



INTEGRA  INTERNATIONAL®
YOUR GLOBAL ADVANTAGE

DOING BUSINESS IN MEXICO





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Starting a Business

Starting a business in Mexico was once a complex minefield, but thanks to tough government action the procedure today is much more manageable. Mexico ranks 49 overall in the World Bank's Doing Business evaluation, and 90 for ease of starting a business. Still, there are several procedures which can be tricky to navigate for firms unfamiliar with the environment and with international companies.

Paying Taxes

Paying taxes is a laborious process in Mexico, taking more than 240 hours of business time per year, even though there are only six payments to be made. Salgado Contadores has the expertise on Tax legislation, Payroll, Bookkeeping, transfer pricing studies and audit in Mexico, is unique in the sense that, the basic accepted documentation supporting transactions is the invoice issued by the suppliers. Although the country is in the process of adopting IFRS, it is important that every foreign company coming into the country analyzes the regulatory and reporting differences, particularly for different industries.



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The Mexican Constitution provides a tax system that divides taxing power between the federation and the states. The municipalities are free to administer their own budgetary requirements, but their taxes must be approved by the State legislatures, which review the proposals presented by the respective municipal councils. Municipalities participate in the collection of state taxes but they are not constitutionally entitled to impose taxes directly (for taxes imposed at the state and municipal level, see Mexico – Baja California, Coahuila, Chihuahua, Mexico City, Guanajuato, Jalisco, Mexico, Nuevo Leon, Puebla and Veracruz – Corporate Taxation).

The taxes imposed by the federation and the states are subject to limitations based on the type of activity or property on which those taxes are imposed. There are activities over which the federation has the exclusive power to regulate taxation (e.g. use and exploitation of natural resources, credit institutions and insurance companies, special taxes imposed on electric energy, production and consumption of tobacco products (e.g. cigars, cigarettes), gasoline and other products derived from oil, agave juice and products derived from its fermentation and the production and consumption of beer).

The currency is the Mexican peso (MXN). Through the Constitutional reform (in force from 27 January 2016), references to the general minimum salary contained in tax laws were replaced by the measure and update unit (unidad de medida y actualización, UMA).

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The principal forms of business

- Companies and branches of foreign corporations, as well as partnerships.
- Companies are formed by incorporation and registration under the appropriate legal articles of incorporation. These articles contain detailed stipulations concerning the incorporation, management, administration, dissolution and liquidation of companies. Every company has a corporate charter which contains the articles of incorporation, formalizes its constitution and establishes rules for its administration and management.

The main sources of law for companies in Mexico

- The General Mercantile Corporations Law
- The General Credit Securities and Operations Law
- The Commerce Code

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The main types of companies in Mexico

- Corporation (Sociedad Anónima - S.A.)
- Corporation with Variable Capital (Sociedad Anónima de Capital Variable - S.A. de C.V.).

These two are the most commonly used forms by domestic and foreign investors. At least two shareholders are needed for incorporation, either individuals or corporations. The second is differentiated from the first one due to the flexibility allowed in increasing or decreasing its capital stock after the incorporation.

However, there are other legal forms including:

- Partnerships (general or limited)
- Limited Liability Company (LLC) (Sociedad de Responsabilidad Limitada, S. de R.L.)
- Civil companies
- Joint ventures



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Capital

The contributions of shareholders are represented by shares; the capital amount for this kind of businesses will be established in the articles of incorporation as agreed by partners. Twenty per cent of each share value must be paid at least, if the contribution is to be done in cash. The contribution also may be paid in kind, but in this case the contribution should be paid totally (100%), immediately.

Any modification of capital stock entails a certain number of formalities; in the S.A. form it involves amendments to the clauses of the by-laws, as well as permission from the Ministry of Foreign Affairs for such amendments to the articles of incorporation. When properly signed, it has the full legal effect of the original document. Under the S.A. de C.V. form, the described formality is not necessary; the agreement of the General Ordinary Shareholders' Meeting is enough, having the related charter certified by a Notary Public.

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Working conditions

- **Fringe benefits.** As a part of legislation for the protection of employees, the Mexican Institute of Social Security (IMSS) was created by the Government to cater for the welfare of workers in areas such as medical care, retirement and insurance. The IMSS receives quotas from all the business companies and institutions through contributions which are paid by employees, employers and the government. Contribution rates vary in relation to the amount of salaries paid as well as labor risks. These contributions represent approximately 28% of the basic salary, from which 23% is paid by the employer and 5% by the employee.
- **Housing fund.** The National Institute of Worker's Housing Fund (INFONAVIT) was founded in March 1972, for the purpose of financing homes for workers at a very low cost. Loans are granted at preferential rates, with terms ranging from 10 to 30 years. Contributions from employers are levied at a rate of 5% of normal salaries paid, with an upper limit of 25 times the minimum annual salary.



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- **Retirement Savings System.** (Sistema de Ahorro para el Retiro [SAR]). With the purpose of providing an employee retirement fund to which the employer contributes 2% of the employee's monthly salary, with an upper limit of 25 times the minimum salary, to the employee's individual bank account.
- **Holidays.** Mandatory ones for the year are as follows:
 - **January 1** New Year's Day
 - **February** First Monday, for Constitution Day
 - **March** Third Monday, for birthday of Former President (Benito Juárez)
 - **May 1** Labor Day
 - **September 16** Independence Day
 - **November Third** Monday, for Revolution Day
 - **December 1** Every six years, when the new President takes office
 - **December 25** Christmas Day
- **Employees are also entitled to paid vacation.** The term varies according to seniority (6 working days for the first year of service and up to 22 working days for more than 25 years of service). In practice, two weeks paid vacation is granted to white-collar employees after one year of service.



