



JA Del Río

# Doing Business in Mexico



# Agenda

Part 1: When should a legal entity be established?

Part 2: Corporate Tax

Part 3: Value-Added Tax [in Spanish: Impuesto al Valor Agregado] (IVA), and other indirect taxes

Part 4: Labor issues and banks

Part 5: Different tax matters

The background of the slide is a photograph of a circular architectural feature, possibly a skylight or a large window in a building. It consists of a central white circle surrounded by a ring of smaller, rectangular windows. Two decorative, circular medallions are positioned at the top and bottom of the central white circle.

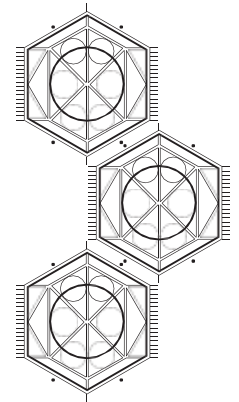
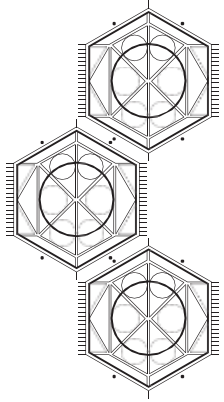
## PART 1

When should a legal entity  
be established?



## Doing business before incorporating a company in Mexico:

- Exporting a product directly from abroad to the end-user in Mexico, since that is the registered importer.
- Promote the product or perform other activities that can be considered preparatory or auxiliary.
- An analysis related to the activities to be developed prior to the incorporation of a Mexican entity must be carried out according to Mexican legislation and specific requirements for the transaction or activities.





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## Employers or contractors

The necessity of having permanent personnel working directly for the foreign company based in Mexico may create the need for incorporating a company.

This can establish a working relationship between the Mexican individual and the foreign entity, which risks the Permanent Establishment (PE) of the foreign entity in Mexico.

# When should you establish in Mexico?

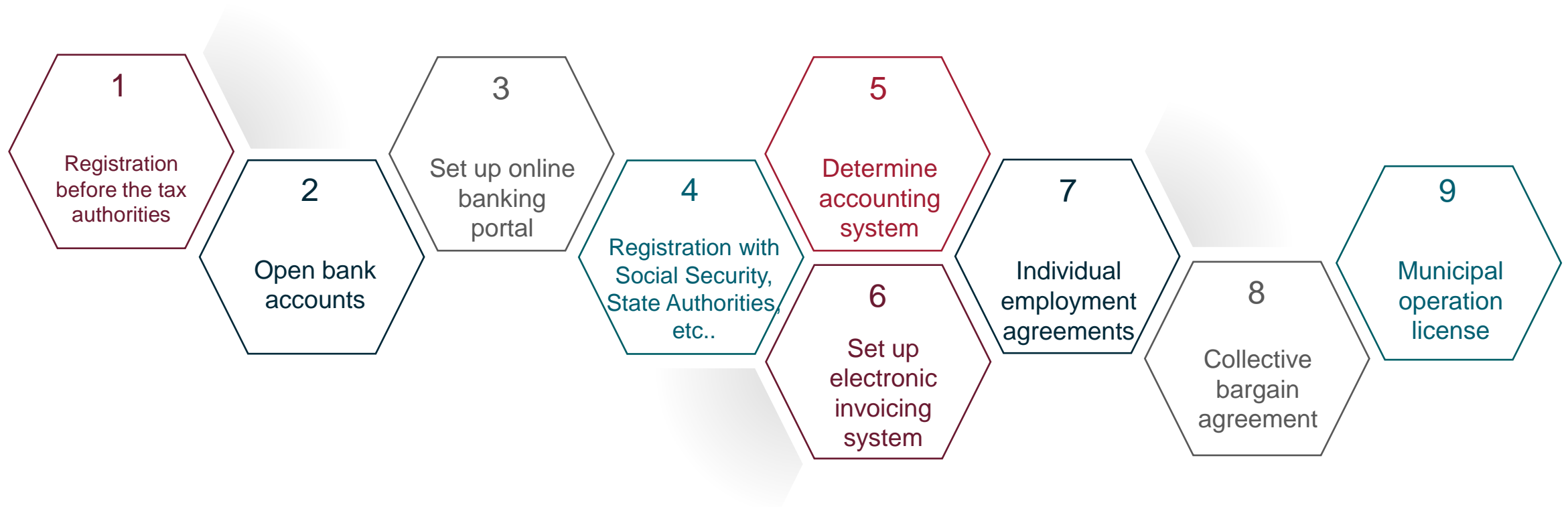
Most of the time companies begin to do business in Mexico through distributors or agents. However, once the size of the operation grows, clients of the company usually insist on having a local presence. One of the common triggers for this is when the clients of the company no longer want to deal with imports or the logistics of importing merchandise.

