

Mexico Payroll & Tax Overview

A GUIDE TO DOING BUSINESS IN MEXICO 2017



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1.0 Key Country Facts and Public Holidays

1.1 Official Language

The official Language is Spanish

1.2 Currency

Mexican peso

1.3 Country Dial code

The country dial code is +52

1.4 Country abbreviation

The country abbreviation is MX

1.5 Statutory Filing Payment Methods

Employers commonly pay their employees via a direct bank deposit. Cash payments are still used for certain sectors or groups of employees, but it is becoming increasingly common to convert these employees to payment via direct bank deposit or provide a bank debit card, if the employee does not have a bank account.

1.6 National Minimum wage

Daily minimum wage in Mexico will increase from \$73.04 to \$80.04 pesos as of January 1, 2017.

1.7 Filing Deadlines

Most individuals receiving income during the calendar year are required to file an annual tax return no later than April 30 of the succeeding year. Individuals with less than Ps\$400,000 or about US\$30,000 of salary income, in most cases, are not required to file an annual tax return.

1.8 Fiscal year

January 1 and ends on December 31

1.9 Time Zone

Central Time Zone (UTC-06:00)

2017	Holiday	Holiday Type
01 January	New Year's Day	National Holiday
06 February	Constitution Day	National Holiday
21 March	Benito Juarezs Birthday	National Holiday
13 April	Maundy Thursday	National Holiday
14 April	Good Friday	National Holiday
01 May	Labour Day	National Holiday
05 May	Cinco De May	Regional Holiday – Puebla only
10 May	Mother's Day	Not a Public Holiday
18 June	Father's Day	Not a Public Holiday
16 September	Independence Day	National Holiday
20 November	Revolution Day	National Holiday
12 December	Day of the Virgin of Guadalupe	National Holiday
25 December	Christmas Day	National Holiday

2.0 Business and Culture in Mexico

2.1 Establishing as an Employer

A company is created by executing the constitutive instrument before a Mexican notary public. This document also contains the:

- Bye-laws of the company, which include the company's name, business/purpose, domicile, term of duration, equity structure, and administration and corporate governance provisions.
- Names of the founding shareholders or partners, their initial contributions, the appointment of the board members, the statutory auditor (*comisario*) (if it is a SA), and the initial officers and/or attorneys-in-fact, with a detailed description of their powers.
- Documents evidencing the incorporators' identity and authority to execute the instrument.

Any defect in the constitutive instrument can nullify the status of the company or its acts, and may be open to challenge. It is not advisable to rely exclusively on the notary's approval of the document; however, it serves as assurance that the document complies with legal formalities. The notary will also ask for information and identification documents to comply with anti-money laundering legislation, similar to those used by banks to evidence knowledge of their clients.

2.2 Employment

Working hours in Mexico are by regulated by the Federal Labour Law, establishing no more than 48 hours per 6 days of weekly activities. The distribution of hours and /or days depends on your job and the company you are working for. Most office job hours run from 8am to 6pm, although the working hours of Mexico's middle class are now becoming longer and often go until 7pm or later. If you are working in tourism you can expect to work weekends, public holidays and late hours.

Lunch breaks in Mexico are longer than in most other countries, ranging from one hour for normal workers to three-hour work lunches for executives. In general, the "Siesta-taking" Mexican is becoming more and more of a cliché and most modern work environments are now very similar to those of other Western countries.

3.0 Visas and Work Permits

The most common visa category for temporary employment in Mexico is the **(Long-Term) Non-Immigrant FM3 Visa**, which enables employers to sponsor approved skilled migrants to work in Mexico on temporary assignments that are longer than 6 months in duration.

Business visitors to Mexico can be granted either a **FMM** (Multiple Immigration Form) authorising business activities, which is granted on arrival, or an **FM3 Visa for Business Visitors**, which is applied for out of country.

It must be noted that for Mexican employment visas, the requirements can often change according to the Mexican Consulate of submission.

A) Overview of Non-Immigrant FM3 Visa Applications

Work Authorisation Application

The sponsoring company in Mexico must apply for a foreign national work permit at the *Instituto Nacional de Migración* (National Institute of Immigration, INM).

It is important to note that all documents submitted at the INM in Mexico must be submitted in Spanish. Any documents which are not in Spanish must be translated by an approved translator and we would be able to arrange this service. Once the INM has approved the application and granted the foreign national work permit, they will forward approval confirmation to the Mexican Consulate in the assignee's country of residence or nationality. They will also send an approval letter to the company in Mexico which must be forwarded to the proposed assignee.

Processing time is around 6 weeks.

Non-Immigrant FM 3 Visa Application

On receipt of the work permit approval letter, the foreign assignee must attend the Mexican Consulate in their country of residence or nationality to apply for the FM3 Entry Visa. He/she will need to take various documents to the appointment, such as a valid passport and the approval letter.

