "tax integration" regime replaced the consolidation regime, under which corporate groups can elect to calculate income tax on a consolidated basis. The regime provides certain benefits for payment of tax when companies have profits or losses in the same year within a corporate group. For tax purposes, a group consists of a Mexican holding company and all Mexican subsidiaries in which the holding company holds directly or indirectly more than 80% of the voting shares. Tax may be deferred for a maximum of three years.

Statute of limitations

The rights of the tax authorities in relation to audit, enforcement, assessment and collection of taxes expire after five years from the date on which the tax return is due. The income tax return initially is filed by 31 March of the year following the taxable year end and the statute of limitations begins on 1 April of each given period. A tax audit report (optional) prepared by an independent certified public accountant must be filed by 15 July of the following year. An amended return must be submitted if there are any differences between the figures used in the tax return and the outcome of the tax audit report.

The statute of limitations will be extended for five years as from the date an amended return is prepared for any category of items adjusted in an amended return. The term is 10 years if the taxpayer is not registered with the tax administration, does not maintain accounting records or fails to file a tax return. In the latter case, the 10-year term is computed from the date the return should have been submitted. The statute of limitations is suspended if the taxpayer files an administrative appeal or commences litigation, if the authorities begin an audit of the taxpayer's accounting records or if the tax authorities are unable to initiate an audit because the taxpayer failed to notify the authorities of a change in domicile.

Tax authorities

The SAT is a decentralized agency responsible for the assessment and collection of federal taxes and customs duties, while the Departments of Finance of each state or municipality are responsible for collecting state and local taxes. The federal government and the states have entered into agreements for tax coordination and administrative cooperation, with the states responsible for collecting and auditing the correct payment of federal taxes.

Rulings

Taxpayers may petition the tax administration for a (non-hypothetical) ruling in connection with the interpretation of tax provisions in specific cases that are not already under review by the tax authorities.

The authorities must make a decision within three months from the date of filing of a petition. If no decision is made within this period, the request is deemed to have been denied. Where the request is denied or deemed denied, the taxpayer may appeal to the Federal Tax Court only for the purposes of obtaining the written resolution.

Where a taxpayer receives a favorable written rulings, the taxpayer is granted the rights in the ruling, although the ruling is not binding on the taxpayer. However, the taxpayer may contest a favorable ruling only after the tax authorities actually applied it to the taxpayer's situation.

Administrative rulings concerning the taxation of a specific taxpayer or group of taxpayers are effective only for the period in which they are issued. If the ruling is issued within three months from the end of the tax period, it may be applied for the preceding tax period. At the end of the period for which the ruling remains effective, the taxpayer must take steps to obtain a new ruling, if a ruling still is needed.

This rule is not applicable to authorizations for deferrals of payments and approvals of guarantees, depreciation allowances and sales of shares that are publicly traded.

3.8 Other taxes on business

Taxation of oil production

Companies engaged in oil exploration and production are subject to a special tax regime as set out in the Hydrocarbons Revenue Law (effective as from August 2014). Previously, PEMEX (the national oil company), was the sole participant in the industry. The legislation sets out the rights and responsibilities, including applicable contributions and taxes, of the Mexican government and private companies with respect to contracts for the exploration and extraction of hydrocarbons. The law also establishes a framework for government/private company participation in such activities and a tax regime for income arising from such activities. Mexican state-owned production entities and Mexican corporations may participate in public tenders individually, as joint ventures or as consortia.

Four types of agreement may be concluded by the government and Mexican state-owned companies or private parties:

- Licensing agreements;
- Production sharing contracts;
- Profit sharing agreements; and
- Services agreements.

Assignments are exclusively granted to the Mexican state-owned companies.

