



Mexico  
Tax Guide  
**2015/16**

## FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2015/16 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 1 January 2015, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at [www.pkf.com](http://www.pkf.com)

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## STRUCTURE OF COUNTRY DESCRIPTIONS

### A. TAXES PAYABLE

- FEDERAL TAXES AND LEVIES
- COMPANY TAX
- CAPITAL GAINS TAX
- BRANCH PROFITS TAX
- VALUE ADDED TAX (VAT)
- FRINGE BENEFITS TAX (FBT)
- LOCAL TAXES
- OTHER TAXES
- SOCIAL SECURITY PAYMENTS
- NATIONAL HOUSING FUND FOR WORKERS (INFONAVIT)
- FOREIGN TRADE TAXES
- SPECIAL TAXES
- TAX ON PURCHASE OF REAL PROPERTY

### B. DETERMINATION OF TAXABLE INCOME

- ALLOWABLE DEDUCTIONS
- DEPRECIATION AND AMORTISATION
- STOCK / INVENTORY
- INFLATION
- INTEREST DEDUCTIONS
- LOSSES
- EMPLOYEE PROFIT SHARING
- INCENTIVES

### C. FOREIGN TAX RELIEF

### D. CORPORATE GROUPS

### E. RELATED PARTY TRANSACTIONS

### F. WITHHOLDING TAXES

- DIVIDENDS
- INTEREST
- ROYALTIES

### G. EXCHANGE CONTROL

### H. ELECTRONIC ACCOUNTING

### I. PERSONAL TAXES

### J. TREATY WITHHOLDING TAX RATES

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## BASIC FACTS

Full name:	United Mexican States
Capital:	Mexico City
Main language:	Spanish
Population:	118.40 million (2013 estimate)
Major religion:	Christianity
Monetary unit:	Mexican Peso (MXN)
Internet domain:	.mx
Int. dialling code:	+52

## KEY TAX POINTS

- All income obtained by companies resident in Mexico is taxed, regardless of the source.
- Every state in Mexico requires specific contributions from its inhabitants, the largest being property tax. In some states employers are charged tax on wages paid to employees.
- Assets tax is charged on the value of a taxpayer's assets.
- The Treasury may alter the tax loss or profit where transactions between related parties are not made at market prices. Taxpayers are obliged to carry out an annual transfer pricing study.
- A controlled foreign companies' regime applies to transactions realised in specific countries or regions.
- Individuals will be subject to an additional fee of 10% on dividends or profits distributed by corporations resident in Mexico.
- Individuals who receive dividends from foreign companies shall be required to make payment of an additional 10% tax.
- Resident individuals are taxed on their worldwide income. In the case of foreign income, taxes paid abroad are generally credited against taxes payable in Mexico.

## A. TAXES PAYABLE

### FEDERAL TAXES AND LEVIES COMPANY TAX

Tax is calculated for each calendar year, comparing income obtained less allowable deductions. Currently, the corporate tax is 30% of taxable profits.

All income obtained by companies is taxed, regardless of the source, except in the case of branches of foreign companies. Branches are taxed based on income attributable to the branches.

Foreign companies, branches and persons established in Mexico which obtain income abroad are allowed to credit any foreign taxes paid against Mexican taxes payable by them up to the total local tax applicable in each case.

As of FY 2014, with the entry into force of the New Income Tax Law new rules are expected to establish the credit of income tax paid abroad, among which are the following:

- In case of indirect interest, the crediting would proceed the entity must reside in a country with which Mexico has a broad information-sharing agreement.
- It is stated that limiting the crediting will be established by each country.
- In the case of dividends, new obligations are foreseen:
  - (a) The creditable tax and credit limit must be calculated for each fiscal year;
  - (b) Keep a specific record for this identification since the acquisition of the equity interest, which should contain information on earnings on which dividends are distributed even if they relate to previous years;
  - (c) Failure to identify elements for the financial year to which those profits corresponds to, they will be deemed as a FIFO (first profits generated are the first to be distributed);
  - (d) To have the supporting documentation.

Failure to comply with the above requirements, accreditation will not be able to be done.

In the case of Permanent Establishment in Mexico, the crediting can only be made by those revenues attributable to the PE which may have been object of withholding tax.

The new provisions provide that a foreign tax paid abroad is considered as income tax when complying with SAT rules and is covered by a treaty to avoid double taxation in force to which Mexico is a part of.

