

International Tax Mexico Highlights 2021

Updated January 2021



Recent developments

For the latest tax developments relating to Mexico, see [Deloitte tax@hand](#).

Investment basics

Currency: Mexican Peso (MXN)

Foreign exchange control: None, and no restrictions are imposed on the import or export of capital. Repatriation payments may be made in any currency. Both residents and nonresidents may hold bank accounts in any currency in any part of the world; however, entities may have non-Mexican peso bank accounts, but only in US dollars.

Accounting principles/financial statements: Financial statements must be prepared annually. Publicly listed Mexican companies must use IFRS. Otherwise, companies may use Mexican GAAP or IFRS.

Principal business entities: These are the corporation (SA) and the limited liability company (SRL). Branches of non-Mexican residents also are allowed. In addition, non-corporate forms include the Mexican trust (*Fideicomiso*) as well as other contractual forms like the participation association (*Asociación en Participación*), which is frequently used as a form of consortium.

Corporate taxation

Rates

| | |
|----------------------------------|---|
| Corporate income tax rate | 30% |
| Branch tax rate | 30%, plus 10% branch remittance tax in some cases |
| Capital gains tax rate | 30% |

Residence: An entity is resident in Mexico if it is managed and controlled in Mexico.

Basis: Residents are taxed on worldwide income; nonresidents are taxed only on Mexican-source income. Foreign-source income derived by residents is subject to tax in the same way as Mexican-source income. Branches are taxed in the same way as subsidiaries.

Taxable income: Corporate tax is imposed on a company's profits, which consist of business/trading income, passive income, and capital gains. Normal business expenses may be deducted in computing taxable income. Inflationary accounting for tax purposes is applicable to certain types of revenues and expenses.

Rate: 30%

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: Dividends received by a Mexican resident company from another Mexican resident company are exempt from corporate tax. Dividends received from a foreign company are subject to corporate tax in the period the dividends are received, but a credit for underlying corporate and withholding taxes paid abroad is generally available.

Mexican companies can freely distribute dividends on profits that have been taxed in Mexico; otherwise, corporate taxes must be paid as a consequence of the dividend distribution. Companies must maintain a special "CUFIN" account to track previously taxed profits.

Mexican companies with investments in renewable sources of energy may create a special net profit account (CUFIER), and if such a company distributes dividends that are not paid from the CUFIER account, the payer will be required to pay tax (30% on a grossed-up amount) on the distribution.

Dividend payments generally are subject to a 10% withholding tax. See "Withholding tax," below.

Capital gains: Mexican entities are not subject to special tax treatment on capital gains, but the use of capital losses is restricted in some cases.

Losses: Losses generally may be carried forward for 10 years (15 years for deep-water operations related to oil extraction activities), subject to applicable inflation adjustments. The carryback of losses is not permitted.

Foreign tax relief: Income taxes paid abroad may be credited against Mexican tax on the same profits, but the credit is limited to the amount of Mexican tax payable on the foreign income.

Foreign tax credits for dividends received from hybrid structures may be disallowed:

- In the case of direct credits, if the tax has been credited in another jurisdiction without a corresponding income inclusion in the country or jurisdiction of the recipient (unless the credit derives from an indirect foreign tax credit); and
- In the case of indirect credits, if the nonresident payer can claim a deduction for the dividend in its country of residence.

Also, Mexican residents and foreign entities with a permanent establishment (PE) in Mexico that obtain revenue through foreign transparent entities and foreign vehicles without a legal personality (i.e., trusts or partnerships) may receive a credit for income taxes paid by these entities or vehicles.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

Incentives: Special rules apply to maquiladoras (i.e., toll manufacturing regime). Although scarce in comparison with the past, federal incentives are granted for national cinematographic and theatrical productions, as well as investments in high performance sports, electric vehicle power feeders, technology and R&D projects, the FIBRAS (real estate investment trust) regime, risk capital, and hiring the elderly and/or people with disabilities. A tax credit is available for companies purchasing diesel or biodiesel fuel and using it for specific activities.