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- **Profit sharing.** According to the Mexican Labor Law, employers must share 10% of their net taxable income with their employees. Income Tax Law establishes the rules for computing it. Companies are exempt from profit sharing during the first operation year.
- **Legal workday.** The legal working day in Mexico is eight hours, with a six days work week. An employee can work up to nine hours of overtime in any week, with a maximum of three hours per day. For every six days of work, the employee must have one fully paid day off.
- **Infonacot:** The Institute of the National Fund for the Consumption of Workers (INFONACOT) is a public institution whose main objective is to offer cheap and accessible credits to the workers of the country for the acquisition of goods and services.
- **Indemnity and severance payment.** Employees who are discharged without justifiable reasons are entitled to a payment of three months' salary plus 20 days' salary for each year of service.
- **Christmas bonus.** The employer, by law, must pay 15 days' salary to each employee before the 20th of December of each year.

Type of tax system

Tax structure

Mexico has federal, state and municipal taxes. The main federal taxes are Income Tax and Value Added Tax [VAT] (IVA for its Spanish acronym).

Taxing authorities

Taxes are levied by the Ministry of Public Finance and Credit (SHCP), which has administrative offices in major cities, or by local authorities. These offices deal with interpretation of the law, responses to consultations, authorizations and tax audits

Direct taxes

- **Income tax:** The Income Tax Law provides a flat rate of 30% over all taxable income of Mexican Corporate Entities. This entities shall accrue all of their income earned in cash, in kind, in services or in any other form obtained during fiscal year. The tax profit shall be determined by subtracting the authorized deductions Tax on salaries

Indirect taxes

- **Value Added Tax:** The taxable persons for IVA purposes are any individual or company carrying out chargeable transactions in Mexico, including small businesses, governmental agencies, holding companies, the general VAT rate is 16%. In some cases, the tax rate can be 0% and others activities are tax exempt.

Transfer pricing

The Mexican IRS may modify the taxable income of a taxpayer, by determining product or service prices performed by resident and non resident in the country companies, resident and non resident in the country individuals, trust, or related parties whenever:

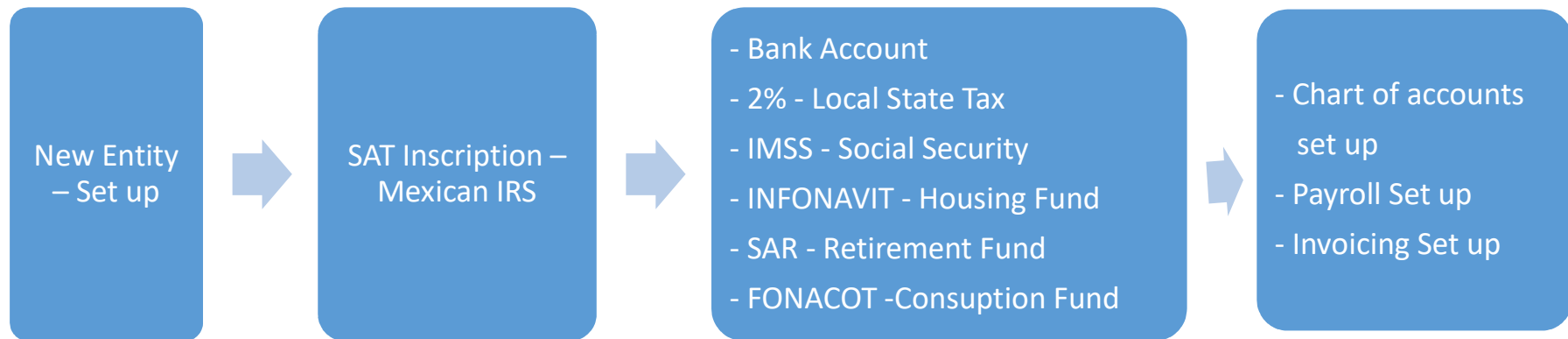
- Sales or services are invoiced at a price under the market value or when the transfer price is lower than the acquisition cost
- Sales are made at cost or lower, with the exception of the cases in which cost equals market value and the products have declined in value
- Operations involve imports and exports and payments abroad,

The taxpayer is also obliged to keep the documentary support of the methodology used to determine transfer pricing.

IMMEX

Companies in Mexico have adopted policies favoring the establishment of IMMEX companies (formerly known as maquiladora companies), which process or assemble imported materials and parts for resale to the country of origin or other parts of the world. One of the favourable policies is that the non-resident principal is generally shielded from permanent establishment exposure in Mexico, provided that: – the IMMEX company engages with the non-resident principal in “maquila operations”, a concept that was previously defined by the IMMEX Decree but that now is contained in the LISR; – the non-resident’s country of residence has entered into a tax treaty with Mexico; and – the IMMEX company’s taxable profit is at least 6.9% of the value of the assets used during the maquila operation or 6.5% of the total costs and expenses of the maquila operation.

Soft Landing Process...



This process could take 1 or 2 months



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