The most significant features of the hydrocarbons legislation are as follows:

- Each public bid for the blocks to be contracted for the exploration and extraction of hydrocarbons must comply with the fundamental principles included in the Mexican Constitution, the Hydrocarbons Law, the Hydrocarbons Revenue Law and the entire new legal framework for the sector.
- Specific rates over the contractual price or operating revenue for the government take are derived from the contractual arrangements owing to significant differences in the risk and cost structure of different areas/blocks with similar structures, following the general principles set out in the Hydrocarbons Revenue Law.
- Exploration phase fees, as well as royalties, apply.
- The normal 10-year carry forward period for net operating losses is extended to 15 years for taxpayers that carry out activities in deep water offshore wells.

- Special depreciation rates apply as follows:
  - 100% on assets used for exploration, secondary and enhanced recovery and maintenance;
  - 25% on assets used for the development and exploitation of fields; and
  - 10% on investments for storage and transportation (e.g. pipelines, tanks, etc.).
- A 0% VAT rate applies on hydrocarbon exploration and extraction activities to the extent that the activities are carried out with the Mexican Oil Fund (the institution created to manage the resources obtained by the contracts and assignments granted).
- In addition to the consideration paid by a contractor to the Mexican federal government, the contractor is required to pay to the municipal and state governments a monthly tax for the exploration and extraction of hydrocarbons. The tax is used to pay for the environmental impact of the activities and is payable at MXN 1,150 per square kilometer (km^2) during the exploration phase and MXN 6,500 per km^2 during the extraction phase.

Taxation of mining income

A special mining right royalty of 7.5% is applied to net profits derived by a concession holder from the sale or transfer of extraction activities. Profits for purposes of the royalty are determined in a manner similar to the calculation of general taxable income, with some exceptions (e.g. interest and the annual inflation adjustments are not included in income and deductions are not available for investment in fixed assets, interest and the annual inflation adjustment, etc.). The mining royalty must be paid annually by the last business day of March of the year following the tax year.

If a concession holder does not carry out exploration and exploitation activities for two continuous years within the first 11 years of its concession title, it is required to pay an additional charge equal to 50% of the maximum fee. The fee will be increased to 100% for continued inactivity after the 12th year. Payment of the additional mining duty is due 30 days after the end of the two-year period.

Owners of mining concessions also are required to pay an additional 0.5% tax on gross income derived from the sale of gold, silver and platinum. The mining royalty is due annually by the last business day of March of the year following the tax year.

4.0 Withholding taxes

Mexican entities that make payments to resident individuals or nonresident entities or individuals are required to withhold and pay the tax over to the Mexican tax authorities on behalf of the recipient. Withholding agents must file an annual information return detailing transactions with nonresidents. Tax withheld generally must be paid by the 17th day of the month following the month of the withholding. Withholding agents are jointly liable for the incorrect withholding and/or failure to pay, and may be subject to additional interest and penalties.

4.1 Dividends

Mexico imposes a 10% withholding tax on dividends distributed by a Mexican entity to a nonresident company or individual. The tax is considered a final tax and the rate may be reduced under an applicable tax treaty.

A 10% withholding tax also is imposed on dividends distributed by a Mexican entity to individuals resident in Mexico, which may be reduced if profits generated in 2014, 2015 and 2016 are reinvested and distributed as from 2017, as follows:

Year of distribution of dividend	Withholding tax rate (%)
2017	1
2018	2
2019 onwards	5

4.2 Interest

Mexico levies several different rates of withholding tax on interest paid abroad. The rates are as follows:

- 4.9% on interest paid to foreign banks registered as banks in Mexico and resident in tax treaty countries; and interest paid to nonresident financial institutions in which the federal government owns a percentage of the paid-up capital, provided certain conditions are satisfied and they are the beneficial owners of the interest. The 4.9% rate also applies to interest paid in respect of publicly traded securities in Mexico and securities publicly traded abroad through banks and stockbroking firms in a country that has concluded a tax treaty with Mexico; however, if these conditions are not satisfied, the rate is 10%.
- 15% on interest paid to reinsurance companies and interest on finance leases.
- 21% on interest that is not subject to the 4.9% or 10% rates and interest paid to nonresident suppliers financing the acquisition of machinery and equipment that is included in the fixed assets of the acquirer.
- 40% on interest paid to a related party located in a tax haven.
- 35% in all other cases.

