

DOING BUSINESS IN **MEXICO**

H&CO.
Global CPA Firm



FOREWORD

This guide has been prepared with the purpose of providing basic information to people interested in investing and doing business in Mexico. It does not cover in detail all the requirements and subjects to be considered, but instead it is intended to provide an overall idea of the benefits of doing business in Mexico and the basic taxation requirements.

The guide is intended to be used for informational purposes only and therefore, you should consult a professional tax and business advisor to acquire more information.

The material contained in this guide is based on information and regulations in effect as of May 2020.





ABOUT H&CO

Since 1992, H&CO has been providing international tax and business advisory services to multinational companies, global families and local companies that seek to invest or expand their operations in multiple jurisdictions in Latin America.

By working together with our affiliates in the region, we offer integrated solutions to help companies with all of their cross-border requirements and reporting obligations, from opening a new company abroad, and manage your operations, to helping you create an international tax strategy and repatriation plan.

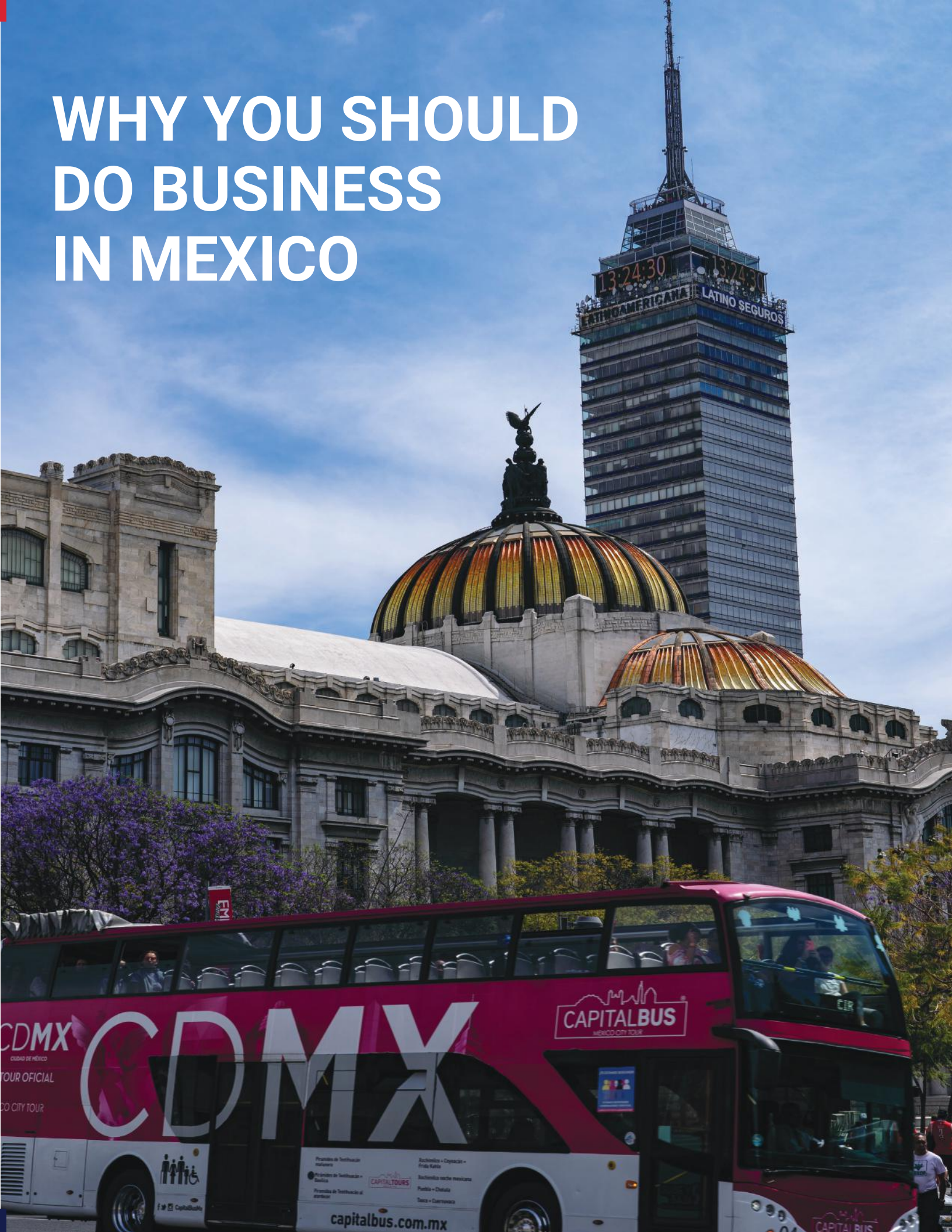
With 3 offices throughout South Florida and partner firms in more than 15 countries in South and Central America, H&CO's primary goal is to be the most trusted service provider of accounting, tax and consulting services for the global community.