Taxpayers operating in the “northern border region” as well as in the “southern border region” may be eligible for tax incentives (in the form of an income tax credit and a reduced VAT rate) until 2024.

In the southern border region, the city of Chetumal benefits from additional exemptions from general import tax and customs clearance processing fees.

Among other requirements, taxpayers must file a request with the tax authorities by 31 March of each fiscal year.

Qualifying projects involving CAPEX investment and job creation may benefit from discretionary grants provided by state and municipal authorities. In addition, Mexico City provides green incentives.

Other: Foreign transparent entities (i.e., disregarded entities) and foreign vehicles that do not have a legal personality (i.e., trusts and partnerships) will be treated as separate legal entities that may be subject to tax in Mexico if their place of management and control is located in the country. Following a transition period, this regime applies as from 1 January 2021. However, the regime will not apply in cases where there is a tax treaty between Mexico and the foreign entity/vehicle’s jurisdiction, in which case the terms of the treaty will prevail.

As from 1 January 2020, Mexican residents and PEs are required to pay income tax on income derived from activities performed through “foreign transparent entities” or “foreign legal vehicles.” The books of the entity or vehicle and documentation supporting its expenses and investments must be available to the Mexican tax authorities, among other formalities and obligations.

Compliance for corporations

Tax year: Calendar year

Consolidated returns: A tax integration regime allows a group to defer income tax for up to three years.

Filing and payment: Under the self-assessment regime, advance corporate tax must be paid in 12 installments. The annual tax return must be filed within the first three months of the following year (i.e., by the end of March) and no extensions are available.

All taxpayers must provide an electronic signature certificate, keep electronic accounting records, and submit a general ledger to the tax authorities on a monthly basis.

All taxpayers are required to issue digital invoices with respect to their transactions.

Penalties: Penalties apply for noncompliance with the tax rules.

Rulings: The tax authorities may issue rulings on the interpretation of tax dispositions; however, the process could be lengthy.

Individual taxation

| Rates | | | | |
|-----------------------------------|---------------------------|---------------|-------------------------|--|
| Individual income tax rate | Taxable income | | Fixed tax (MXN)* | Percentage to be applied to excess over lower limit |
| | Lower | Higher | | |
| | Up to MXN | 7,735.00 | 0 | 1.92% |
| | 7,735.01–65,651.07 | | 148.51 | 6.40% |
| | 65,651.08–115,375.90 | | 3,855.14 | 10.88% |
| | 115,375.91–134,119.41 | | 9,265.20 | 16.00% |
| | 134,119.42–160,577.65 | | 12,264.16 | 17.92% |
| | 160,577.66–323,862.00 | | 17,005.47 | 21.36% |
| | 323,862.01–510,451.00 | | 51,883.01 | 23.52% |
| | 510,451.01–974,535.03 | | 95,768.74 | 30.00% |
| | 974,535.04–1,299,380.04 | | 234,993.95 | 32.00% |
| | 1,299,380.05–3,898,140.12 | | 338,944.34 | 34.00% |
| | Over MXN | 3,898,140.12 | 1,222,522.76 | 35.00% |
| Capital gains tax rate | | | | 10% |

* A fixed tax amount applies to each taxable income bracket and is added to the tax that is determined by applying a tax rate to the excess over the lower limit of each income bracket.

Residence: Individuals are considered resident if they have a permanent home in Mexico. If an individual has a home in two countries, the key factor in determining residence is the location of the individual's center of vital interests.

Basis: Mexican nationals are taxed on their worldwide income. Nonresidents are taxed only on Mexican-source income.

Taxable income: Income is taxed, in part, under a silo system, although some categories of income can be mixed to determine the corresponding taxable income. Profits derived from the carrying on by an individual of a trade or profession generally are taxed in the same way as profits derived by companies. A separate regime applies to interest earned by individuals.

