



Tax FAQs

Mexico



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General Mexico tax queries

1. Do I need to file an annual tax return in Mexico and when is the filing deadline?

Tax residents are required to file an annual tax return (certain exceptions may apply). Annual tax returns must be filed at the end of the tax year which in Mexico runs from 1 January to 31 December, or in transition years, the tax year would be since the moment the individual become tax resident of Mexico and until 31 December (irregular tax year).

Tax residents must report their worldwide income, including income earned from sources outside of Mexico. The annual tax return must be filed by 30 April of the following year (for example, the 2023 tax return must be filed no later than 30 April 2024). The annual tax returns must be e-filed (electronically filed) in Mexico.

2. What is the process to follow to register with the Mexico tax authorities?

Individuals must obtain their Mexican tax identification number (known locally as Registro Federal de Contribuyentes, or RFC). In addition, the taxpayer is required to obtain through a personal appointment at the Mexican tax authority's offices, the following digital keys or electronic tax passwords in order to be able to file the electronic tax filing requirements.

- ▶ Password (Contraseña).
- ▶ Advanced Electronic Signature or e.Firma, formerly known as FIEL.



Tax Residency

3. How is my Mexico tax residence position determined?

In accordance with the Mexican tax laws, individuals (nationals or foreigners) who establish their home in Mexico are deemed tax residents of Mexico.

If individuals also have a home in another country, they are considered residents of Mexico if their centre of vital interests is located in Mexico. An individual's centre of vital interests is considered to be located in Mexico if any of the following circumstances are met:

- ▶ More than 50% of the individual's income in a calendar year is derived from Mexican sources.
- ▶ The principal centre of the individual's professional activities is located in Mexico.

If an individual is deemed to be tax resident in another country with which Mexico has an income tax treaty in force, then we should attend to the provisions on such tax treaty in order to determine the tax residency of the individual. Most of the tax treaties concluded by Mexico are based on the OECD Model Tax Convention on Income and on Capital (Organization for Economic Co-operation and Development) which in its article 4 stipulates the tiebreaker rules of tax residency. However, the relevant tax treaty should be consulted to determine the applicable consequences of said tiebreaker rule.

4. What if I change my tax residency position

Individuals (national or foreigner) who cease to be resident in Mexico must notify the tax authorities within 15 business days before such change in their status. This is done through the submission of a notice of suspension of activities for changing tax residency, in which the taxpayer must designate a person who acts as their legal representative in Mexico with an active Mexico taxpayer number.

Please take into consideration that in order to conclude the Mexican tax residency status it is necessary that the individual (national or foreigner) validates, before the filing of the abovementioned notice, that they will effectively be considered as a tax resident in the country to which they are moving.

In case the Mexican tax authority ("SAT" for its Spanish acronym) requires for supporting documentation to prove the change of tax residency, the following information could be provided: a) a tax residence certificate issued by the foreign tax authorities, or b) documentation proving that the individual filed a tax return.

5. Are there other tax residence positions?

An individual can be considered as non-resident for tax purposes, when they have not established their home in Mexico and do not meet the criteria to be considered as a resident.

In this case, the individual would be liable to pay taxes on their Mexican sourced income, including for the work that is performed in Mexico (for salary income purposes) or when the source of income is located in Mexican territory. For these purposes, each type of income has its own provisions to determine when they are considered as Mexican sourced.

Income tax rates applicable to non-residents would depend on the type of income obtained and it is important to consider that tax payments are considered as definitive (in general, the payor should withhold and remit the applicable tax), which means that non-residents for tax purposes are not required to file an annual tax return.

6. Am I entitled to relief for double taxation?

Due to the fact that tax residents in Mexico are required to pay taxes on a worldwide basis, Mexican legislation allows a credit for the income tax paid abroad to avoid a double tax effect via their annual tax return. Among other requirements to be able to credit the income tax paid abroad, Mexican Income Tax law establishes that the income tax paid abroad must be related to an income generated in a foreign source (service provided or assets not in Mexican territory) which is subject to tax in Mexico.