COUNTRY ESSENTIALS

Capital City	Mexico City
Area and population	1,964,375 km ² and a population of 128,649,565 people (July 2020 est.)
Language	Spanish
Currency	Peso (MXN)
International calling code	+52
GDP	\$1,221 billion USD (2018 est.)
GDP per capita (PPP)	\$9,791 USD (2018 est.)
Exports	\$451 billion USD (2018 est.)
Imports	\$464 billion USD (2018 est.)
Inflation rate	4.8 % (2018 est.)
Government structure	Mexico is a federal republic comprising of 31 states and a Federal District, the capital city. Mexico's political system consists of three levels of government: federal, state and municipal; these three levels are divided into different branches: the executive (President), the legislative and the judicial.



WHY YOU SHOULD DO BUSINESS IN MEXICO



STRATEGIC GEOGRAPHIC LOCATION

Mexico is geographically located between the Atlantic and Pacific Ocean, connecting North and South America. This proximity to the United States and the Americas makes the country an ideal center for production and trade worldwide.

The country also provides companies in the NAFTA (TLCAN) countries reductions in costs of inventory, shipping, and transportation. It should be noted that a truck shipment can reach any point in the United States within 24 hours.

COMPETITIVE LABOR COSTS

Mexico has the lowest total manufacturing costs among emerging economies and approximately 25% lower than in the United States. Labor costs in Mexico are significantly lower than in Brazil, Argentina, Poland, and Taiwan.

According to the 2016 edition of the Competitive Alternatives Guide, Mexico ranks first with the lowest costs of doing business, standing out as the most competitive country against nine developed economies evaluated. The predominant factor in cost competitiveness is due to the low cost of labor.

EXTENSIVE NETWORK OF FREE-TRADE AGREEMENTS

Mexico offers one of the largest networks of free trade agreements in the world, granting the country preferential access to 44 countries and over one billion consumers, representing 62.6% of the global GDP.

Mexico's principal trading partners include the United States, Canada, the United Kingdom,



France, Germany, and Japan. Free trade agreements have been arranged with the European Union and countries like Costa Rica, Colombia, Chile, Venezuela, Nicaragua, Bolivia, Norway, Israel, Iceland, Switzerland and Uruguay, among others.

FAVORABLE BUSINESS ENVIRONMENT AND LEGAL CERTAINTY FOR FOREIGN INVESTMENT

Mexico is the 14th largest economy in the world and the 2nd in Latin America. It has an attractive business environment, legal strength, and a favorable regulatory framework for starting and operating a business. The 28 signed agreements in the field of Investment Promotion and Protection and Double Taxation with more than 40 countries, make Mexico a safe place for foreign investment.

Additionally, and as a result of the monetary policy implemented by the Bank of Mexico and the Ministry of Finance, the country has achieved a stable and reliable macroeconomic environment that allows certainty in the decision-making of businesses and economic entities that invest in Mexico.



FAVORABLE REGULATIONS FOR STARTING AND OPERATING A BUSINESS

Mexico ranks 49th out of 190 countries in the World Bank 2019 ranking regarding the favorability of the regulatory framework for the implementation and operation of a local company. The country is in a better position than Uruguay, China, and India.

An investor requires 8 procedures and 8.5 days to open a business in Mexico, and 15 procedures and 76 days to obtain a building permit. These are fewer requirements than in any of the BRIC countries. In addition, 1.8 years are required to close a business, with a recovery rate of 67.1% for creditors and shareholders.

