As a result of Mexico’s Trade and Investment Promotion Agency -PROMEXICO– extinguishment, Vázquez Tercero & Zepeda (VTZ) seeks to fill that void and promote Mexico as a business destination.

This is why VTZ has developed the guide Doing Business in Mexico 2020, which is divided into the following seven chapters:

1. Why Invest in Mexico?
2. Foreign Investment.
5. Creating a Company in Mexico.
6. Taxation.
7. Labor & Migration.

In line with our values, our chapters seek to provide relevant business and legal information in a practical and concise manner. This chapter, Taxation, our member Jorge Montes will provide a general overview of the main Mexican taxes focused on foreign individuals and/or legal entities, including rules on permanent establishment, tax withholding, among other tax obligations.

Emilio Arteaga Vázquez, Jr. Partner.
VTZ’s Doing Business in Mexico Coordinator
emilio@vtz.mx
6. TAXATION IN MEXICO

6.1 Overview: Main Taxes

6.2 Residents and non-residents in Mexico for tax purposes.
   6.2.1 Residents in Mexico
   6.2.2 Non-residents in Mexico

6.3 Income Tax
   6.3.1 Individuals and the Income Tax
   6.3.2 Companies and the Income Tax
      6.3.2.1 Tax Incentives
         6.3.2.1.1 IMMEX
         6.3.2.1.2 Tax Incentives for the Northern Border Region
   6.3.3. Foreign Resident Earning Income from Mexican Sources of Wealth
      6.3.3.1 Salary Income of Foreign Residents
      6.3.3.2. Professional or Service Fees as income of Foreign Residents
      6.3.3.3. Payments to Members of the Board of Directors, Statutory Audit Committees, among others, who are Foreign Residents
      6.3.3.4. Leasing Real Estate of Foreign Residents
      6.3.3.5. Leasing Movable Goods of Foreign Residents
      6.3.3.6. Sale of Real Estate and Foreign Residents
      6.3.3.7. Sales of Shares and Securities and Foreign Residents.
      6.3.3.8. Dividends and Profits
      6.3.3.9. Interests
      6.3.3.10. Royalties, Technical Assistance, and Publicity

6.4 Value Added Tax in Mexico
   6.4.1. Value Added Tax (VAT) and Exported Goods and Services
   6.4.2. Value Added Tax (VAT) and Imported Goods and Services
   6.4.3. Vat Refunds

6.5 Obligation of Foreign Shareholders in Mexican Companies to Register in the Federal Taxpayer Registry

6.6 Tax Treaty

Appendix 1 - List of Tax Treaties
Appendix 2 - List of Bilateral Tax Treaties in Negotiation
6. Taxation in Mexico

As noted in **Chapter 1 – Why Invest in Mexico?** Mexico is a Federation made up of 32 States, and each State, in turn, is made up of municipalities. The Mexican constitution establishes the jurisdiction for each level of government and, thus, different taxes apply. Federal taxes are the primary level of taxation in Mexico, while States and municipal (local) taxes are more limited. Needless to say, States and municipalities, to a great extent, receive budget allocations from federal taxes that are collected within their borders.

The Tax Administration Service (SAT, acronym in Spanish) is the relevant government body or agency in charge of collecting federal taxes as well as surveilling compliance. At a local level, States and Municipalities have their own treasuries that enforce their local Tax Law. However, the Federal government and a State government may enter into tax coordination agreements, whereby the State is entitled to audit and collect federal taxes.

### 6.1 Overview: Main Taxes

The main federal and local taxes in Mexico are the following:

**Federal taxes**

1. **Income Tax** (ISR, acronym in Spanish): The corporate tax is 30%, individuals are subject to rates ranging from 1.92% to 35%.
2. **Value Added Tax** (IVA, acronym in Spanish): The standard rate is 16%, and 0% rate is applicable in certain activities.
3. **Tariffs or Import duties** (See Chapter 3 – International Trade Policy)
4. **Special Tax on Production and Services** (IEPS, acronym in Spanish): The tax may be expressed as a percentage, ranging from 3% to 160%, specific, or a compound tax.
5. **Social Security**: An employer is subject to social security taxes that can represent between 25% and 30% of the employee’s salary.

**Local taxes**

1. **Taxes on Real-Estate or Land**: The States have in place a **Property Acquisition Tax**. The buyer of a house, land, building, apartment, or any type of real-estate property is responsible for paying said tax. The applicable tax may vary from State to State, but the average is a 2% rate. However, the Property Acquisition Tax may reach 6.5% on the sale price in some states.
2. **Payroll Tax**: States have in place the Payroll Tax on wages and other expenditures that derives from an employment relationship. The tax rate may vary from State to State, but such tax normally amounts to 2% and 3% on the wage paid.
6.2 Residents and non-residents in Mexico for tax purposes.

Foreigners are individuals or entities that are normally subject to the tax law legislation of another country for reasons such as nationality, address, place of residence, or business, among other criteria. Mexican Tax Law, however, establishes a set of rules whereby a foreign individual or entity is considered as a resident—for tax purposes—in Mexico (hereon referred to as “tax resident”).

6.2.1. Residents in Mexico

The individuals, whether Mexicans or foreigners, that have their home in Mexico are tax residents. Furthermore, an individual without a home can still be a tax resident when, for instance, his or her “place of professional activities” is located in Mexico or more than 50% of his or her annual income comes from Mexico.

As for legal entities, a company incorporated in Mexico is a tax resident. Foreign entities are tax residents when their main place of business or corporate address is in Mexico.

6.2.2. Non-residents in Mexico

Individuals or legal entities that are non-residents may, under certain circumstances, be subject to Mexican taxes. For instance, a foreign individual or entity is subject to Mexican taxes when he or she has a “permanent establishment” in Mexico or obtains income from any source of wealth located in Mexico. A permanent establishment, in general terms, is any business place where activities are partially or totally developed or where independent personal services are offered. The law lists examples of permanent establishments in Mexico, including the following:

1. Branches;
2. Agencies;
3. Offices;
4. Factories;
5. Installations;
6. Mines; and
7. Any place where exploration, extraction or exploitation of natural resources activities are carried out;

We highlight that the previous list is non-exhaustive. A foreign resident may, nevertheless, establish a permanent establishment when it has a representative or non-independent agent in Mexico.
6.3 Income Tax
Depending on the “tax-residency” status, the income tax may apply to all the income or the income attributable to the permanent establishment or source of wealth as follows:

1. Residents in Mexico’s income is subject to the income tax in its entirety, regardless of its origin or source.
2. If a non-resident has a permanent establishment in Mexico, the income attributable to the permanent establishment is subject to the income tax.
3. If a non-resident has a source of wealth in Mexico, the income attributable to the source of wealth is subject to the income tax. In Section 6.3.3, we will discuss this aspect in greater detail.

6.3.1 Individuals and the Income Tax

Thank you for your interest in our guide and visiting our website!

To continue reading our Taxation in Mexico Guide, please fill out our form or contact us at info@vtz.mx.
## Appendix 1 - List of Tax Treaties¹

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## Appendix 2 - List of Bilateral Tax Treaties in Negotiation

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