When the visa has been approved, the foreign assignee will be able to travel to Mexico to begin employment.

Processing time is between 3-10 working days.

Arrival in Mexico – FMM and FM3 Card

Upon arriving at a point of entry in Mexico, the assignee will need to complete a Multiple Immigration Form (FMM), which will be stamped and approved by immigration officers.

Once the assignee has been granted permission to enter Mexico, he/she has up to 30 days to register and apply for the FM3 Card, which will replace the FMM, at their local INM office. Various documents will be required, including a passport, the original FMM form used to enter the country and passport size photos.

Please note that the FM3 Card is not required for assignments of less than 180 days' duration.

What is the duration of a (Long-Term) Non-Immigration FM3 Visa?

The Non-Immigration FM3 Visa for is generally valid for twelve months for the initial Visa, with possible yearly renewals up to a maximum total of 5 years from the date of the granting of the visa.

Dependants

In respect of family members of a foreign national who is granted a Non-Immigration FM3 Visa, spouses and children (age dependent) can accompany the principal applicant. However, requirements vary on a case by case basis and additional authorisation is necessary to enable dependants to seek employment and study.

B) Overview of FMM / FM3 Business Visa Applications

Permitted Business activities include:

- 1) Business meetings / conferences
- 2) Trips to install or repair machinery or perform technical duties at an affiliated company, providing the business visitor does not receive payments from a Mexican source
- 3) Negotiations

What is the duration of a Business Visa?

The maximum length of stay as a business visitor to Mexico is 180 days per visit; however, visas may be extended in country.

Non-compliance

Non-compliance with Mexican immigration rules could incur penalties such as fines, revocation of visas or deportation. It is therefore of the utmost importance that your company is always up-to-date on the latest immigration requirements and Newland Chase can take care of all your compliance needs.

4.0 Tax and Social Security

4.1 Tax

The following tax rates are effective for resident individuals:

Taxable income (MXN)		Basic tax	
Over	Not over	Tax on column 1 (MXN)	Tax on excess (%)
0.01	5,952.84	0	1.92
5,952.85	50,524.92	114.24	6.40
50,524.93	88,793.04	2,966.76	10.88
88,793.05	103,218.00	7,130.88	16.00
103,218.01	123,580.20	9,438.60	17.92
123,580.21	249,243.48	13,087.44	21.36
249,243.49	392,841.96	39,929.04	23.52
392,841.97	750,000.00	73,703.40	30.00
750,000.01	1,000,000.00	180,850.82	32.00
1,000,000.01	3,000,000.00	280,850.81	34.00
3,000,000.01	and above	940,850.81	35.00

If the employee is considered a non-resident for Mexican tax purposes, the tax rate applicable to compensation will vary from 15% to 30%. The first MXN 125,900 of employment income received in a 12-month floating period will be tax exempt.

The following tax table is applicable to income tax with respect to income earned by non-residents:

Taxable income (MXN)		Tax rate (%)
Over	Not over	
0	125,900	Exempt
125,900	1,000,000	15
1,000,000	and above	30

4.2 Social Security

The Mexican Social Security Institute (IMSS) was established in 1942, and the social security system is in effect in all industrial areas and agricultural zones throughout Mexico. In these areas the employer's statutory obligations in connection with occupational risks are covered by payments of social security premiums.

The institute provides for employees' and their dependents' medical attention, including hospitalisation, and limited unemployment compensation in cases of illness and maternity, occupational disease and accidents, in addition to disability and old-age pensions. A separate social security system operates for employees of the government and its agencies.

The IMSS system is mandatory in regard to all non-government employees throughout the country. Special rules over self-employed persons, domestic servants and some others. All employers having at least one employee, including non-profit institutions and others that might be tax exempt, are required to register with the IMSS and pay its premiums. Foreign employees of Mexican companies working in Mexico are subject to the social security system on an obligatory basis.

Social security contributions/premiums are incurred by both the employer and the employee (through withholding) and remitted to the social security authorities every month. Premiums are determined as a percentage of each employee's wages, and the computation differs depending on the following categories.

- Sickness and maternity
- Life and disability
- Day-care centres and social benefits.
- Retirement Savings System (SAR) and Old age
- Occupational risks.

The percentage contributions for each category (except for occupational risks) and maximum contributions are shown in Appendix XI.

The premium for occupational risks, paid entirely by the employer, is a percentage of the total earnings base. The applicable percentage varies, depending on the risks class to which a company is assigned.

All employees of a company located in the same city or other social security jurisdiction are classified in the same group, regardless of the type of work each performs. The percentages shown can be lowered or raised somewhat, depending on the safety equipment installed and the actual frequency and costs of claims made by the employees of a particular company (actual experience).