YOUNG AND HIGHLY QUALIFIED POPULATION

Mexico has an economically active population of 54 million people, with an average age of 26 years and 30.7% of working age. By 2030, this number would reach 62 million, almost the entire population of the United Kingdom. There are more than 745,000 students in engineering and technology-related fields at the nation's universities, and the country graduates over 115,000 engineers every year, more than the rest of Latin America combined, and more than the United States.

GROWING DOMESTIC MARKET

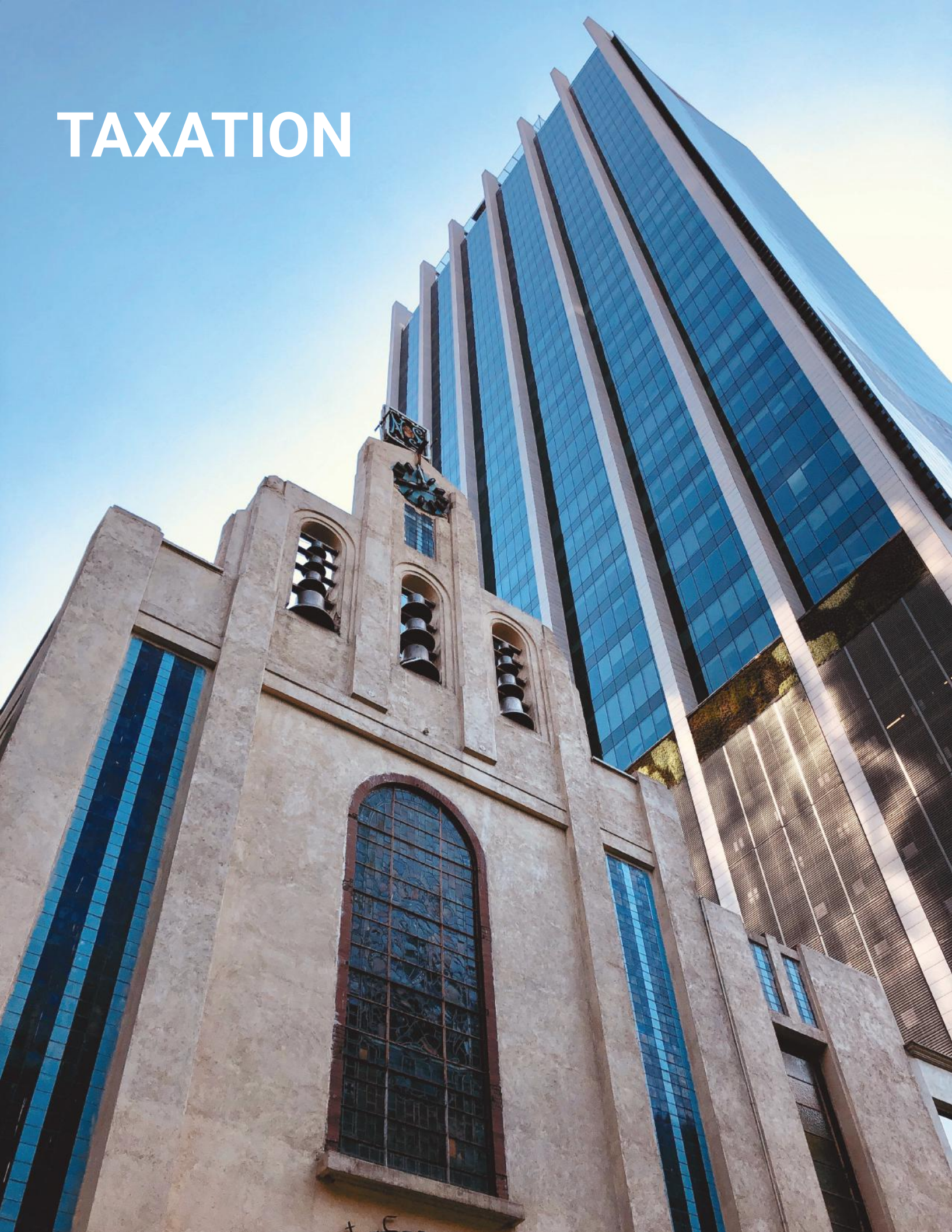
Mexico's domestic market constitutes a potential consumer base of 120 million individuals whose average annual income increases steadily, as does their demand for consumer products. The nation's GDP per capita nearly doubles the GDP per capita of all BRIC economies.