Rates: Individuals are subject to income tax based on their income level at progressive rates ranging from 1.92% to 35%.

Capital gains: Capital gains arising from an individual's sale of publicly traded shares, including financial derivatives, are subject to a 10% tax on the gains.

Deductions and allowances: Subject to certain restrictions and caps (the lower of MXN 255,000 or 15% of taxable income), deductions are granted for medical expenses and medical insurance, retirement annuities, mortgage interest, etc. Medical, dental, and hospital expenses (among others) are deductible with no restrictions when they derive from an "inability" or disability under the terms of the relevant laws.

Personal allowances are available to taxpayers and their spouse, children, and dependents.

Foreign tax relief: Income taxes paid abroad may be credited against Mexican tax on the same income, but the credit is limited to the amount of Mexican tax payable on the foreign income.

Other: See "Incentives" under "Corporate taxation," above, related to taxpayers operating in the northern and southern border regions.

Compliance for individuals

Tax year: Calendar year

Filing status: Tax returns are filed individually, regardless of marital status.

Filing and payment: Tax on employment income is withheld by the employer and remitted to the tax authorities. Other types of income, such as income from the provision of services and leasing income, are subject to withholding. Income not subject to withholding is self-assessed; the individual must file a tax return and make prepayments of tax. Final tax is due on 30 April following the tax year (no extensions are available).

All taxpayers must provide an electronic signature. For individuals carrying on a business activity, electronic accounting records must be maintained and a general ledger submitted on a monthly basis.

Penalties: Penalties apply for noncompliance with the tax rules.

Rulings: The tax authorities will issue rulings on the tax consequences of actual transactions.

Withholding tax

| Type of payment | Residents | | Nonresidents | |
|------------------------------------|-----------|------------|--------------|--------------|
| | Company | Individual | Company | Individual |
| Dividends | 0% | 10% | 10% | 10% |
| Interest | 0% | Up to 20% | 4.9%-35%/40% | 4.9%-35%/40% |
| Royalties | 0% | 0% | 25%/35%/40% | 25%/35%/40% |
| Fees for technical services | 0% | 10% | 25% | 25% |

Dividends: A company that distributes dividends (including distributions derived from investments in renewable sources of energy and made from the CUFIER account) to a nonresident company or individual or to a resident individual must withhold a 10% tax, which is considered a final tax. For nonresidents, the 10% rate may be reduced under a tax treaty, if certain requirements are met.

Under a “grandfathering” rule, profits obtained before 31 December 2013 are not subject to withholding tax, as long as they form part of the CUFIN balance of the entity as of that date.

The 10% tax may be reduced for dividends paid to Mexican resident individuals if profits generated in 2014, 2015, and 2016 are reinvested and distributed as from 2017.

Resident companies are not subject to dividend withholding tax.

Interest: Interest paid to a nonresident company or individual generally is subject to withholding tax at rates ranging from 4.9% (interest paid to foreign banks and listed debt instruments) to 35%. A 40% rate applies where interest payments are made to a related party located in a tax haven. The rate may be reduced or relief may be available under a tax treaty.

Interest paid to resident companies is not subject to withholding tax. Interest paid to resident individuals may be subject to withholding tax up to 20% depending on the type of interest and the type of beneficiary (e.g., financial institution, etc.).

Royalties: Royalties paid to a nonresident company or individual are subject to a withholding tax of 35% (patents and trademarks) or 25% (other kinds of royalties), unless the rate is reduced under a tax treaty. A 40% rate applies where

royalties are paid to a related party located in a tax haven. Royalties paid to residents are exempt from withholding tax. Payments made to purchase goods destined for commercial or industrial activities are considered royalties.