### CAPITAL GAINS TAX

Taxable profits on the sale of land, securities and other assets are calculated by deducting the tax cost from the selling price. The tax cost is based on the original cost of the asset being sold, adjusted for inflation for the period during which the asset was owned.

The procedure for determining the gain on disposal of shares is generalized by establishing shareholder with a shareholding of up to 12 months, the option to calculate the fiscal cost considering the proven acquisition cost decreased from paid reimbursements and dividends.

Loss from the sale of shares and other securities is deductible only if certain requirements are met, and may be offset against profits obtained in the same year or in the following five years.

## **BRANCH PROFITS TAX**

Branches compute income tax in the same manner as companies established in Mexico and apply the 30% corporate tax rate on taxable income.

Branches are entitled to deduct expenses incurred both abroad and in the country provided that certain conditions are met. In respect of the prorated expenditures, payments made by tax payer will not be deductible when such payments are also deductible for a related party resident in Mexico or abroad, except that the related party accumulates earned Income in the same fiscal year or the following.

Remittances sent abroad in the form of payments of invoices, interests, royalties, reimbursement of expenses or for any other reason are subject to withholding tax of between 25% and 28% and are deductible for income tax purposes if adequately supported.

## **VALUE ADDED TAX (VAT)**

Companies and persons who engage in the business of selling, rendering services, leasing, importing or exporting goods are subject to VAT. In most cases, this tax does not represent an expense for the companies or persons since it is collected from the consumer of the goods or services and paid monthly to the tax authorities.

The VAT paid on purchases of goods and services received can be offset against the VAT collected and payable. In the case that the VAT paid exceeds the VAT collected in a given period, companies and persons are entitled to be refunded for the difference by the tax authorities or, under certain conditions, to offset the VAT receivable against other taxes payable.

The following rates apply in general, depending on the type of activity:

- 0% in the case of priority activities such as basic foods, medicines, agricultural, exports, etc.;
- 16% for all other activities.

The law provides for specific exemptions on certain other activities.

From 1 July 2006, tourists are reimbursed for the VAT tax charged upon the sale of Mexican merchandise when departing to their home countries by air or sea.

## **FRINGE BENEFITS TAX (FBT)**

Specified employee benefits provided to employees over and above those required by law are exempt from income tax up to certain limits and are deductible for companies insofar as they are granted to all employees.

## LOCAL TAXES

Every state in the Mexican Republic requires specific contributions from its inhabitants, the largest being property tax. Some states tax wages paid to employees at an average of 2%.

In the Federal District (Mexico City), employers (physical persons and companies) must pay 2.5 % on wages paid to their employees every month.

Real estate is subject to a bi-monthly payment based on the official assessed value of the property. The maximum bi-monthly rate paid amounts to approximately 0.065%.

## OTHER TAXES

### SOCIAL SECURITY PAYMENTS

All employers must register their employees with the Mexican Institute of Social Security which provides benefits to them for job-related and other disabilities, as well as pensions and death benefits.

Amounts paid for each employee to the Institute are computed on the basis of all payments made to the employee for wages and benefits, with few exceptions that meet certain requirements. These include savings, food, prizes for attendance and punctuality, as well as a portion of overtime and profit-sharing.

Approximately one third of the payments are withheld by the employer from the employees' wages and the other two thirds are paid by the employer.

Both employee and employer contributions should be made by the employer on a monthly basis.

Beginning FY 2014, it is required to issue digital tax receipts for wages paid by employers to each of employee.

### NATIONAL HOUSING FUND FOR WORKERS (INFONAVIT)

The objective of this Institute is to provide housing for all workers, usually favouring workers in low-income brackets.

The employer, on behalf of the employees, must make bi-monthly contributions to the Institute of 5% of the wages and benefits paid with a limit of 25 'minimum monthly wages' (approximately MXN \$52,575.00). As in the case of social security, contributions and benefits received by employees from the Institute are tax-exempt. With this payment, the employers comply with their constitutional obligations to provide housing for employees.

## FOREIGN TRADE TAXES

Customs duties are maintained both for import as well as for export. Duties on export are minimal or none and import duties average 20%, depending on each specific item. In accordance with the North American Free Trade Agreement (NAFTA), duties on imports from the United States and Canada will be gradually eliminated over a 15 year period and will disappear completely at the end of that time. Beginning in 1994, Mexico eliminated taxes on the importation of specific products from the United States and Canada.