GOVERNMENT'S COMMITMENT TO THE DEVELOPMENT OF THE INFRASTRUCTURE

Although Mexico has grown and become one of the world's production centers offering world-class facilities, the country's government is still focused on improving its infrastructure on many fronts. Mexico's ambitious infrastructure development plans continue to create new links for international trade, transforming the economy and resulting in unprecedented growth in sectors important to the country's economic future, from education to transportation and agriculture.

Notably, Mexico is the 3rd country with the most airports worldwide, with 58 international airports. It also has 63 border crossings, 68 high-altitude and coastal ports, 27,000 km of railways and 378,000 km of land routes, according to ProMéxico.

TAXATION



CORPORATE TAXES

Mexican corporations are taxed on their worldwide income at a rate of 30%. Non-residents are taxed only on Mexican-source income.

Income tax declarations must be filed annually within three months from the closing date of the fiscal year. In Mexico, the fiscal year runs from January 1 to December 31.

TAXES ON CAPITAL GAINS AND DIVIDENDS

Mexican business entities are not subject to special tax treatment on capital gains. Therefore, capital gains are taxed at the ordinary corporate tax rate.

Dividends are subject to a 10% withholding.

ESTATE AND GIFT TAXES

In Mexico, inheritance and gift taxes are not levied except for a local real estate tax.

In some cases, donations may be exempt for those who receive them, as in the case of donations between direct line family members.

In successions of Mexican sourced assets (such as Mexican companies shares and / or properties located in Mexico) a 25% tax may be imposed on the market value of such assets if the person who receives the assets as heir or legatee is not a Mexican tax resident.



SALES / VAT TAXES

VAT is subject to a general rate of 16% on the sale of goods, leasing, the provision of services and imports.

VAT does not apply to the sale of residential real estate or urbanized land. The export of some goods and services is not taxed. A 0% rate applies to the sale of food, medicine, medical fees, education, books, and certain other items.

EMPLOYMENT TAXES

Payroll taxes are applied at the state level and are generally calculated on total payroll expense. Most states have a fixed tax rate, while some have a progressive tax structure. The usual rate is 2%, but it may range from 1% to 3% depending on the state the company is located.

In addition to payroll taxes, employers are also responsible for paying social security with progressive rates between 15% and 25% depending on the salary structure of the employee groups.



PERSONAL TAXES

1. Mexican residents are subject to income tax on their worldwide income, at progressive rates up to 35%. An individual is considered a resident of Mexico if:

- He or she has a permanent home in Mexico
- His or her center of professional activities and interests is Mexico
- More than 50% of his or her global income is of Mexican origin
- Foreigners who have spent more than 183 days in Mexico

2. Non-residents are subject to taxes on their Mexico-source income. Taxes paid by foreigners inside the country vary according to the type of income, with rates that vary between 15% and 30%.

3. Income from economic activity and active income:

- A 30% tax rate applies
- It is necessary to register in the Federal Taxpayer Registry (*Registro Federal de Contribuyentes, R.F.C.*) and file an income tax declaration
- Fees, real estate transfers, sale of shares, and rentals are taxed at a 25% rate
- Capital gains from the sale of shares are taxed at a 10% rate

ESTABLISHING A BUSINESS



PROCESS TO INCORPORATE A COMPANY

An investor aiming to establishing a business entity Mexico requires 8 procedures to be performed in an average of 8.5 days, which places Mexico in the 48th place as the best country in terms of regulatory favorability to start a business in the world.