4.3 Royalties

Payments made abroad for technical assistance, know-how, use of models, plans, formulae and similar technology transfer, including use of commercial, industrial or scientific information or equipment, are subject to 25% withholding tax. Royalties paid to a foreign licensor of patents, trademarks and trade names—without the rendering of technical assistance—are subject to 35% withholding tax, unless the rate is reduced under an applicable tax treaty.

Business enterprises that pay fees or make rental payments to a nonresident must withhold 25% tax on such payments. An information statement must be submitted to the tax authorities in February of the following year.

Mexican-source royalty payments made to related parties located in a tax haven are subject to a punitive 40% withholding tax rate rather than the normal withholding tax rates applicable to payments abroad.

4.4 Branch remittance tax

Permanent establishments distributing dividends or gains to a head office are subject to an additional tax of 10% on such distributions.

4.5 Wage tax/social security contributions

Payroll taxes apply at the state level at rates ranging from 1% to 3% of salaries (3% in Mexico City) and the tax is withheld by the employer. All types of remuneration paid to an employee, including fringe benefits that are not tax-free, must be taken into account in calculating the monthly income tax withholding.

Some local tax authorities also require withholding on payments for personal independent services rendered in their territory where the service provider is not registered as a taxpayer and is resident outside the territory. The tax is deductible for income tax purposes.

Employers must contribute an amount equivalent to 2% of payroll to an employee retirement fund and 5% of the total payroll to a housing fund (which will be added to the retirement fund if not used for a housing credit) that, together, constitute a pension fund managed by private financial institutions.

In accordance with the incentive framework for sustainable economic growth of Mexico City, individuals or entities that establish environmental programs may receive, subject to validation by the Ministry of Environment, reductions in payroll taxes ranging from 20% to 40%.

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5.0 Indirect taxes

5.1 Value added tax

VAT is levied on the supply of goods, the provision of services, the import of goods or services and leasing transactions. Interest on non-business loans and credit card debt also is subject to VAT.

The standard VAT rate is 16%; VAT on imports is assessed on the customs value of the import, plus the import duty. A zero rate applies to exports and services used abroad if the services are contracted and paid for by a nonresident with a PE in Mexico. The following supplies are exempt: land and residential buildings; books and newspapers; share transfers; used chattels; tickets and other documentation permitting participation in lotteries, raffles, games of chance and competitions; national and foreign currency; gold and silver pieces; and the sale of goods between nonresidents or by a nonresident to a Mexican entity registered under an authorized program to promote the export of goods.

Special customs rules are applicable to maquiladoras that enable the sale of goods between nonresidents at an exempt VAT rate when the goods are delivered from one maquiladora to another, following certain customs formalities to virtually export the goods.

Temporary imports for maquiladoras and companies operating under the automotive bonded warehouse, strategic bonded warehouse or bonded warehouse regimes are subject to VAT at 16% at the time the goods are introduced into Mexican territory and may be subject to excise tax (ET) at various rates depending on the type of goods.

However, a maquiladora or bonded warehouse is allowed to apply a credit in the month the VAT or ET is due if the entity has been “certified” for VAT and ET purposes by the Mexican tax authorities. Companies that do not obtain the certification will be required to pay VAT and any applicable ET on their temporary imports under the customs regimes for maquiladoras and for companies operating under an automotive bonded warehouse, strategic bonded warehouse or bonded warehouse regimes; with the VAT and ET recoverable only after the goods are exported.