There is no minimum number or value of transactions in order to be incorporated.





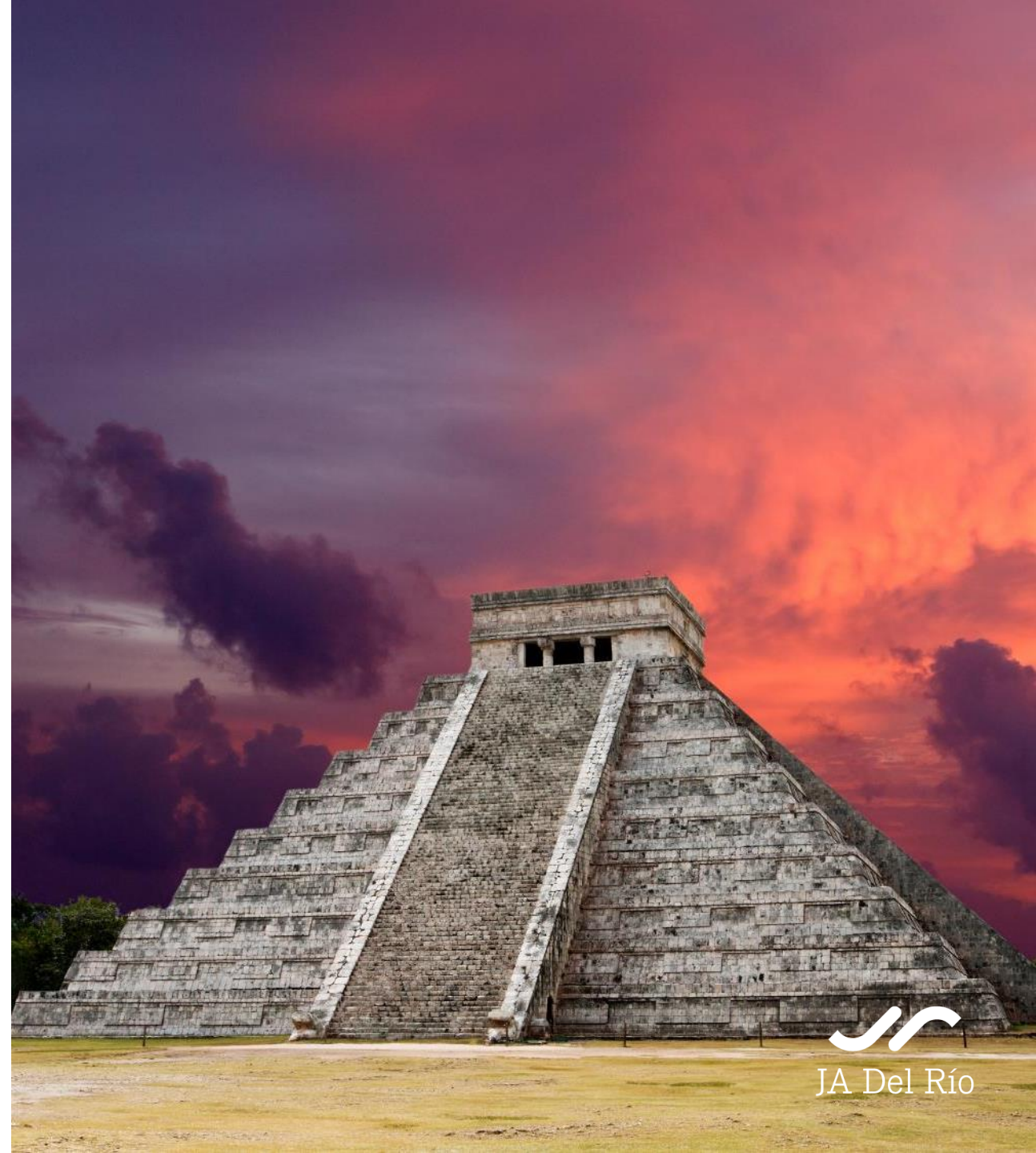
# Start up items



# Official Register of Importers

In order to import any type of physical product, a company must first get what is known as: “an Official Register of Importers”. Once obtained, it is no longer required to file periodic returns.