It is necessary to consider that the foreign tax credit can only be applied in the Mexican annual tax return and not credited against monthly advance payments (income tax paid on account of annual income tax).

7. Is there any recent tax reform about Mexico tax residence?

Since 1 January 2022, any tax resident in Mexico will retain their status as such until they can prove their new tax residence in another country or jurisdiction. Prior to this amendment, only individuals of Mexican nationality retained their tax residence until they could prove their new residence in another country or jurisdiction.

However, in the event that an individual (Mexican national or foreigner) does prove their change of tax residence to a country or territory where their income is subject to a preferential tax regime under the terms of Title VI, Chapter I of the Income Tax Law (tax less than 75% of what would be

paid in Mexico), the individual would retain their tax residence in Mexico for the year in which the notice of suspension of activities is filed and during the following five fiscal years, whereas prior to the reform the period of permanence was limited to the year in which the notice of suspension of activities was filed and during the following three fiscal years.

Regarding this last point, the tax provisions authorize the change of tax residence if the individual (Mexican national or foreigner) moves to a country or jurisdiction with which Mexico has signed a tax information exchange agreement, and such country also has an international treaty with Mexico that enables mutual administrative assistance for the notification, collection and recovery of taxes.



Investment income

8. How is dividend income taxed in Mexico?

Mexican tax residents must report all dividend income earned in Mexico or abroad. If those dividends are paid by a Mexican entity, that entity should provide the individual with a certificate which should report the amount of dividend income the taxpayer received during the year and the amount of income tax withheld.

Income tax withheld on dividends earned from entities located in a country other than Mexico may be creditable against Mexican income tax, provided that it complies with certain requirements indicated in Mexican Income Tax Law.

In addition, taxpayers who receive dividends paid by Mexican or foreign institutions or issuers, must pay an additional 10% income tax on the amount of net cash dividends that taxpayer earned during the year.

Such income tax payments shall be considered a final-definitive tax payment, which means that they shall not be creditable against taxes payable in taxpayer's annual income tax return.

If the dividend is paid by a Mexican entity, then such entity should automatically apply the additional tax withholding of 10% on the payment and remit the income tax to the tax authority. However, if the dividend is paid by a foreign issuer, the taxpayer will be required to report and pay the income tax equivalent to 10% of the net cash dividend by no later than the 17th day of the month following the month in which the dividend was paid. The payment must be reported through the tax authority website, and it may be paid via electronic banking solely from a bank account located in Mexico.



9. Do I have to pay taxes in Mexico on my foreign investments and deposits?

Tax residents are subject to pay income tax on the income generated by their investments both in Mexico and abroad. In this sense, among others, income subject to tax is considered to be the interest generated by investments or deposits abroad, as well as the corresponding effect of foreign exchange currency accrued (not incurred), when these exceed Mexico's inflation.

In years in which substantial changes in exchange rates exceed Mexico's rate of inflation, taxpayers may face substantial income tax liabilities, even when the taxpayer has earned little or no nominal interest on his/her foreign investments.

Taxable income from foreign exchange gains should be recognized in the annual tax return by adding them to the other income obtained during the year, which would increase the corresponding taxable base.

In case of having losses from foreign exchange currency, this can be offset against gains generated exclusively from the same item of income (foreign exchange currency) in the year in which foreign exchange losses occurred and the following four years.

Reporting the possible exchange gain or loss is an obligation per the Mexican Income Tax Law, so individuals must include such information in their annual tax returns and consequently pay the corresponding income tax, if applicable.