There are guidelines and requirements to obtain certification, as well as the benefits. A three-tier rating system (A, AA and AAA) is used to assess the controls and overall tax and customs compliance of maquiladoras or companies operating under the regimes of automotive bonded warehouse, strategic bonded warehouse or bonded warehouse regimes. If maquila companies or companies operating under one of the bonded warehouse regimes do not obtain a certification for VAT and ET purposes, such companies may use as an alternative a bond issued by a financial institution.

Companies may credit VAT payments against income or other tax payments; if the excess cannot be credited in its entirety, the taxpayer may apply for a refund.

Under the VAT regime, each party in the supply chain charges VAT to its customer and pays the difference between the tax charged by its suppliers and the tax charged to its customers to the tax authorities. VAT is borne by the ultimate consumer.

Since export activities are zero-rated, exporting companies may derive favorable VAT balances that are subject to refund/offset.

Companies must submit a VAT return on a monthly basis, making the VAT payments for the preceding month, by the 17th day of the month. For imports, VAT is based on the customs value plus tariffs.

VAT taxpayers must periodically submit information on their main clients, service providers and suppliers.

All entities engaging in VATable transactions in Mexico must register for VAT purposes. Nonresident entities that have a PE in Mexico for income tax purposes, also must register.

Mexico does not allow VAT grouping.

5.2 Capital tax

Mexico does not levy capital tax.

5.3 Real estate tax

The municipal authorities levy “rates” on the ownership of real property. Rates are deductible in calculating corporation tax liability.

5.4 Transfer tax

Transfer tax at a rate between 2% and 5% applies to the transfer of real estate.

5.5 Stamp duty

Mexico does not levy stamp duty.

5.6 Customs and excise duties

Customs duties must be paid on the import or export of goods according to the following:

- General import and export tax – determined according to the tariff classification number of the goods;
- Customs processing fee – paid for using the Customs facilities, personnel and systems, etc.;
- Electronic prevalidation data – approximately 16 USD per import document processed;
- VAT – payable at 16% on imports and 0% on exports;
- Excise tax – determined according to the nature of the exported goods; and
- Special tax on production and services – see below under 5.7 and 5.8.

The treatment of goods imported into Mexico and the tax and customs obligations are determined based on the purpose of the foreign trade transaction. These purposes are classified into five customs regimes for imported goods: definitive, temporary, transit of goods, fiscal deposits “in bond” and strategic bonded warehouse.

As noted above, Mexico has concluded a number of free trade agreements and has introduced the PROSEC and IMMEX regimes.

PROSEC aims to encourage the manufacture of products in Mexico within strategic industrial sectors, with the main objective of improving competitiveness. PROSEC basically enables the import of specific goods (e.g. components, parts, raw materials, capital assets, etc.) at listed preferential general import duty rates, provided these are used only in the manufacturing process, with no conditions on the place of origin and no requirement to export the resulting products.

The IMMEX regime also was created to encourage foreign investment by granting authorized companies certain tax and customs benefits, which include:

- Possible deferral of and in some cases exemption from, the general import duty;
- Administrative and customs benefits to facilitate operations and reduce costs; and
- Tax benefits (see above under 1.5).

Under the IMMEX program, VAT at 16% is paid on imports. However, a maquila company can avoid paying the VAT/ET upon import by obtaining certification from the Mexican tax authorities. If a maquiladora is certified, VAT technically will be imposed on goods imported for use in maquila production activities, but will be eliminated by a full tax credit so that no cash VAT will be imposed on such transactions. If the maquiladora cannot obtain certification, it will be able to satisfy its liability for VAT/ET duty on temporary imports by providing security via a bond issued by an authorized entity.

5.7 Environmental taxes

Mexico imposes tax on to the import and sale of fossil fuels other than natural gas, with specific rates for certain types of fuel. The tax will be payable through carbon credits, which are defined as those authorized in the Kyoto Protocol and supported by the UN within the UN Framework Convention on Climate Change. A second environmental tax applies on the import and sale of pesticides at rates ranging between 6% and 9%, depending on the degree of toxicity.