To obtain this registry, you need a Taxpayer ID number [in Spanish: RFC]



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# Types of business corporations

- Limited Liability Company (acronym in spanish: Sociedad de responsabilidad limitada / S. de R.L.)
- Corporation entity (acronym in Spanish: Sociedad anónima / S.A.)
- Others



The background of the slide is a photograph of a circular architectural structure, possibly a dome or a large atrium. It features a central white circular area surrounded by a ring of numerous rectangular windows. The windows are arranged in a circular pattern, and some of them are illuminated from within, casting a warm glow. The structure is made of a light-colored material, possibly concrete or stone.

## PART 2

# Corporate Tax



# Income Tax

- Corporate tax rate 30%
- Worldwide taxable income
- Tax payment procedure- monthly and annually
- Profit ratio for calculating estimated monthly payments
- Revenue recognition
  - When issuing an invoice
  - When providing a service or delivering goods
  - Collection (totally or partially paid)
- Authorized Deductions
  - Cost of sales
  - Depreciation of assest
  - Foreign charges (royalties, interests, management fees, intercompany charges)
  - Others





# Income Tax

Adoption of BEPS actions:

- Greater scope or definition for PE
- Limitations on crediting “Income Tax” paid abroad
- Limitations on deduction of interests expense
- Digital Economy
- Hybrid mechanisms
- Reportable schemes





## Dividend tax rate

There is a 10% withholding for dividend payments:

- It would not apply to profits generated prior to 2014.
- Applies to the distribution of dividends made by Mexican companies to Mexican individuals and foreign shareholders, not to other Mexican companies.
- Treaties for avoiding double taxation would allow a tax exemption or the application of a lower rate (subject to compliance with requirements).



A high-angle, circular view looking down into a large, circular atrium or courtyard. The central feature is a large, bright white circular skylight. Surrounding this central area is a wide, light-colored concrete or stone circular band. Embedded in this band are numerous rectangular windows or openings, some of which are illuminated from within, casting a warm glow. At the very top and bottom of the central white circle, there are small, intricate, circular decorative elements that resemble stylized sunbursts or floral motifs.

## PART 3

Value-Added Tax [in  
Spanish: Impuesto al Valor  
Agregado] (IVA), and other  
indirect taxes