## SPECIAL TAXES

Taxes on production and services are levied on relatively few items such as the importation and sales of cigars, alcoholic beverages and supplying agency services for brokerage, distribution, flavoured drinks, etc of said goods. There is also a special tax on telephone services. A tax on new automobiles and vehicle ownership is applied directly to purchasers and owners of automobiles.

## TAX ON PURCHASE OF REAL PROPERTY

A tax of 1% to 5% of the assessed value of the property is paid by the buyer on all purchases of property. The federal government works with the states of the Republic so that in co-operating states only the local tax applies with no levy of federal tax.

## B. DETERMINATION OF TAXABLE INCOME

Taxable income of companies is computed taking into account all income received less deductions allowed by law. The law mentions certain specific items which are not considered income. These include: capital gains, recognition of the equity method of accounting, revaluation of assets and capital.

## ALLOWABLE DEDUCTIONS

In general terms, all expenses needed to generate income and recorded pursuant to IFRS may be deducted, except in specific cases where there are certain limits and special rules for deduction.

Allowable deductions include sales discounts, bad debts, interest paid and losses due to exchange and inflation.

Non-deductible expenses include taxes, costs of representation, commercial credits, provisions to estimated reserves, etc.

Investments in certain assets can be deducted in the tax year at a discount, beginning in 2007.

The new Income Tax Law provides that payments for interest, royalties or technical assistance to a foreign entity that controls or is controlled by the taxpayer, will not be deductible when:

- (a) The entity receiving the payment is considered to be transparent except where the transaction is carried out at market value and its shareholders or partners are then subject to income tax on income through the foreign company;
- (b) Payment is considered non-existent for tax purposes in the country where the alien is located;
- (c) The foreign entity receiving the payment does not consider it as taxable income.

Nor are deductible payments that are also deductible for a related party resident in Mexico or abroad, unless the related party accumulates income generated by the taxpayer, either in the fiscal year or the following.

## DEPRECIATION AND AMORTISATION

Deduction for investment in tangible or intangible assets is allowed by the law through the

depreciation or amortisation of such assets. Freight and handling, insurance, commissions and fees are allowed in addition to the purchase value of the asset. Depreciation and amortisation are calculated for full months commencing with the month when the asset was purchased and using the straight-line method with no allowance for estimated disposal values.

As a general rule, all types of assets except land, may be depreciated or amortised for tax purposes. The basic depreciation and amortisation tax rates allowed are as follows:

Outlays made prior to commencing operations	10%
Industrial buildings and warehouses	5%
Machinery and equipment	10% except on assets used for specific activities
Furniture and fixtures	10%
Cars, vans and trucks	25%
Leasehold improvements	Lease terms
Environmentally-friendly machinery and equipment	100%

## STOCK / INVENTORY

Purchases of raw materials, goods in process or finished goods intended for sale are deductible under the cost of sales system when sold by the company. Taxpayers may choose either method of inventory valuation indicated below:

- (I) First in - First Out (FIFO);
- (ii) Identified Cost;
- (iii) Average Cost;
- (IV) Retailer.

## INFLATION

The law recognises the effects of inflation on taxpayer's debts and financial assets so that, in the case of assets, the view is taken that there is a loss of purchasing power of said assets with the passing of time and, in the case of liabilities, a gain is recognised. For such purpose, an annual average of financial assets and debts are determined. The inflation factor is applied to the delta obtained comparing the assets and debts, when the debts are higher there will be a taxable income, and when the assets amount is higher there will be a deduction.

## INTEREST DEDUCTIONS

A thin capitalisation regime was incorporated into the law in 2005 in relation to loan finance obtained by Mexican-resident companies from overseas. Taking both related party and non-related party debt into account, interest payments are not deductible where the debt/equity ratio exceeds 3:1. Companies that do not meet this ratio will have a term of five years to reduce it in equal proportions per year. These rules do not apply to financial institutions. The interest paid that

exceeds this ratio will be non-deductible. From 1 January 2007 onwards, only loans with foreign parties on which the company is required to pay interest are taken into account in determining the debt/equity ratio.

## LOSSES

Tax losses may be used to offset taxable income obtained during the following ten years. The amount of tax losses is uplifted for inflation for the period from July of the year when they occur to June of the year when they are offset.

## EMPLOYEE PROFIT SHARING

All employees of a company are entitled to a share of its profits. The profit sharing is computed each year at the rate of 10% of taxable income if any. There are certain specific items described in the law which have to be added or deducted from the taxable income for profit sharing computation purposes. Most of these relate to differences in the treatment of inflation accounting.