PROCEDURES	TIME TO COMPLETE
Obtain online authorization to use the company name	2 days
Notary prepares the incorporation documents and parties sign it at the notary public	2 days on average
File the incorporation documents with the Public Registry of Commerce online	Less than 1 day (online procedure)
Obtain Tax Registry Number (RFC) with the Tax Authorities (<i>Sistema de Administración Tributaria</i> , SAT)	Less than 1 day (online procedure), 2 days if done by the entrepreneur
Register at the Mexican Institute of Social Security (<i>Instituto Mexicano del Seguro Social</i> , IMSS)	1 day
Register with the local tax administration (<i>Secretaría de Finanzas del Gobierno del Distrito Federal</i>) for payroll tax	1 day
Notify the local government (<i>Delegación</i>) of the opening of a commercial establishment	Less than 1 day (online procedure)
Registration in the National Registry of Business Information (<i>Sistema de Información Empresarial</i> , SIEM)	1 day
Total number of days	8.5 days

REQUIREMENTS TO INCORPORATE A COMPANY





The *Sociedad de Responsabilidad Limitada* (S.R.L.), is the most common form of incorporation in Mexico. Shareholders of an S.R.L. are liable only to the value of their shareholding.

COMPANY NAME

Mexican regulations require company names to be unique and approved by the Registrar's Office (*Oficina de Registro*). Company names in English must be followed by their corresponding Spanish translation. Also, company names must end with the suffix S.R.L.

REGISTERED OFFICE

Under Mexican regulations, all companies are required to have a registered office in Mexico where documents can be legally served.

