

AUXADI

COMPLEXITIES IN NEW MARKETS

MEXICO

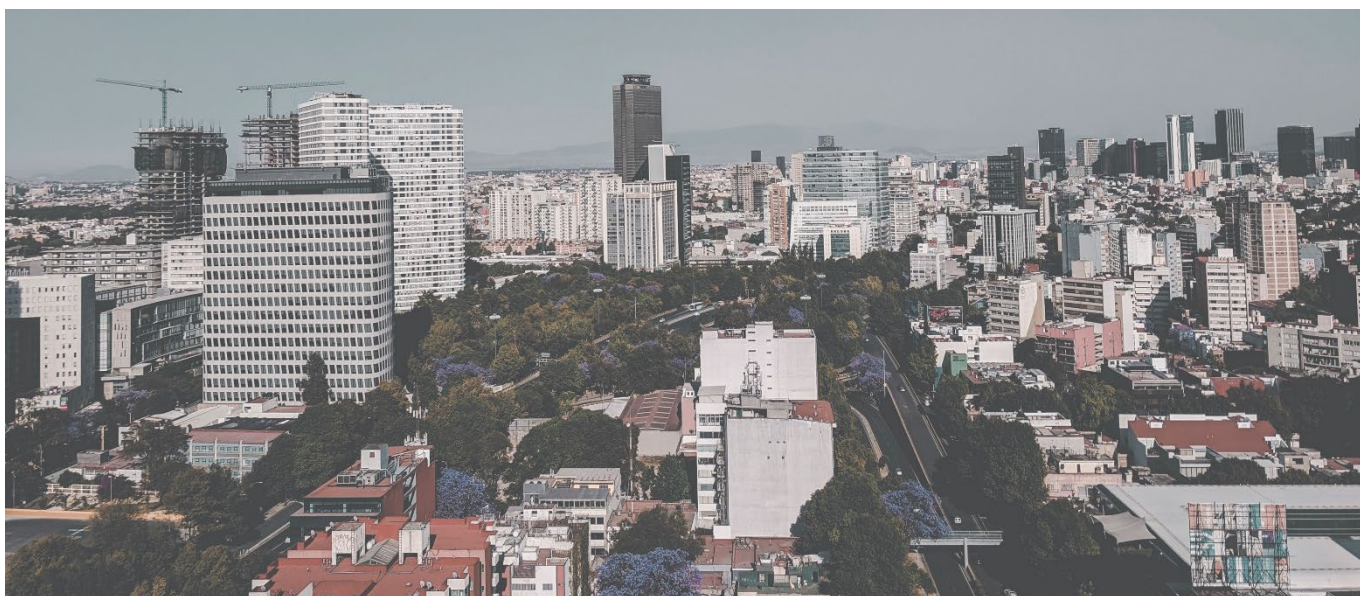




In this series, we discuss some of the complexities to consider when expanding your business across borders, or if you're looking at multinational investment. There are many general issues, and different countries have very different legislation, regulation and tax regimes.

Here, we review some of the complexities to keep in mind when expanding or investing into Mexico.

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Introduction

Mexico is the second largest and most stable economy in Latin America and one of the most important economies in the region. It has a sizeable market, with a population heading towards 130 million, and includes an emerging middle class demanding higher value products. When we add Mexico's extensive natural resources, relatively well qualified workforce, and its ranking as the 7th biggest tourist destination in the world – it's easy to see Mexico's potential.

Mexico has a favourable business environment with a legal framework that protects foreign investments through APPRIIs (Acuerdo Para la Promoción y Protección Recíproca de Inversiones – international treaties on foreign direct investment, designed for the promotion and legal protection of capital flows destined to specific productive sectors). Mexico also has one of the largest networks of free trade agreements, low labour costs, a strategic location, and exchange stability of its currency.

However, Mexico relies heavily on its agreements with the USA, making it vulnerable to any changes or fluctuations, and its transport infrastructure can also be problematic.



Opportunities

Mexico attracts the most foreign direct investment in Central and South America, and is well integrated into the world economic fabric, being a member of the OECD, NAFTA, the G20 and the Pacific Alliance. Its location acts as a platform to both the USA and Latin America.

The government has also indicated a desire to modernise Mexico's infrastructure, including transport and hospitals. The banking sector is growing quickly and the tourism sector remains strong.

Renewable energy is a sector to watch, but [recent proposals to reform the energy industry](#) may severely hamper opportunities in Mexico.

- [Compranet](#), Public Procurements
- [Tenders Info: Mexico](#), Tenders in Mexico
- [DgMarket Tenders](#), Tenders Worldwide

FDI

During the last 30 years, the country has implemented measures designed to increase international trade and attract more investment, though there are no specific tax incentives in place for foreign investment.

