

Mexico Overview

2019 Individual Income and Social Taxes

Gaining an understanding of the tax system in a new country is a critical step in addressing risks and reducing costs for companies with mobile employees. This overview summarizes key individual income and social tax compliance and tax planning considerations for companies sending employees to work in Mexico.

Individual income tax overview

A resident of Mexico is subject to Mexico income tax on worldwide income at graduated tax rates that range from 1.92% to 35% of taxable income.

A non-resident of Mexico is subject to Mexico income tax only on Mexico source income at graduated tax rates ranging up to 30%.

Residency

A person is generally a resident of Mexico if they have a home in Mexico. Individuals with a permanent home in another country are considered a tax resident of Mexico if their “center of vital interests” is located in Mexico. A person's center of vital interests is deemed to be located in Mexico if more than 50 percent of their income in a calendar year is derived from Mexican sources or if Mexico is the principal center of their professional activities.

Tax filings

Tax Year: Calendar year for resident taxpayers

Due Date: April 30 following the calendar year. Extensions are not possible.

Joint/Separate Returns: Married persons are taxed separately. Although a joint filing is possible, there is no tax benefit.

Tax Payments/Proof of Payment: Withholding for employment income via monthly returns filed by the employer. Monthly tax returns from the employee may be required if tax is not withheld from income. A final withholding tax generally applies for non-resident taxpayers. The employee must have proof of all annual tax amounts withheld by their employer. Employers are required to provide the employee with an annual summary of earnings and withholdings (Form 37, Annual Constancy of Wages and Salaries) for review and signature by the employee.

Planning ideas and common tax issues

1. Timing of transfer may help reduce Mexico taxation (tax treaties must be consulted).
2. The employment income for a non-resident is exempt from Mexican tax if the person is present in Mexico for no more than 183 days in any 12-month period, is paid by a non-resident employer, and the work is not related to a permanent establishment (PE) or other establishment in Mexico.

3. Deferral/advancement of compensation during non-resident periods may reduce Mexican taxation.
4. Certain allowances and reimbursements may be fully or partially excluded from taxable income (e.g., year-end bonus, company provided automobile, moving expense reimbursements).
5. The exercise of stock options may be taxed, even after departure from Mexico, if all or part of the compensation is charged back to the Mexican employer.

Income tax treaties

Mexico has income tax treaties with many countries including the US. Business travelers going to Mexico may be exempt from Mexican income tax if certain conditions are met (e.g., related compensation expense is not deducted by the employer in Mexico and the employee does not exceed a defined physical presence threshold). The “legal” Home country employer must bear the risk and responsibility for the employee’s work in Mexico for application of the treaty exemption.

Social taxes

Employers are required to register with the Mexican Social Security Administration (IMSS) and register their employees within five days of hiring. Employer contributions and amounts withheld from employees are remitted on a monthly basis at the following rates:

- Employee -- Approximately 2.727% of salary capped at a salary of 25 UMAs. A UMA, or Unit of Measurement and Update, is defined by Mexico’s National Institute of Statistics and Geography. As of February 1, 2019, the annual UMA was MX\$ 30,822.
- Employer – Approximately 17 to 31% of salary (depending on the employer’s risk status and capped at a salary of 25 UMAs).

Mexico has social security agreements with only Canada and Spain. These agreements may exempt or partially exempt salary from Mexican social taxes. An agreement with the US has been signed, but is not in force, pending ratification from the US Congress and Mexican Senate. Non-residents are not liable for social taxes.

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GTN specializes in mobility tax services. To learn how we can help you better understand these rules, or if you have additional questions, please contact us at info@gtn.com or +1.888.486.2695.

This overview is based upon tax law in effect as of January 1, 2019. The information provided is for general guidance only and is subject to change. This information should not be utilized in lieu of obtaining professional tax and/or legal advice.