In the second month of the year the corresponding percentage rates will be self-determined, based on prescribed procedures and according to actual experience under the regulations of the Social Security law.

Employers are also required to pay 1% of covered payrolls as an additional premium to cover the cost of maintaining day-care centres for children of working mothers and social benefits.

5.0 Compliance

5.1 Employer Registration

A new employer must be registered as an employer in Mexico with the Mexico Revenue Authority (as demonstrated with a valid RFC ID) and Mexico Social Security (as demonstrated with a valid IMSS ID)), have a local bank account, provide social security Internet access codes (IMSS desde su Empresa (IDSE)) and electronic signature if using electronic method for social security administration (SUA).

5.2 Starters/Registration

A company in Mexico must undertake the following actions with all new starters:

- Ensure the employee has registered personally with the Mexico Social Security (“Instituto Mexicano de Seguro Social” (IMSS));
- Capture the statutory employee information, a day in advance of the employee’s hire date, including the new employee’s Individual tax number (“Registro Federal de Contribuyentes” (RFC)), Social Security ID (IMSS), and federal declaration number (“Clave Única de Registro de Población” (CURP));
- Register the new employee affiliation to the employer with the IMSS (social security) via the IDSE according to established regulations;

5.3 Leavers/De-registration

A company in Mexico must undertake the following actions with all new leavers:

- Provide the employer’s IDSE access code together with details of reasons for leaving/termination, leave date and details of payments; and send the “Aviso de Baja al Seguro Social” to the IMSS via the IDSE to deregister the employee affiliation with the social security according to established regulations.

6.0 Statutory Absence/Payments

6.1 Annual Leave

The duration of the annual leave is set at 6 working days minimum, after one year of service with the same employer. This duration shall be increased by two working days (up to a maximum of 12) for each subsequent year of service. After the fourth year, the vacation period shall be increased by two days for every five years of service. Workers who perform discontinuous and seasonal work are entitled to an annual holiday period in proportion to the number of the working days performed in the year. Employees are also entitled to 7 paid public holidays.

6.2 Maternity leave

Established and regulated by “Ley del Seguro Social” as one of the classes (branches), applicable not only to employees, but also provided to the spouses of employees. In order to receive payment, female employee shall file medical records at the assigned Social Security Clinic.

Compulsory Leave – female employees may take 42 days prior to birth and 42 days’ post birth. Based upon the employee’s job, the pre- and post-birth days may vary but must comply with 84 days in total.

6.3 Paternal leave

The paid paternity leave stands at 5 days.

6.4 Sickness

Established and regulated by “Ley del Seguro Social” as one of the classes (branches), under general illness, and begins pay on the fourth day of four continuous normal workdays of absence. The employee has the obligation to file direct with the IMSS for medical leave.


6.5 Benefits


- Profit Sharing - Federal law requires firms to participate in a profit sharing program in which employees receive 10 percent of the firm’s annual profits. Executive officers and general managers often do not participate in this program.
- Christmas Bonus (Aguinaldo) - Firms are also required to pay a year-end Christmas bonus (Aguinaldo) to all employees equivalent to at least two-weeks’ pay. Those who have worked less than one year receive a pro-rated bonus.
- Legal Holidays - Mexican Federal Labor Law establishes 7 legal paid holidays per year. Besides these holidays many businesses and labor contracts observe additional days for religious and national celebrations.
- Vacation - Vacation time is guaranteed and rewarded based on seniority. Six days of paid vacation must be offered after one year of service, plus two additional days each year for the next three years. By the 5th year of service, this adds up to two weeks of paid vacation. After five years of employment, two more days must be added for each five-year block of service.
- Social Security - All workers are automatically covered by the public health care system the Mexican Institute of Social Security (Instituto Mexicano de Seguro Social, IMSS), whether registered or not. It is the responsibility of the employer to register employees as well as contribute a minimum of 17.42 percent of each worker’s salary, depending on the risk-factor of the job, into the social security fund. Benefits include basic health care and medications, attention to occupational accidents and care for illnesses.
- Employee Housing - Employers also are required to pay a 5 percent fixed payroll tax to finance the Institute for the National Fund for Employee Housing (Instituto Nacional del Fondo de la Vivienda para los Trabajadores, INFONAVIT). The goal of this federal program is to provide benefits allowing employees to more easily acquire a home.
- Retirement Insurance - Under the Retirement Savings System (Sistemas de Ahorro para el Retiro, SAR), employers must pay 2 percent of a worker’s salary (up to 25 times minimum wage) to a retirement fund in a bank account under the worker’s name.

7.0 In-country Payroll Providers



F&L is an essential resource for companies, providing advice when they expand across borders. We set ourselves apart from other firms by employing the best people in the industry and through the range of services we provide including tax.


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