Please find below an example about the effect of foreign exchange gains on foreign investments or deposits:

	Currency USD
Average balance of an investment in USD	\$10,000
Accumulated exchange rate fluctuation	16.00%
Estimated Exchange Rate	20.00
Taxable exchange gain or hypothetical exchange loss in MXP (A)	\$32,000
Rate of return on an investment	5.00%
Nominal interest in USD	\$500.00
Estimated Exchange Rate	20.00
Nominal interest in MXP (B)	\$10,000.00
Average balance of an investment in USD	\$10,000
Accumulated inflation	6.79%
Inflationary adjustment in USD	-\$ 679.00
Inflationary adjustment in MXP (C)	-\$ 13,580.00
Taxable income (A+B+C)	\$28,420
Tax loss from previous years in MXP*	Apply in case of loss of previous years
Taxable income to be considered in the annual tax return	\$28,420.00

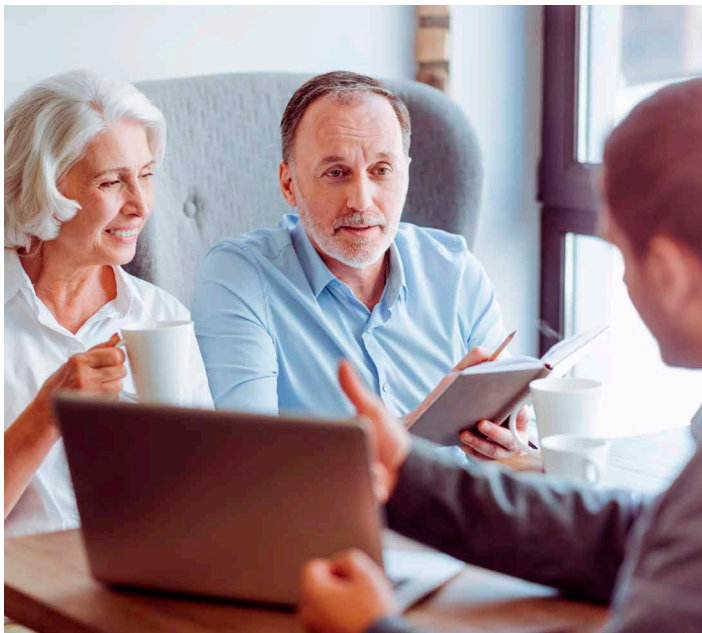
Rental income

10. How is my rental income taxed in Mexico?

All income from rent, as well as income earned from granting temporary use of properties located in Mexico or abroad, is subject to income tax in Mexico on the profits or losses determined for those activities (total income less authorized deductions).

Generally speaking, tax residents who receive rental income may deduct the following itemized deductions with respect to the income obtained:

- ▶ Property taxes and local taxes paid in connection with the property
- ▶ Maintenance expenses
- ▶ Real interest paid on mortgage loans (restrictions apply)
- ▶ Salaries, professional fees and commissions paid
- ▶ Property insurance premiums
- ▶ Depreciation of the property, and of property additions and improvements
- ▶ Water usage duties



Taxpayers are encouraged to retain all the digital invoices (CFDI for its Spanish acronym) related to the mentioned expenses, since the tax authority may require the taxpayer to submit these invoices for review. Payments should be made by check, wire transfer, debit or credit card.

The invoice or CFDI must meet all requirements established under Mexican tax legislation, which shall include the tax registration number (RFC) of both the issuer and the taxpayer, tax regime, place and date of issuance, description of the goods or services, payment method, etc.).

Tax residents of Mexico who earn real estate rental income must meet the following requirements:

- i. Register in the Mexican Federal Taxpayer Registry with rental income activity.
- ii. Maintain accounting records on the tax authority website that are prepared based on the requirements of the Federal Tax Regulations.
- iii. Issue official digital invoices (CFDIs) for the rental income received, which shall include the property's registration number.
- iv. File annual and monthly tax returns for the rental income by no later than the 17th day of the month following the month that the rental income was earned.
- v. Submit electronic filings before the Mexican Tax Authorities, by no later than the 17th day of the month following the receipt of the total monthly rental income that was received in cash, gold, silver and when such payments exceed MXN \$100,000 (Note: this requirement is part of anti-money laundering provisions. If the rental income is received in check, wire transfer, or some other means that was recorded through the financial system this informational reporting requirement does not apply).