The IMMEX programme, however, allows foreign manufacturers to import raw materials and components tax and duty free, as long as 100% of finished goods are exported out of Mexico within a government mandated timeframe. Mexico's natural resources and inexpensive labour costs allow for industrial development at very competitive prices.

The USA is the largest source of foreign investment in Mexico, followed Spain, Canada, and Germany. The main sectors of foreign investment are industrial manufacturing, energy, water and gas, trade, financial services, and mining – Mexico's oil & gas industry is undergoing privatisation.

Tax & Accounting / Regulatory

In general, all federal, state, and local taxes (including municipal tax on real estate) levied on a company are tax-deductible expenses (except those required to be withheld from other parties and CIT).

Resident taxpayers' are subject to corporate income tax from worldwide sources, foreign residents are taxed on the income attributed to their permanent establishments in Mexico. (Companies are considered resident if their principal centre of administration or the effective place of management is located in Mexico.)



Corporation tax is fixed at 30% and VAT at 16%.

Non-residents that sell shares of a Mexican company are subject to a 25% tax on gross proceeds, or 35% on net proceeds if the non-resident has a representative in Mexico.

Tax on transfer of real estate ranges from 2% to 5%, based on the highest of the value of the transaction, fair market value, or registered municipality value (though some exceptions apply). Real property taxes are levied by the states at different rates.

Companies are required to prepare financial statements in Spanish, and reporting structure is the Mexican Financial Information Standards (NIF), which is based on IFRS. (IFRS is still an acceptable standard for SMEs.)

Mexico has c. 70 double taxation treaties in place.

16%



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Labour / Payroll matters

Mexico has low labour costs for its relatively well qualified, young workforce – the minimum wage for 2021 is 141.72 pesos per day (around US\$7.20 per day). Overtime is fixed at double the rate and cannot exceed more than 9 hours per week.

Employer contributions include Social Security, the housing fund, and the retirement fund, and the total ranges from 16.9%-31.4% of wages, deducted from employee salaries. Each employee also contributes 2.7% of their salary to Social Security.

Mexico's labour unions are organised by sector and relatively powerful. The largest, CTM, has 4.5 million affiliate workers.

Banking

As well as your incorporation documents, the company must have its commercial registration number from the Public Registry of Commerce – though a public notary can issue a document indicating that the company is in the process of registration. However, registration should be completed as soon as possible, or the bank may close your account.

Account approval can take up to 7 days and, once approved, the formal opening of the bank account will take c. 10 days.

Some companies choose to open an account in pesos and a US dollar account to ease operations with customers and suppliers abroad. A dollar account can be opened one week after the peso account is activated.

The minimum amount required to open a bank account varies according to each bank, and ranges from MX\$10,000 to MX\$ 20,000. There is also an average minimum monthly balance to keep the account active.



Doing business & establishing a company

Ranked 60/190 for Ease of Doing Business, setting up a business in Mexico can take just 9 days – a great improvement on the 31-day average for the region.

There are various corporate structures available in Mexico, including Corporations in Collective Name and Cooperative Societies, but the most common entity types are:

Type	No. Partners	Capital	Liability
Sociedad de Responsabilidad Limitada: Variable Stock Limited Liability Partnership	Min: 2 Max 50	Minimum of MXN 3,000. Each partner must bring in at least 50% at the time of creation.	Liability is limited to the contributed amount.
Sociedad en Nombre Colectivo: General Partnership	Min: 2 One partner must be designated as Manager	No minimum capital.	Liability is unlimited and responsibility is joint.
Sociedad Anonima de Capital Variable (S.A. de C.V.): Variable Capital Limited Liability Company	Min: 2 – including an Administrator	No maximum capital.	Liability is limited to the contributed amount.
Sociedad Anonima (S.A.): Limited Liability Company or Corporation	Min: 2 – including an Administrator	Minimum of 50,000 MXN. No maximum capital.	Liability is limited to the contributed amount.

The Mexican work etiquette is not too different from other LATAM countries, though its strong relationship with the US has also been a factor in shaping its business culture; the main characteristics of which are personal relationships, loyalty, strong hierarchy, and status consciousness.

Personal relationships are essential in Mexico, and the impression you make and level of relationship you maintain with your local counterparts can override your business proposal.

Also, the amount of time it takes to make important decisions is flexible in Mexican business, and to push for a quick decision means you risk damaging the personal relationship.



Conclusion

Mexico's opportunities come with challenges, including local idiosyncrasies, corporate culture, and how to conduct business in this strategically located market.

However, Mexico has suffered from proposed reforms in the energy sector, and a lack of reform in its tax regulations. Administrative inefficiency has also been an issue so local knowledge is essential to efficiently navigate Mexico's business fabric.





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