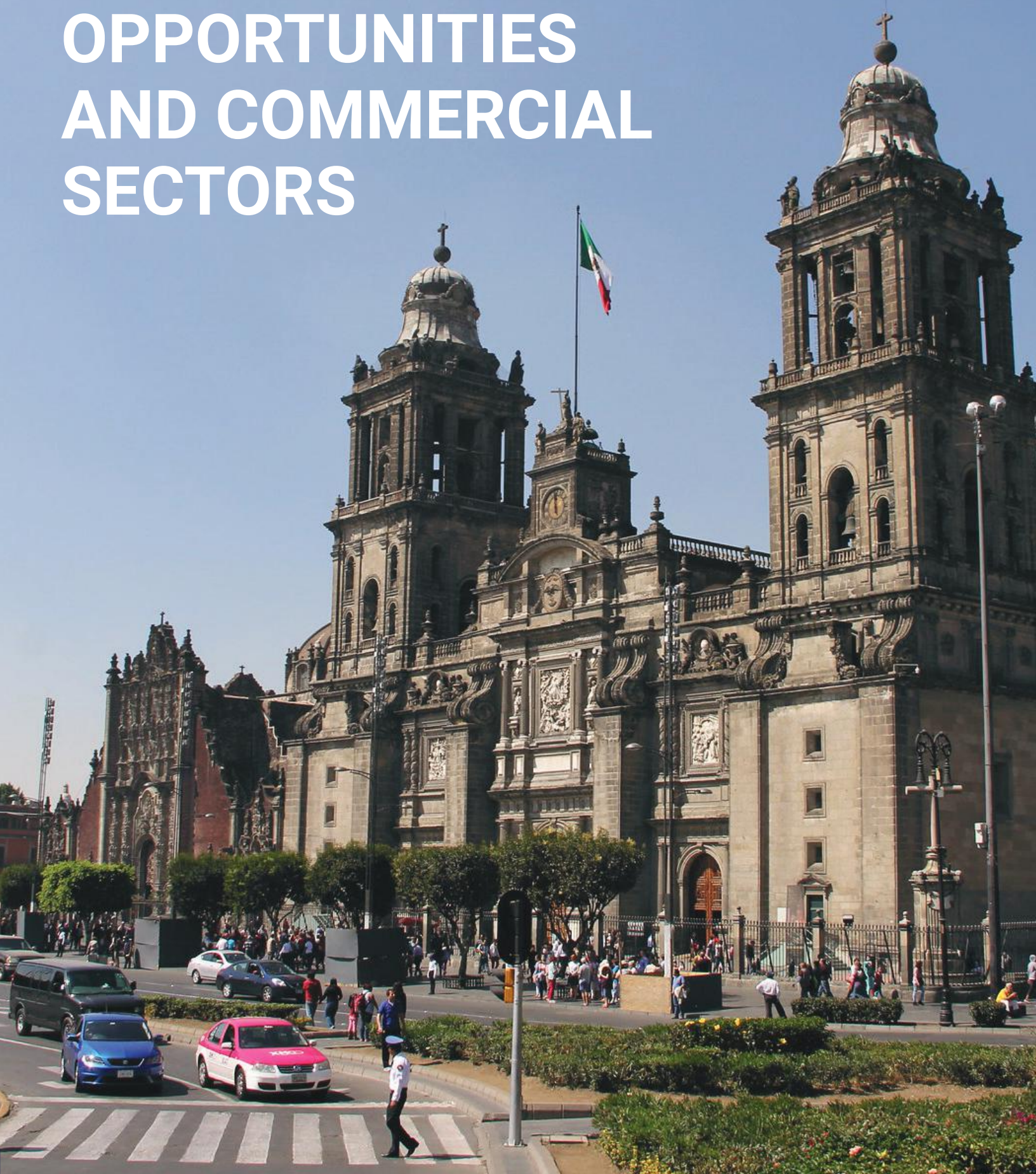
DIRECTORS

A Limited Liability Company registered in Mexico can only have one director, there are no restrictions on the nationality or residence of the director.

SHAREHOLDERS

A Limited Liability Company registered in Mexico must have at least two shareholders. An annual shareholders meeting is required and must be held within four months after the end of the year. There are no restrictions on the nationality or residence of the shareholders.

MARKET OPPORTUNITIES AND COMMERCIAL SECTORS





METALMECHANICAL INDUSTRY

The metalworking industry annually contributes 2.3% of the manufacturing GDP in Mexico. It is responsible for supplying all the different levels of the production chain with machinery, consumer goods and custom made metallic tools. This industry ranges from industrial machinery to tools that supply spare parts for other metal industries.

A study to determine the Competitiveness of the Metalworking Industry in Mexico, carried out by the National Chamber of the Transformation Industry (*Cámara Nacional de la Industria de Transformación*, CANACINTRA) in 2018, determined that 42% of the companies surveyed import more than 75% of the machinery and equipment used in their manufacturing processes. These findings offer opportunities for local manufactures of capital goods; but also reflects the high dependence of the national industry on the import of machinery and equipment for its manufacturing processes, which contributes to a low national added value and limited possibilities of development of national capital goods.



CHEMICAL INDUSTRY

The chemical industry is considered as one of the most complex, competitive, and comprehensive global production sectors, and one of the most regulated of all industries.

This industry is one of the most important sectors in the economic and productive activities in Mexico, since chemical products represent goods and raw materials that form a large part of everyday consumer products nationwide.

The State of Mexico is the entity with the highest percentage of companies dedicated to the chemical industry, concentrating 20.53% of all industries. It has the technical and productive knowledge necessary to promote the development of chemical activities. However, it requires closer links between stakeholders in order to generate interdisciplinary projects that can help the industry grow.



HEALTH INDUSTRY

From medical devices to the pharmaceutical industry and biotechnologies, the health sector is a market with a lot of interest for foreign investors due to the improvement of the regulatory framework and the increase in quality certifications. 20 of the 25 most important and recognized worldwide pharmaceutical companies have operations in Mexico.

Mexico has established itself as the leading exporter of medical equipment to the United States, with 91% of its exports to that country. According to ProMéxico, the estimated Average Annual Growth Rate (AAGR) for this industry will be 3% for the period 2017-2022.



AUTOMOTIVE INDUSTRY

Mexico is one of the main producers and exporters in the automotive industry around the world. Mexico ranked as the eight largest vehicle producer at an international level and, according to international experts, it will position itself as the sixth largest producer and the third global exporter in the coming years. Some of the main products exported by Mexico are light automobiles, vehicle parts and accessories, transportation vehicles, and tractors.

Its excellent geographical position, skilled labor and preferential access to various markets, allows Mexico to attract investment and the possibility of growth in production destined to the domestic and foreign markets. In addition, the country has the investment of important international vehicle manufacturers and luxury brands, as well as the continuous research and development of Mexican automotive companies with a high experience and competitive value.



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