5.8 Other taxes

Tax on production and services

A tax on production and services is charged on manufacturers and wholesalers of certain goods, including alcoholic beverages and tobacco. The rates vary by product.

"Junk food" tax

A tax is levied on beverages containing sugar at a rate of MXN 1 per liter and an 8% tax is imposed on food with a calorific density of 275 kilocalories or more for every 100 grams.

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6.0 Taxes on individuals

Mexico Quick Tax Facts for Individuals	
Income tax rates	Progressive up to 35%
Capital gains tax rates	10%/progressive up to 35%
Basis	Worldwide
Double taxation relief	Yes
Tax year	Calendar year
Return due date	April
Withholding tax	
− Dividends	10%
− Interest	4.9%/10%/15%/21%/35%/40%
− Royalties	25%/35%/40%
Net wealth tax	No
Social security	Varies
Inheritance tax	No
Real estate tax	State/municipal level
VAT	16%
Excise tax	Varies

6.1 Residence

An individual is resident if he/she has a permanent home in Mexico. If an individual has a home in two countries, the key factor is the location of his/her center of vital interests. Foreign nationals, in principle, are considered tax residents, subject to the permanent home and/or center-of-vital-interests test.

In terms of the immigration law, foreign nationals permanently residing in Mexico enjoy the same rights as citizens (other than the right to vote) and incur the same responsibilities. Permanent resident status, which is completely different to tax status, may be obtained after residing in Mexico for four years.

6.2 Taxable income and rates

Resident individuals (regardless of their nationality) are subject to Mexican income tax on their worldwide income. Nonresident individuals are taxed only on Mexican-source income.

Taxable income

Individuals are taxed on income received in cash, in kind or credit, and in certain cases, in services. Taxable income includes remuneration for personal services (including salary, bonuses and special allowances, such as housing), interest, corporate dividends paid out of gross income, capital gains, rental income, etc. Pension benefits are tax-exempt up to nine times the legal minimum salary for the region. Severance payment benefits are exempt up to 90 times the daily base salary of the region multiplied by the number of years for which the individual has been employed.

Individuals with business or professional income are subject to ordinary income tax rates and may deduct normal business expenses according to rules similar to those for business enterprises.

In calculating capital gains for tax purposes, individuals are entitled to increase the historical cost of an asset by a factor to allow for inflation and reduce the cost by accumulated depreciation at a rate varying with the type of asset. The difference between the result and the sales price constitutes the net gain. Based on the number of years for which the asset was held, a certain proportion of the net gain is added to other taxable income to determine the top rate of tax payable.

Capital gains arising from an individual's sale of publicly traded shares, including financial derivative operations relating to such shares, are subject to tax at 10%.

Some states and the federal district impose separate taxes on wages and salaries, which are usually payable by employers.

Deductions and reliefs

The following expenses are deductible in computing taxable income for personal income tax purposes:

- Medical and dental fees and hospital expenses incurred by the taxpayer and the taxpayer's spouse or other dependents with income no higher than the annual minimum salary;
- Unlimited medical and dental fees and hospital expenses incurred by a taxpayer with a disability;
- Health insurance premiums and charitable donations;
- Mortgage interest payments (real interest) when mortgage credit is up to 750,000 investment units or *Unidades de Inversión* (UDIS);
- Personal pension account contributions; and
- School transport costs of direct descendants, when such transport is mandatory under domestic law.

All personal deductions (except those expressly mentioned above) are limited to the lower of: (i) five times the annual minimum salary or (ii) 15% of the total income (taxable and nontaxable).

Taxpayers whose income consists of professional fees may deduct normal and documented expenses, similar to those deductible by businesses. A simplified tax system for individual taxpayers that engage in business activities is available, known as the Tax Incorporation Regime or RIF.

Rates

Personal income tax rates are progressive up to 35%. Employers withhold provisional tax payments on wage income.

Dividend income is added to other taxable income and taxed at the appropriate progressive rate.