As for requisite referred to in section iv above, if the rental income is related to a property located abroad, the individual may be able to take the position that the monthly tax payments should not apply and declare the foreign rental income subsequently only in their annual tax return.

Alternatively, taxpayers can opt for a standard deduction equal to 35% of the rental income. Either if the taxpayer opts to claim an itemized deduction or opts to apply the 35% standard deduction, all requisites aforementioned must be fulfilled.

Capital gains

11. How is a Mexico tax resident taxed in relation to capital gains from selling shares?

Capital gains deriving from sales of shares traded in a stock market obtained by Mexican tax residents are taxable in Mexico.

Sales proceeds may be reduced by the amount of the original acquisition cost of the shares (adjusted for inflation over the number of years of ownership) and the trade fees paid to the financial intermediary (broker).

A 10% rate applies, among other cases, to gains deriving from shares traded in stock exchanges operating under concession or in derivative markets recognized pursuant to the Mexican Stock Exchange Law issued by Mexican entities or by foreign entities listed in such stock exchanges, (which may include those listed in the Mexican Stock Exchange through the SIC system (Sistema Internacional de Cotizaciones)), when sold through the aforementioned stock exchanges either in Mexico or abroad and in compliance with the requirements of the Mexican Income Tax Law. Otherwise, gains shall be accrued to the taxpayer's ordinary income, and subject to the corresponding tax rate (maximum rate is 35%)

Under this preferential treatment option, the 10% income tax rate on the capital gains shall be paid through the taxpayer's annual tax return and is considered a definitive tax payment. For shares sold through Mexican brokers, the broker will provide the individual with a tax certificate indicating the amount of capital gains/losses for the year.



12. How is a Mexico tax resident taxed in relation to capital gains from transfer of real estate?

Capital gains obtained by Mexican tax residents deriving from the alienation of real estate are taxable in Mexico regardless of the location of the property. The taxable income is the sale price, but the individual is entitled to reduce it by the following authorized deductions:

- ▶ Acquisition cost
- ▶ Structures, property improvements and extensions
- ▶ Notary fees
- ▶ Local taxes paid by the transferor on the transfer of real estate
- ▶ Appraisals
- ▶ Fees and commissions paid in connection with the acquisition and sale of the real estate

For sales of real estate located in Mexico, the taxpayer will need to keep the original certificate issued by the public notary indicating the gain on the sale and the taxes paid (if applicable) on the sale. If the property sold is located abroad, the taxpayer will need to submit the supporting documentation of the transaction in the country where the sale took place.

A gain derived from the sale of a personal residence is exempt from tax up to an amount equivalent to 700,000 investment units (UDIs; equal to MXN 5,554,347 approximately) as long as the alienation is protocolized before a notary public. As of late November 2023, a UDI is equivalent to MXN 7.934782. Banking and credit institutions use UDIs to grant loans at a fixed rate.

The previously referred exemption is applicable if the taxpayer demonstrates that they had not sold another residency for which the exemption had been claimed during the preceding three years and such situation is certified before a notary public who protocolizes the transaction.

