



**DOING
BUSINESS**
IN MEXICO

2020

VTZ

VAZQUEZ TERCERO & ZEPEDA
ABOGADOS



TAXATION INTRODUCTION

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.*
3. *International Trade Policy.*
4. *Trade Policy for the Manufacturing Industry.*
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.

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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*

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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

Tax Treaties in Force					
Country	Signature Date	Country	Signature Date	Country	Signature Date
GERMANY	23/02/93	USA	09/11/89	LUXEMBOURG	07/02/01
NETHERLANDS ANTILLES	01/09/09	PHILIPPINES	17/11/15	MALTA	17/12/12
SAUDI ARABIA	17/01/16	FINLAND	12/02/97	NORWAY	23/03/95
ARGENTINA	26/11/97	FRANCE	07/11/91	NEW ZEALAND	16/11/06
ARUBA	18/07/13	GIBRALTAR	09/11/12	NETHERLANDS	27/09/93
AUSTRALIA	09/09/02	GUATEMALA	13/03/15	PANAMA	23/02/10
AUSTRIA	13/04/04	GREECE	13/04/04	PERU	27/04/11
BAHAMAS	23/02/10	HONG KONG	18/06/12	POLAND	30/11/98
BAHRAIN	10/10/10	HUNGARY	24/06/11	PORTUGAL	11/11/99
BARBADOS	07/04/08	INDIA	10/09/07	QATAR	14/05/12
BELGIUM	24/11/92	INDONESIA	06/09/02	UNITED KINGDOM	02/06/94
BELIZE	17/11/11	ISLE OF MAN	18/03/11	REP. CZECH REP.	04/04/02
BERMUDA	15/10/09	CAYMAN ISLANDS	17/08/10	REP. SLOVAK REP.	13/05/06
BRAZIL	25/09/03	COOK ISLANDS	08/11/10	ROMANIA	20/07/00
CANADA	16/03/90	GUERNSEY ISLANDS	10/06/11	RUSSIA	07/06/04
COLOMBIA	13/08/09	JERSEY ISLANDS	08/11/10	SAMOA	17/11/11
KOREA	06/10/94	ICELAND	11/03/08	SAINT LUCIA	05/07/13
COSTA RICA	25/04/11	ISRAEL	20/07/99	SINGAPORE	09/11/94
CHILE	17/04/98	ITALY	08/07/91	SOUTH AFRICA	19/02/09
CHINA	12/09/05	JAMAICA	18/05/16	SWEDEN	21/09/92
DENMARK	11/06/97	JAPAN	09/04/96	SWITZERLAND	03/08/93
ECUADOR	30/07/92	KUWAIT	27/10/09	TURKEY	17/12/13
ARAB EMIRATES U.	20/11/12	LATVIA	20/04/12	UKRAINE	23/01/12
ESTONIA	19/10/12	LIECHTENSTEIN	20/04/13	URUGUAY	14/08/09
SPAIN	24/07/92	LITHUANIA	23/02/12	VENEZUELA	06/02/97

¹Information obtained from SAT see <https://www.sat.gob.mx/normatividad/98105/tratados-en-materia-fiscal-y-cuestiones-relacionadastratados-en-materia-fiscal-y-cuestiones-relacionadas> (available in Spanish).

Appendix 2 - List of Bilateral Tax Treaties in Negotiation

Tax Treaties in Negotiation	
Country	
EGYPT	
SLOVENIA	
IRAN	
IRELAND	
MARSHALL ISLANDS	
LEBANON	
MALAYSIA	
MOROCCO	
MONACO	
NICARAGUA	
OMAN	
PAKISTAN	
THAILAND	
VANUATU	
VIETNAM	

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