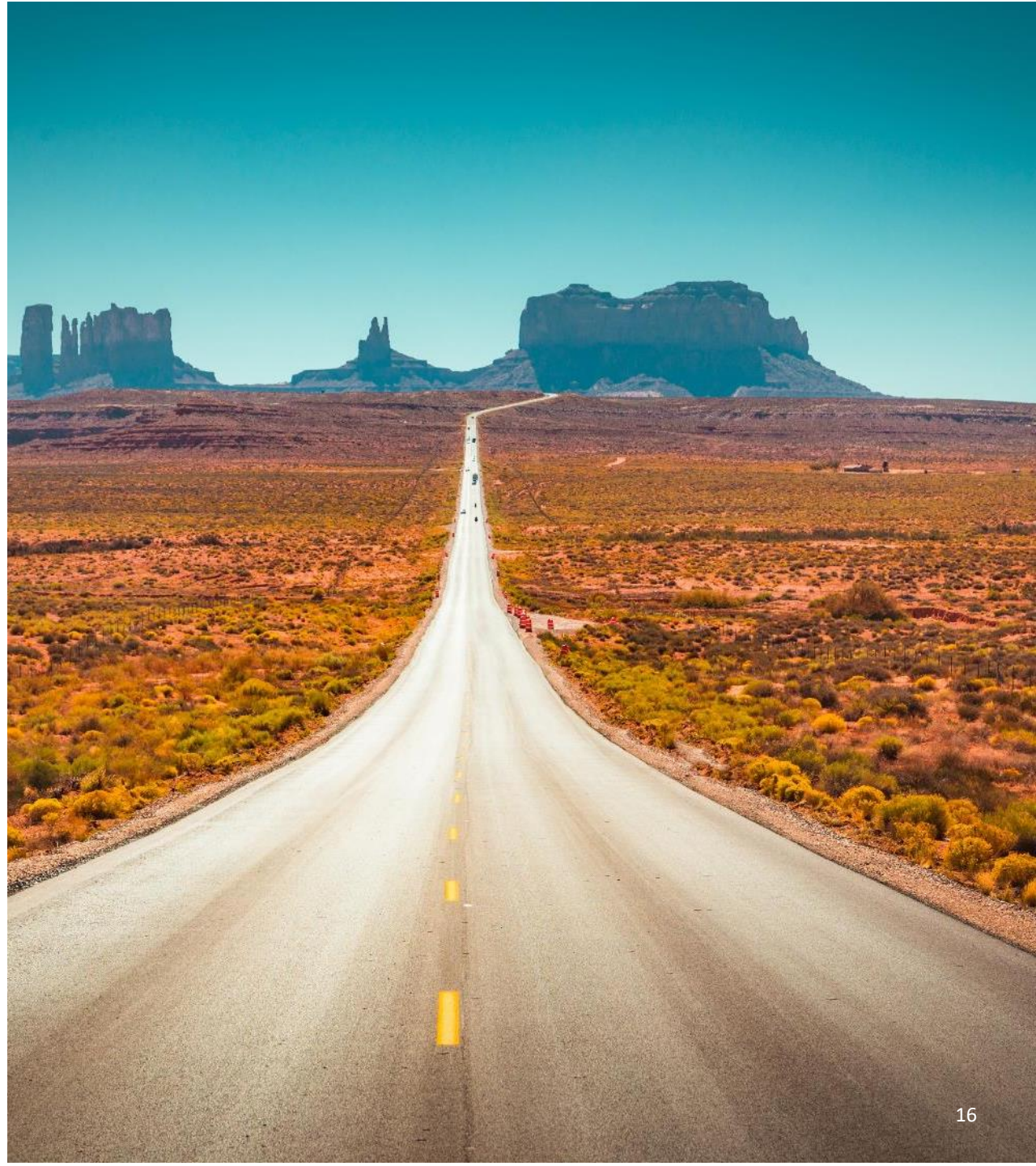
# Value-Added Tax

- The Value-Added Tax is an indirect tax.
- In general terms, it is calculated based on cash flow.
- The standard VAT rate is 16%.
- Particular cases: 8%, 0%, exempt.

## Value-Added Tax

The company incurs VAT when it carries out any of the following activities:

- Alienation of goods,
- The temporary use or enjoyment of goods
- Rendering/Provision of services
  - Digital services by residents abroad.
- Importing of goods,







# Value-Added Tax

- A calculation is made between charged VAT to customers and paid VAT to suppliers, in order to determine the monthly tax payment.
- The net of both is what is paid to the government, or in such case a balance in favor will be generated.
- This tax will not impact the company's P&L, as the VAT is an indirect tax, and will be only recorded in the balance sheet.
- Recovery balances in favor:
  - Credit against VAT in charge; or
  - Refund.



A low-angle, upward-looking shot of a circular architectural space. The ceiling is a light-colored, curved surface with a series of rectangular windows or skylights arranged in a circular pattern. Two decorative, circular medallions are visible on the ceiling, one near the top and one near the bottom. The central area is a bright, circular opening, likely a skylight.

## PART 4

### Labor issues and banks





# Profit Sharing

Mexican companies are obligated to distribute 10% of their taxable profit to their workers, limited to (what is most favorable for the worker):

- Three months of salary; or
- The average profits distributed of the last 3 years

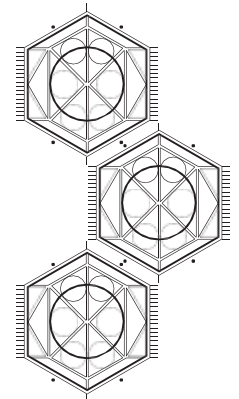
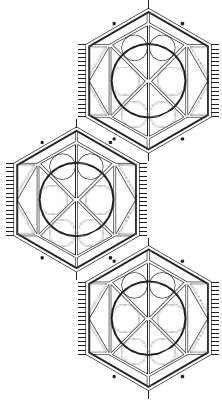
The base is slightly different than the Income Tax base.