From 1 January 2005, profit sharing paid in one year is deductible from the after tax profit or loss of the following year.

## INCENTIVES

The Federal Revenue Law establishes the following incentives for the FY 2015:

- Fiscal tax credit against Income Tax for consumption of diesel in business or transportation activities.
- Refund of the Special Tax on Production and Services from consumption of diesel in agriculture activities.
- Fiscal tax credit against Income Tax of the fees for use of toll roads.
- Exemption of the New Car Tax for sale or imports of electric vehicles.
- Exemption of the Tax on imports of natural gas.

## C. FOREIGN TAX RELIEF

The CFC regime when enacted was based on a geographical conception such that it only applied to transactions realised in specific countries or regions (Black List). Currently, this regime applies to income wherever derived where the tax charged was less than 75% of the tax that would have been paid in Mexico.

Income is not subject to the CFC regime where the Mexican company does not control the overseas company or less than 20% of its annual income is passive income. For this purpose, control is that which allows the parent to decide the timing of distributions of dividends or profits.

## D. CORPORATE GROUPS

The new Income Tax Law provides the elimination of Tax Consolidation regime, however, it grants the possibility to benefit from the following schemes:

- Continue to tax under the consolidation regime until FY 2017, for which determination of tax must continue to be calculated in the same way as in the prior legislation. Once completed the aforementioned period, the taxpayer must choose one of the two taxation schemes indicated below.
- Avail to new rules for determining the tax under the scheme of "deconsolidation" under which tax must be calculated and reported within the time specified by the new Income Tax Law. The tax charge resulting from the deconsolidation will have to be paid to the tax authorities as follows:
  - 25% by the last day of May 2014.
  - 25% by the last day of April 2015.
  - 20% by the last day of April 2016.
  - 15% by the last day of April 2017.
  - 15% by the last day of April 2018.
- In lieu of the tax consolidation regime, it is created a new optional regime of inclusive corporations in which payment of tax is partially deferred by three fiscal years..

## E. RELATED PARTY TRANSACTIONS

The Secretary of the Treasury is empowered to alter the tax loss or profit in the case of transactions between related parties made at prices other than market prices, including sales or purchases, loans, rendering of services, lease or sale of real property, as well as use or transfer of intangible assets, when they are not realised at a fair market value.

Taxpayers are obliged to carry out an annual transfer pricing study. Taxpayers must apply the best method rule. As a default, this is taken to be the Comparable Uncontrolled Price Method (CUP), unless the taxpayer can prove that such a method is not applicable.

Since 2014, the maquiladoras (Related Parties) are required to perform the calculation of safe harbour or submit an advance transfer pricing agreement (APA)

For the application of the benefits contained in tax treaties and in the case of transactions between related parties, the tax authorities may request the resident abroad to demonstrate the double juridical taxation through a under oath statement.

## F. WITHHOLDING TAXES

### DIVIDENDS

From FY 2014 individuals will be subject to an additional fee of 10% on dividends or profits distributed by corporations resident in Mexico. Entities distributing dividends are required to withhold tax and will pay it together with the interim payment of the corresponding period.

Additionally, individuals who receive dividends from foreign companies shall be required to make

payment of an additional 10% tax, by the 17th of the following month in which the income is received.

## INTEREST

The withholding tax payable on interest to non-residents depends on the type of interest in a range from 4.9% to 21% for payments to banks and other financial institutions and 35% in other cases.

## ROYALTIES

Royalties payable to non-residents are taxed at the following rates:

For the right to use railroad wagons	5%
Other categories of royalties	25%
Royalties paid to residents of countries with a preferential tax regime	40%

## G. EXCHANGE CONTROL

There are no exchange restrictions in Mexico. Foreign currencies can be freely bought, sold and sent or transferred abroad.

However, since 2010 there are limitations to USD cash transactions.

## H. ELECTRONIC ACCOUNTING

Taxpayers are required to have their accounting transactions in an electronic fashion based on account catalogues and codes issued by tax authorities. They also have to send part of their accounting information in the following terms:

- From January 2015 taxpayers with income of 4,000,000.00 or more in the tax year 2013 have to send their accounting information.
- From January 015 taxpayers with income lower than the one indicated above have to send their accounting information.

Tax authorities may perform electronic reviews of the accounting information sent by taxpayers.

