

INPATRIATES

Mexico

Tax facts for International Assignees



INCOME TAX: WHO IS LIABLE/RESIDENCY

An individual is considered as resident of Mexico when he/she establishes a home in Mexico. If an individual has a home in another country, then he/she will be considered as resident of Mexico if they have their central of vital interest in Mexico. For this purpose, the central of vital interest would be deemed in Mexico if one of the following conditions are met:

- When more than 50% of his/her total income earned in a calendar year will be Mexican source or;
- When he/she have in Mexico their main center of professional activities.

A resident of Mexico must file a Mexican income tax return on an annual basis reporting their worldwide income. The tax return should be filed during April of the following year. Mexico allows a foreign tax credit for taxes paid abroad with certain limits. For this purpose, a Mexican Tax ID should be obtained as well as an electronic password (FIEL).

There are certain personal deductions which can be deducted from the taxable income which corresponds mainly to medical expenses, charitable contributions, mortgage, medical insurance premiums, among others, all disbursed in Mexico and the service is being rendered by Mexican entities. Personal deductions are limited to the lesser of \$ 175,602 pesos or 15% of the total income of the year.

A non-resident of Mexico is only taxable in Mexico on Mexican-source income earned in a twelve month period and must file individual monthly income tax returns no later than the 17th day of the following month. The non-resident tax is considered as final and there is no obligation to file an annual Mexican income tax return.

Mexican-source income includes income from a permanent establishment in Mexico and salaries paid for work performed in Mexico.

The non-resident tax can optionally be filed through one of the following options:

- Through the Mexican company for which the services are being rendered.
- Through the registration of the foreign company as a withholding agent.
- Through the appointment of a legal representative in Mexico.

REGISTRATION/FORMALITIES

Both, residents and non-residents should have a work permit to legally render his/her services in Mexico.

Residents of Mexico should be registered with the Mexican tax authorities to obtain a Mexican Tax ID number and electronic password (E.Firma). In order to be registered the taxpayer should have a work permit and a proof of tax domicile in Mexico such as telephone bill.

The official website of the Mexican Tax authorities is www.sat.gob.mx Taxpayers can log in and with the use of the Tax ID and the FIEL they will be able to file their Mexican annual income tax return and verify in their file cabinet if there is any requirement from the Mexican Tax authorities.

Upon departure, the taxpayers should file a suspension of activities notice through the Mexican tax authorities website.

As mentioned before, non-residents of Mexico do not need a Mexican tax ID number.

INCOME TAX RATES

Resident Rates (Pesos)

Lower Limit	Upper Limit	Fixed Quote	Tax Rate
0	7,735	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 3,898,140.13	1,222,522.76	35.00%

Non-Resident Rates (Pesos)

Lower Limit	Upper Limit	Tax Rate	Lower Limit
0	125,900	0.00%	0
125,900	1,000,000	15.00%	125,900
	over 1,000,000	30.00%	over 1,000,000

SOCIAL TAX RATES

For 2022, the maximum taxable earnings amount for Social Security taxes is \$768,145 pesos per year. There are mandatory social security contributions for the employer and the employee. There maximum employer and employee contributions per year amounts to \$139,466 and \$22,495 pesos, respectively.

In theory, all individuals who perform a service in Mexico should be liable for Social Security contributions as well as the benefits of Medicare and pension plans. However, since the contribution is mandatory for the employer and the employee, the taxpayer should be enrolled in a Mexican payroll. The subordinated relationship can be supported by a local employment contract or through the implementation of a mirror payroll mechanism.

When the taxpayer is being paid by the foreign entity, in practice, there is no mechanism to file Social Security contributions as there is no registration process as employer, for the foreign employer.

Additionally, where Mexico has entered into a Totalization Agreement with a country, an Individual who remains employed by a company from that country may be exempt from Mexican social taxes as well. In order to utilize this exemption, the company and individual should obtain a Certificate of Coverage from the home country. It is important to mention that Mexico has agreements with Canada and Spain only.

For further information and to register for future updates contact expat@bdo.global

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