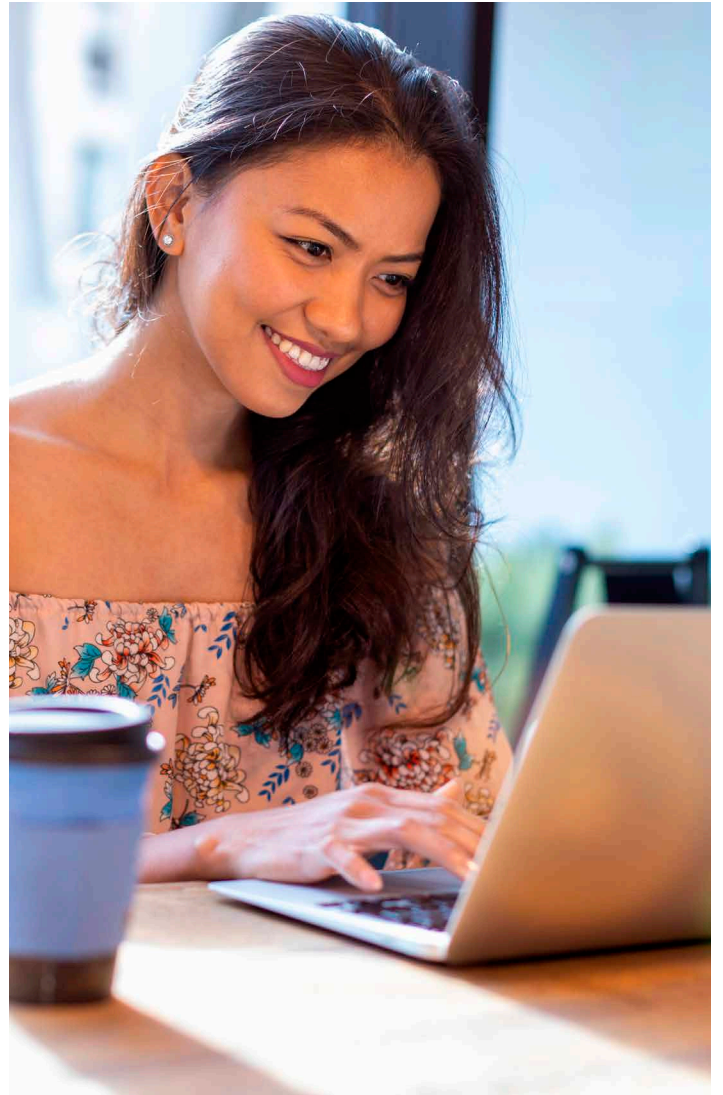
In strict sense and deriving from a harmonic interpretation of Mexican legislation, the aforementioned tax exemption is reserved for properties located in Mexican territory.

Other income

13. What is the tax treatment applicable in Mexico for inheritances?

Inheritances are considered tax exempt for Mexican tax residents.

Please consider that this exemption is still applicable for 2023, but there have been some discussions and tax initiatives to tax this item of income.



Deductions and expenses

14. What expenses can be deducted?

Personal deductions – Resident individuals are allowed to deduct some expenses via their annual tax return. These expenses commonly known as personal deductions, are the following:

- ▶ Medical, dental, hospital, psychologist and nutritionist fees
- ▶ Funeral expenses up to the general minimum wage applicable in the taxpayer's geographic area
- ▶ Non-onerous donations compliant with the requirements provided for in the Mexican administrative regulation issued by the Mexican tax authorities.
- ▶ Real interest on mortgage loans
- ▶ Health insurance premiums
- ▶ Supplementary retirement plan contributions (AFORE)
- ▶ School transportation expenses for the taxpayer's lineal descendants when such transportation is mandatory in accordance with applicable legal provisions of the area where the school is located or when said expense is included in the tuition of all the students at the school in question.
- ▶ Tuition

The total amount of personal deductions is subject to a cap equal to the lower of either 5 times Mexico's UMA index (Unit of Measurement and Upgrade) (MXN \$189,222 approximately for 2023) or 15% of the individual's total annual earnings. The calculation of this cap excludes tuition (qualifying school fees) and supplementary retirement plan contributions.

In order to be able to claim the aforementioned personal deductions, the taxpayer must have all required supporting information (CFDI's), which must include:

- ▶ Name, business name, tax address and tax ID (RFC) of the issuer.
Invoice number and digital stamp.
- ▶ Date and place of issue.
- ▶ Tax ID (RFC) and Zip Code of the taxpayer to whom the invoice is being issued.
Description and amounts of the services/goods acquired.
- ▶ Form of payment (check, wire transfer, debit or credit card).
- ▶ Date of issuance of the invoice.

Generally speaking, only expenses incurred in Mexico are deductible. Expenses that are reimbursed to the taxpayer, either through an insurer company, employer or third party, are not deductible.