Capital gains arising from a sale of publicly traded shares by an individual, including financial derivative operations relating to such shares, are subject to capital gains tax at 10%.

Nonresidents on temporary assignment working for firms or subsidiaries based in Mexico are exempt from income tax on the first MXN 125,900 of income for a period of 12 months; they are taxed at 15% on income from MXN 125,901 to MXN 1 million; and all income in excess of MXN 1 million is taxed at 30%, with no deductions allowed. Nonresidents on temporary assignment that are paid by nonresident foreign firms are exempt from income tax if the employee spends less than 183 days (which need not be consecutive) in Mexico in a 12-month period. Otherwise, the employee will be subject to tax. Taxes paid as a nonresident are considered final and there is no obligation to file annual tax return.

6.3 Inheritance and gift tax

Mexico does not levy inheritance or gift tax.

6.4 Net wealth tax

Mexico does not levy a net wealth tax.

6.5 Real property tax

The municipal authorities levy “rates” on the ownership of real property. These are deductible in calculating an individual’s taxable income from the letting of such property.

6.6 Social security contributions

Employed individuals are required to make social security contributions based on salary, subject to a ceiling of 25 times the daily minimum wage salary of the region.

6.7 Other taxes

None

6.8 Compliance

The tax year for resident individuals is the calendar year. The tax year for nonresidents who pay income tax on Mexican-source compensation is the 12-month period that commences with the first month for which the nonresident is subject to tax.

Married individuals may not file a joint tax return. If both spouses have taxable income, each spouse must file a separate return.

Tax on employment income is withheld by the employer and remitted to the tax authorities. Income not subject to withholding is self-assessed; the individual must file a monthly tax return by the 17th of the following month. An annual tax return must be filed in April of the following year.

7.0 Labor environment

7.1 Employee rights and compensation

Labor relationships in Mexico are regulated by the Mexican Federal Labor Law (MFLL) and the Mexican constitution. The MFLL regulates labor agreements, compensation, forms of payment, hours of work, legal holidays and paid vacations, among other working conditions, as well as labor unions, strikes and termination of employment. The MFLL also regulates outsourcing arrangements, which are common in Mexico, under which one company contracts to provide services for another company that could also be or usually have been provided in-house.

Regulations issued by the Ministry of Labor and Social Welfare specify allowable workplace practices with a focus on assessing risk, preventing accidents and educating workers on potential hazards. The safety regulations emphasize self-regulation and allow private sector “certifiers” to conduct safety inspections.

Working hours

The work week consists of eight hour days for the day shift, seven hour days for the night shift and seven and a half hour days for a mixed shift, with a half hour break in all cases. For every six day work period, an employee is entitled to one day of rest with full pay (compensation is calculated on a seven day week). Overtime is paid at twice the normal rate and may not exceed nine hours per week. Any additional hours worked must be paid at triple the normal rate. Workers receive a 25% premium for Sunday work.

7.2 Wages and benefits

The National Minimum Wage Commission, a tripartite group comprising representatives of business, labor and government, set the general minimum wage for 2016 at MXN 73.04 per day. This rate is applicable to all individuals employed in the Mexican territory.

The average increase approved for 2016 to the general minimum wage and the minimum wages specified for various professions was 4.2%. Typical minimum professional wages include:

Profession	Minimum daily wage (MXN)
Reporter	218.87
Social work technician	120.40
Repairman	110.40
Carpenter	104.51
Driver	99.25
Bartender	96.65
Petrol station employee/security guard	94.30
Supermarket/hotel employee	92.32

Under a compulsory form of profit sharing, all firms must distribute 10% of their pretax profits to employees (some exceptions apply to partnerships).

Pensions

Employers must contribute an amount equivalent to 2% of payroll to an employee retirement fund and 5% of the total payroll to a housing fund (which will be added to the retirement fund if not used for a housing credit) that, together, constitute a pension fund managed by private financial institutions. The usual retirement age is between 65-70.