Risk factors:

- Labor unions.
- In/outsourcing  
(Specialized services)

## 2021 Labor Reform

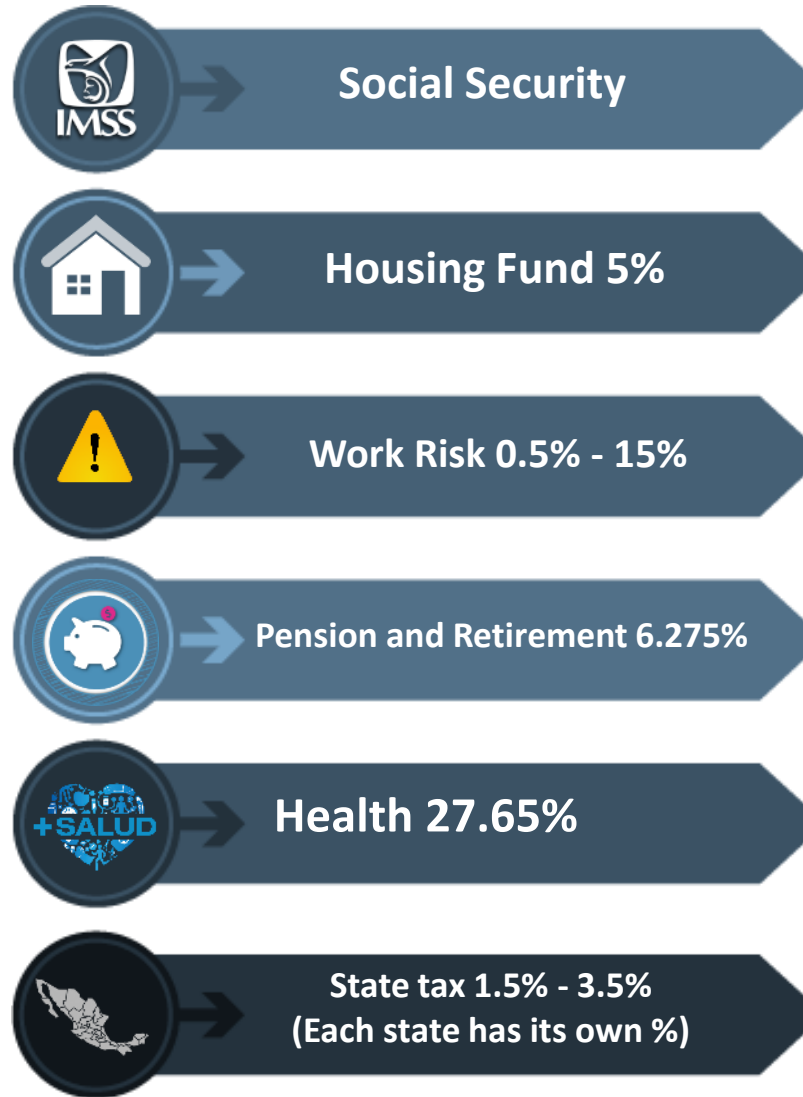
- Objective: improve labor conditions for Mexican workers and increase tax revenue.
- Labor subcontracting is forbidden.
  - Disposition of employees in favor of another company in which the service rendered involves the core-business activity of the one receiving it.
- Except when dealing with specialized services
  - Those who are not within the company's business purpose and require special training or equipment.
  - Register with the Department of Labor and Social Services [in Spanish: la Secretaría del Trabajo y Previsión Social]
- Tax exposure
  - No Income Tax deduction
  - No VAT credited
  - Tax fraud





## Social security and other payroll taxes

It is important to mention that various taxes integrate the payroll costs to the employer in Mexico:



# Banks

Mexico has a developed financial sector, with global financial institutions, such as Citibank (Banamex in Mexico), BBVA, HSBC, and Scotiabank. There are no monetary controls that restrict the flow of money into or out of Mexico. It is worth noting that the exchange rate fluctuates based on the market.

It is important to determine which bank to use. There are institutions that ask for an immigration permit to open an account, and there are banks that only request identification of the country of residency.