## I. PERSONAL TAXES

Persons residing in Mexico calculate their annual tax on their total income generated both in the country and abroad. In the case of foreign income, taxes paid abroad are generally credited against taxes payable in Mexico.

There are specific rules for each type of personal income such as: wages, fees, capital gains, dividends, etc. In the case of wages, the taxes are withheld by the employer.

In the case of salaries paid by a foreign company to a foreigner working in Mexico, personal taxes have to be computed and paid, except when the foreign company has no branch or fixed base in the country and the person spends less than 183 days in the country during the year.

There are only a few personal expenses that a taxpayer can deduct from their income which are as follows:

- (a) School transportation for their children (only in certain cases);
- (b) Medical and dental fees, including hospital expenses for the taxpayer, spouse, direct-line ascendants or descendants;
- (c) Funeral expenses for the persons mentioned under (b) above;
- (d) Donations to authorised entities;
- (e) Contributions for employee retirement;
- (f) Medical insurance payments;
- (g) Interest paid related to mortgage loans for the purchase of family home.

From 2011, there is a decree in effect that allows the deduction on school tuition payments from basic up to High School level. Specific amounts and rules apply.

Provisional payments have to be made on a monthly basis by the employer and the annual taxes must be calculated at the end of each year. Personal tax rates apply up to a maximum rate of 35% in the case of foreign residents.

The following tax rates apply to Mexican residents:

Monthly Taxable Income (MXN)	Tax due on lower limit (MXN)	Marginal rate on excess (%)
Up to 496.07	0	1.92
496.08 - 4,210.41	9.52	6.40
4,210.42 - 7,399.42	247.24	10.88
7,399.43 - 8,601.50	594.21	16.00
10,298.36 - 20,770.29	1,090.61	21.36
20,770.30 - 32,736.83	3,327.42	23.52
32,736.84 - 62,500.00	6,141.95	30.00
62,500.01 - 83,333.33	15,070.90	32.00
83,333.34 - 250,000.00	21,737.57	34.00
250,000.01 and above	78,404.23	35.00

## J. TREATY WITHHOLDING TAX RATES

Mexico is negotiating with Slovenia, Estonia, Hong Kong, Latvia, Lebanon, Lithuania, Malaysia, Malta, Morocco, Nicaragua, Pakistan, Qatar, Thailand, Turkey and Ukraine. The following rates apply:

	Dividends <sup>1</sup> (%)	Interest (%)	Royalties (%)
<b>Treaty countries:</b>			
Australia	15/0	15/10	10
Austria	10	10	10
Bahrein	0	10/4.9	10
Barbados	10	10	10
Belgium	15/5	15/10	10
Brazil	15/10	15	15
Canada	15/5	10	10
Chile	10/5	15	15
China	5	10	10
Czech Republic	10	10	10
Denmark	15/0	5/15	10
Ecuador	5	15	10
Estonia	0	10/4.9	10
Finland	0	10/15	10
France	5/0	15/10	15/0
Germany	15/5	10	10
Greece	10	10	10
Hong Kong	0	10/4.9	10 (Since April 2014)
Hungary	10/5	10	10
India	10	10	10
Indonesia	10	10	10
Iceland	15/5	10	10
Ireland, Republic of	10/5	5/10	10
Israel	10	10	10
Italy	15	15	15/0
Japan	15/5	10/15	10
Korea	15/0	5/15	10
Kuwait	0	10/4.9	10

	<b>Dividends<sup>1</sup> (%)</b>	<b>Interest (%)</b>	<b>Royalties (%)</b>
Luxembourg	15/8	10	10
Latvia (Letonia)	10/5	10	10
Lithuania	15/0	10	10
Netherlands	15/5	10/15	10
New Zealand	15/5	5/10	10
Norway	15/0	10/15	10
Panama, Republic of	7.5/5	10/5	10
Poland	5/15	10/15	10
Portugal	10	10	10
Qatar	5	10	10
Romania	10	15	15
Russia	10	10	10
Singapore	0	5/15	10
Slovak, Republic of	0	10	10
Spain	15/5	5/15	10/0
South Africa, Rep. of	10/5	10	10
Sweden	15	10/15	10
Switzerland	15/0	10/5	10
United Kingdom	0	10/15	10
United States	10/5	15/10	10
Uruguay	5	10	10

## NOTES

- 1 The lower rate applies provided the corporate shareholder holds a minimum percentage of share capital or voting power in the payer which varies depending on the country concerned. Individual tax treaties should be consulted to determine the applicable rate in particular circumstances.





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