Social insurance

The social security system, administered by the Mexican Institute of Social Security (*Instituto Mexicano del Seguro Social* or IMSS), provides many benefits. Its programs cover work-related accidents and illness; non-occupational diseases and paid maternity leave; old age and various death benefits; and unemployment insurance. The cost of the system is shared between employers, employees and the government. Employers generally bear most of the cost, with their share being approximately 20% to 30% of payroll.

Other benefits

Certain forms of employee compensation are tax-exempt for the employee, e.g. fringe benefits, employees' savings and loan funds, severance payments, annual bonus, overtime, vacation premium, Sunday premium and the exempt portion of employee profit sharing. Only 53% of such payments are tax-deductible for the employer. Where an employer reduces the amount of such forms of compensation, the deductibility threshold for the employer is reduced to 47%.

The MFLL grants seven paid holidays annually, plus one for inauguration day every sixth year. Labor contracts provide for another nine to 10 days of paid holiday. After working for a year, employees are entitled to at least six days' paid vacation, increased by two days for each of the subsequent three years. A bonus of 25% of normal pay during the vacation period is mandatory. Furthermore, a Christmas bonus of 15 days' pay also is obligatory and must be paid before 20 December. Companies must contribute a sum equal to 5% of payroll to the national workers' housing institute (Infonavit); funds go into special accounts for employees (see Pensions above).

Companies with more than 100 employees must maintain a fully equipped infirmary under the supervision of a qualified doctor; firms with more than 300 employees must establish hospital facilities.

In addition to the mandatory fringe benefits, most labor contracts provide for "voluntary" benefits such as savings plans, life insurance, lunches and food coupons (*vales de despensa*). Most large companies maintain a canteen on the premises that provides below-cost meals to employees. Many companies supply work clothes. Some employers set up additional incentive plans to stimulate production and sales. To qualify for tax deductions, fringe benefits generally must be provided to all employees.

7.3 Termination of employment

Unless dismissed for cause (such as dishonesty or excessive absenteeism), laid-off employees are entitled to an amount equivalent to three months of salary ("fixed indemnity"), plus an amount equivalent to 20 days of salary for every year worked. Employees with more than 15 years' service additionally receive an amount equivalent to 12 days' salary for each year, up to a ceiling of the equivalent of 12 days' salary at twice the minimum wage at the time of dismissal, multiplied by the number of years. An employee who successfully sues his/her employer for wrongful dismissal has the right to receive as indemnification: (i) the fixed indemnity; (ii) during the legal proceedings, for up to 12 months, 100% of accrued wages ("capped variable indemnity"); and (iii) from the 13th month and thereafter, only the equivalent of 2% monthly interest on the amounts determined under (i) and (ii).

Workers who are unfairly dismissed may choose between reinstatement and indemnification amounting to three months' severance payment. Employers may refuse to reinstate employees with less than one year of service, but must then add 20 days of pay for each year of service to the standard three months' severance pay or pay half the time worked, if it is less than a year.

7.4 Labor-management relations

Nearly 40% of Mexico's workforce is unionized; unions represent some 80% of industrial workers in establishments with more than 20 employees. Most of these employees belong to one of the nine national labor federations. Only about 20% of unionized workers belong to single-company unions; the remainder are members of nationwide organizations. Federal law requires that collective bargaining agreements be renewed at least once every two years. Salaries must be reviewed annually.

Strikes are legal only when employers refuse to comply with a legal or contractual obligation (e.g. to make or revise a union contract, to accept an award by an arbitration board or to make mandatory profit-sharing payments). A strike also may be called to support another strike, provided the majority of employees agree. Unions must follow specific procedures when initiating such actions.