A low-angle, upward-looking photograph of a circular architectural structure, likely a dome or a large atrium. The structure is composed of a series of concentric rings of grey concrete or stone. Numerous rectangular windows are set into the walls, some of which are illuminated from within, casting a warm glow. At the very center is a large, bright white circular skylight. Two decorative, circular medallions with intricate geometric patterns are positioned on the upper and lower inner walls, flanking the central skylight.

## PART 5

### Different tax matters



# Electronic Invoicing

- Obligatory for all taxpayers since 2014
- Issuance of a Digital Tax Receipt (acronym in spanish “CFDI”) for each transaction made
- Issuance of a CFDI for each payment received (CFDI complement for VAT control)
- CFDI cancelation request must have the consent of the receiver
- Each product or service has an specific ID
- Cancellation of digital stamps
- Special cases:
  - Abroad Payments - Digital Tax Receipt
  - Payroll - Digital Tax Receipts
  - Merchandise transfer - Digital Tax Receipts
  - Exportation - Digital Tax Receipts
  - Among others



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# Electronic Accounting

- A standard requirement to perform electronically oversight review.
- It allows the Tax Administration Service [in Spanish: SAT] to have access to the accounting of contributors without having to initiate the powers to countercheck.
- An XML format is submitted.
- The obligation entails providing the following to the authorities:
  - Chart of accounts (provided by each change in the list of accounts).
  - Trial balance (monthly).
  - Electronic journal entries (by requirement of the authority).
  - Special accounts on an Annual basis.



An aerial photograph of a speedboat moving across the ocean towards the viewer. The boat is leaving a white wake behind it. The sky is filled with orange and yellow clouds, suggesting a sunset or sunrise. The water is a deep blue.

# Mexican GAAR – General Anti-Abuse Rule

- Objective:

To detect legal acts that lacks business purpose or reason, and as such, those that incur a direct or indirect tax benefit. For tax purposes, they will correspond to those who would have performed them for the creating of an economic benefit that is reasonably expected by the contributor.
- Business reason:

There is no business reason when the quantifiable economic benefit that is reasonably expected is less than the tax benefit.
- Simulated transactions or non-existent transactions:

When the tax authorities detect the issuance of receipts by the contributor without having the assets, personnel, infrastructure, or material resources; or the said contributors cannot be located. The non-existence of transactions covered by such receipts will be presumed.



# Transfer pricing obligations

- Companies in Mexico that carry out activities with related parties must have documentation that proves that the agreed on transactions are in accordance with what is established by law.
- Annual obligation when:
  - Income > MxN \$13M for entrepreneurial activities / MxN \$3M for the provision of services.
- Multiple Information Return (acronym in Spanish: “DIM”), Audited Financial statements [acronym in Spanish: SIPRED], and the Information about Tax status Return [acronym in Spanish: ISSIF].







# Transfer pricing obligations (BEPS)

As part of the international measures for avoiding base erosion, known by its abbreviation in English (BEPS), Mexico has adopted Action 13, which obligates companies in Mexico to submit the following informative returns as of December 31, 2017:

- Local File: Revenue greater than MxN \$842M, is the baseline pricing model for local transfers.
- Master File: Revenue greater than MxN \$842M, organizational structure, activities, intangibles, financial and tax position of group.
- Country by Country: Consolidated revenue greater than 12 billion [in Spanish: MxN \$12 mil millones], description of multinational group, restructurings, intangible assets, transfer pricing policies, global distribution of revenue, etc.





A low-angle, upward-looking photograph of a circular architectural structure, possibly a dome or a large atrium. The structure is composed of a light-colored, textured material, likely concrete or stone. A large, bright white circle is centered in the frame, representing the sky or a large opening at the top. Surrounding this central circle is a ring of numerous rectangular windows, each with a dark frame. The windows are arranged in a circular pattern, creating a sense of symmetry and depth. Two decorative, circular metal grilles are visible on the inner wall, one near the top and one near the bottom of the frame.

# Conclusions



# Recommendations:

- Analysis of operations and initial structure:
  - Perspective in Mexico
  - Effects at the corporate level in other countries
  - Compliance with BEPS recommendations
- Analysis of labor obligations and implications of Employee Profit Sharing [in Spanish: PTU]
- Designation of bank accounts
- Use of local or adapted accounting system





## Let ´s Talk!

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