Fees for technical services: Fees paid to a nonresident company or individual for technical assistance are subject to a 25% withholding tax, unless the rate is reduced under a tax treaty. Such fees are exempt from withholding tax if paid to a resident company. Individual residents are taxed at a 10% withholding tax rate.

Branch remittance tax: Rules that are similar to the CUFIN rules for dividends apply. Permanent establishments distributing dividends or gains to their head office are subject to an additional tax of 10%.

Other: There are certain other circumstances in which withholding tax may apply on payments made to nonresidents, such as payments relating to immovable property, salaries, fees, capital gains, etc.

Anti-avoidance rules

Transfer pricing: Rules following the OECD guidelines apply to cross-border and domestic transactions. The following transfer pricing methods may be used in Mexico: the comparable uncontrolled price (CUP) method is considered the preferred method, followed by the cost plus and resale price methods. Profit-based methods are to be used if the CUP, cost plus, and resale price methods are not applicable. The profit split, residual profit split, and transactional operating margin methods are not applicable in specific circumstances.

Documentation rules apply. Advance pricing agreements are available.

Interest deduction limitations: Interest payments made by a Mexican resident company on a loan from a nonresident related party are nondeductible for income tax purposes to the extent the debt-to-equity ratio of the payer company exceeds 3:1.

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 application of the thin capitalization rules, as well as the limitation described below.

New interest deductibility limitation rules provide that net interest expense exceeding 30% of adjusted taxable income for the fiscal year will not be deductible. Net interest expense is defined as accrued interest expense net of interest revenue accrued during the same period and MXN 20 million. Adjusted taxable income is defined as taxable income plus interest deductions and investment deductions.

In the case of a group of entities, the calculation will be made on a group basis pursuant to tax regulations.

The limitation applies if nondeductible interest calculated under the new rules is greater than that calculated under the thin capitalization rules, which apply a 3:1 debt-to-equity ratio. Otherwise, the thin capitalization rules apply.

Any nondeductible net interest expense may be carried forward for up to 10 fiscal years.

Controlled foreign companies: The CFC rules apply if a Mexican resident has effective control over a nonresident entity. Control is deemed to exist if the Mexican resident: (a) owns more than 50% of the voting rights or value of shares of the foreign entity; (b) has rights to more than 50% of the entity's assets and profits in a capital redemption or liquidation; (c) owns a greater than 50% interest in the entity's combined assets and profits; (d) files consolidated financial statements with the nonresident entity; or (e) may make unilateral decisions, directly or indirectly, at shareholders or board meetings (related parties are taken into account for these purposes).

An 80%-or-greater active income exception applies but less than 50% of this income has to be sourced in Mexico or be deductible there, directly or indirectly.

Nonresident financial entities are allowed to ask the Mexican tax authorities (SAT) if they may be exempted from these rules.

Hybrids: Hybrid arrangements involve the use of entities, instruments, agreements, or payments that result in a deduction in Mexico but nil or low taxation to the nonresident counterparty.

Payments related to hybrid arrangements and that are considered subject to low taxation may result in nondeductible expenses. Income is considered subject to low taxation when the tax paid abroad is lower than 75% of the tax that would have been due and paid in Mexico for such revenue.

Economic substance requirements: See “General anti-avoidance rule,” below.

Disclosure requirements: External tax auditors are required to disclose on their tax audit report when a taxpayer has entered into a transaction that is not considered viable by the Mexican tax authorities.

Mexico has adopted country-by-country (CbC) reporting in accordance with the recommendations under the OECD’s BEPS project. Under the rules, companies that enter into transactions with related parties (in Mexico or abroad) and receive income equal to or greater than MXN 791 million must file a master file and a local file, and Mexican multinational enterprise groups that receive income equal to or higher than MXN 12 billion also must file a CbC report.

Mandatory reporting of certain tax planning arrangements became effective on 1 January 2021. Tax advisors have to report, with secondary reporting defaulting to the taxpayer in some cases.