7.5 Employment of foreigners

According to the provisions of the MIL, at least 90% of a company's skilled and unskilled employees must be Mexican nationals. A special provision permits temporary employment of foreign technicians (up to 10%) if a company can prove that skilled employees are not available locally. The 10% limit does not apply to managers, directors and other key officers, who must secure special immigration permits. Operations along the border with the US are exempt from the personnel requirements.

Visa requirements

The Immigration Law and its Regulations (MIL) provide for several different types of immigration status and visa according to the length of the visit and the income that the individual may earn whilst in Mexico. Amongst the types of visa that foreigners can request from the Mexican National Immigration Institution (NII) to travel to Mexico are: (i) visitor with a permit to perform nonprofit activities; (ii) visitor with a permit to perform profitable activities; and (iii) a temporary resident.

Visitor with permit to carry out nonprofitable activities

This visa is applicable for foreigners who remain or travel in Mexico for up to 180 days from their date of arrival, whether or not continuous. The visa allows the foreign citizen to perform any lawful activity, provided they do not receive any income for doing so. Foreign citizens wishing to apply for such a visa should, prior to their arrival, check the list of nationalities that require a consular visa in advance. If an individual's nationality is included on the NII list and the individual holds one of the following visas, they may enter Mexico without requesting a consular visa:

United States:

- Permanent resident card;
- Temporary permanent resident card expired, plus the notice of action (I-797 Form), indicating that the status has been extended;
- US immigrant visa;
- US re-entry permit (I-327 Form);
- Transportation letter issued by the US government;
- Alien documentation, identification and telecommunication stamp (ADIT) on the passport or on the I-94 Form; or
- US refugee travel document.

Canada, Japan, UK, Schengen area:

- Permanent resident card.

Visitor with permit to perform profitable activities

This visa is applicable for foreigners who remain or travel in Mexico for up to 180 days from their date of arrival, whether or not continuous. The visa allows a foreign citizen to perform any lawful activity and to receive any kind of remuneration for its performance.

To obtain the visa, regardless of an individual's nationality, the Mexican company or PE employing the individual must first register an application with the NII. This process may take up to 20 business days.

Temporary resident

This authorizes a foreign citizen and certain relatives to enter Mexico and remain for a period of no longer than four years. Such relatives (including a spouse, children, parents, siblings, aunts and uncles) must continue to be economically supported by the main temporary resident visa holder throughout the duration of their stay. In all cases, the first visa will be issued for one year and can then be renewed up to a maximum of four years, provided the conditions applicable when the status was granted are unchanged.

As with the visa for a visitor with permit to perform profitable activities, to obtain a temporary resident visa, the Mexican employer must first register an application with the NII.

8.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database that places up-to-date worldwide tax rates and other crucial tax information within easy reach. DITS is accessible through mobile devices (phones and tablets), as well as through a computer.

Connect to the source and discover:

A database that allows users to view and compare tax information for 65 jurisdictions that includes –

- Corporate income tax rates;
- Historical corporate rates;
- Domestic withholding tax rates;
- In-force and pending tax treaty withholding rates on dividends, interest and royalties;
- Indirect tax rates (VAT/GST/sales tax); and
- Information on holding company and transfer pricing regimes.

Guides and Highlights – Deloitte's Taxation and Investment Guides analyze the investment climate, operating conditions and tax systems of most major trading jurisdictions, while the companion Highlights series concisely summarizes the tax regimes of over 130 jurisdictions.

Jurisdiction-specific pages – These pages link to relevant DITS content for a particular jurisdiction (including domestic rates, tax treaty rates, holding company and transfer pricing information, Taxation and Investment Guides and Highlights).

Tax publications – Global tax alerts and newsletters provide regular and timely updates and analysis on significant cross-border tax legislative, regulatory and judicial issues.

Tax resources – Our suite of tax resources includes annotated, ready-to-print versions of holding company and transfer pricing matrices; a summary of controlled foreign company regimes for the DITS countries; an R&D incentive matrix; monthly treaty updates; and expanded coverage of VAT/GST/sales tax rates.

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