A transaction has to be reported regardless of the taxpayer’s country of residence as long as there is a tax benefit in Mexico.

A reportable transaction has to be disclosed to the SAT within 30 business days of the first commercial contact.

Reportable tax arrangements include those designed, commercialized, organized, implemented, or administered as from 1 January 2020 or older arrangements that have an impact as from such date. In the case of older arrangements, only taxpayers have the obligation to report.

Exit tax: No specific rules exist regarding exit taxes in the case of intra-group restructuring transactions; however, taxpayers must comply with general transfer pricing principles. Deemed liquidation rules apply to entities that cease to be Mexican tax residents.

General anti-avoidance rule: Transactions lacking business purpose and that generate a tax benefit are characterized for tax purposes by the tax authorities according to their reasonable economic benefit.

A lack of business purpose is presumed to exist if the expected quantifiable and reasonable economic benefit (a) is lower than the tax benefit; and (b) could be achieved in fewer steps but result in higher taxes.

The tax treatment of a transaction as a result of a re-characterization by the tax authorities will not give rise to criminal liability.

Other: An optional tax audit report may be filed for taxpayers that have more than 300 employees, gross income exceeding MXN 122 million, or assets exceeding MXN 97 million.

Value added tax

| Rates | |
|---------------|-----|
| Standard rate | 16% |
| Reduced rate | 0% |

Taxable transactions: VAT is levied on the sale of goods, leasing, and the provision of services, as well as on imports.

The definition of “services” includes digital services provided by nonresidents to recipients located in Mexico as from 1 June 2020.

Digital services are broadly defined to include services provided through any online application, such as (a) video, images, or audio streaming; (b) ring tones; (c) news, including traffic, weather, and statistical analysis; (d) the provision of intermediation services; (e) online clubs and dating sites; and (f) teaching, testing, and exercise sites.

Nonresidents without a PE that provide digital services in Mexico must comply with several requirements.

Rates: The general VAT rate is 16% and a 0% rate applies to food, medicine, and certain other items (with some exceptions).

An 8% rate applies to taxpayers operating through establishments in the northern and southern border regions that meet certain requirements. Among other transactions, the reduced rate does not apply to the importation of goods, the transfer of immovable property, and the transfer of intangibles.

Registration: All persons must be registered to be able to credit the VAT paid to vendors, suppliers, or at the border. Nonresidents supplying goods or services in Mexico must register.

Filing and payment: The VAT return must be submitted monthly, within the first 17 days of the following month.

VAT paid for expenses and investments made during the preoperational period is (i) creditable on the VAT return for the month the taxpayer begins business operations; or (ii) submitted for refund during the month following the VAT payment, based on an estimation of future VAT-taxable activities.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: Employer contributions for social security and other related contributions (e.g., housing and retirement) are mandatory, with rates ranging from 15% to 25%, depending on the salary structure of the group of employees. Employed individuals also are required to make social security contributions, with the amount based on the individual’s salary.

Payroll tax: Payroll taxes apply at the state level.

Capital duty: There is no capital duty.

Real property tax: The municipal authorities levy taxes on the ownership of real property. These taxes are deductible in calculating a corporation’s tax liability and an individual’s taxable income related to leasing of real property.

Transfer tax: A transfer tax of between 2% and 5% applies to the transfer of real estate and is imposed by the municipality where the property is located.

Stamp duty: There is no stamp duty.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

Other: While not a tax, under the mandatory profit-sharing rules, an entity is obliged to distribute 10% of taxable profits to its employees no later than May of the year following the year in which the profits were generated.

A special excise tax on production and services is levied on the import and sale of certain goods and the provision of certain services.

Tax treaties: Mexico signed the OECD multilateral instrument (MLI) on 7 June 2017. For information on Mexico's tax treaty network, visit [Deloitte International Tax Source](#).

Tax authorities: *Servicio de Administración Tributaria* (SAT or Tax Administration Service)

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