All personal deductions must relate to the tax year in which the expense was incurred. Accordingly, qualifying expenses must be deducted in the tax year in which they were actually incurred.

15. Is it possible to apply for additional tax deductions?

Authorized deductions – In addition to the described personal deductions, the taxpayer would also be eligible to claim authorized deductions which are linked with the type of income or tax regime in which the taxpayer is registered, e.g., if the taxpayer receives income for being an independent worker (freelance) or carrying on business activity, then the taxpayer may be able to claim additional expenses for the operation of the activity of the business.

Pensions

16. What are the different types of pensions I can contribute to in Mexico?

An individual hired and paid by a Mexican entity is required to contribute to the following mandatory pension plans:

- ▶ **Public:** Social security contributions to the Mexican Social Security Institute (IMSS for its Spanish acronym); and
- ▶ **Private:** Retirement contributions to the Retirement Savings System (AFORE).

17. How does the public pension contribution work?

The maximum rate of the social security contribution payable by employees is approximately 2.775% of the integrated salary.

The contribution is withheld by the employer from wages. The maximum rate of the social security contribution payable by employers can reach 43.74% (including the maximum percentage of job hazard if applicable, Federal Retirement and Housing Funds 'INFONAVIT'). The maximum amount of salary that may be used to compute the pension plan contribution equals to 25 times the UMA (Unit of Measurement and Upgrade), which was determined for 2023 at MXN 103.74 on a daily basis.

18. How does the private pension contributions work?

The private contributions are managed by a retirement fund administrator (AFORE). The individual can choose the AFORE that is more convenient for their retirement purposes.

19. What are the requirements to withdraw the Mexican pension?

Public pension (Social Security Law applicable since 1997):

- ▶ Reach 65 years old at the time of pension application.
- ▶ Have been removed from the Mandatory Regime of the Social Security Law.
- ▶ Have registered at least 1,250 weeks of contributions.

Private pension:

- ▶ Have registered at least 750 weeks of contributions.
- ▶ Being between 60 and 64 years of age in case of Unemployment Pension.
- ▶ Reach 65 years old in case of Old Age Pension.

20. Are there any exemptions for Mexico pension payments?

The income received for retirement payments are exempt of income tax if the following rules are met:

i. Lump sum payments: The income that is received for retirement or pensions, in a single payment, will be exempt of income tax up to an amount equivalent to 90 minimum wages applicable in the geographic area of the taxpayer for each year in which contributions were paid; if there is a surplus, income tax will be applicable over the surplus portion.

ii. Monthly payments: Income that is received for retirement or pensions, in a monthly payment, will be exempt of income tax up to an amount equivalent to 15 times the general minimum wage applicable in the geographic area of the taxpayer; if there is a surplus, income tax will be applicable over the surplus portion.

The general minimum wage applicable in 2023 is MXN 312.41 in the northern border free zone, and 207.44 for the rest of Mexico.

Note that any foreign employee who has provided services in Mexico and was enrolled in the Mexican social security system would be entitled to receive the funds of the pension plan in case they meet the requirements (as being enrolled for X weeks in the payroll). In almost all cases, foreign residents coming to Mexico for a couple of weeks don't meet these minimum requirements, so, a special legal administrative procedure can be filed to demand these funds (approximately 4,500 USD per year of being enrolled to a payroll).

Income tax rates

21. What are the income tax rates in Mexico?

The maximum income tax rate for a resident individual is 35%. The following are the annual income tax rates applicable in 2023:

Tax rate

Lower bracket limit \$	Upper bracket limit \$	Fixed income tax	Income tax rate on income exceeding the lower bracket limit
0.01	7,735.00	0.00	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%
3,898,140.13	Onwards	1,222,522.76	35.00%



Disclaimer:

This material contains only general information based on the current Mexican tax legislation and the related interpretation and practice thereof, all of which are subject to change possibly on a retrospective basis. We would recommend that you seek independent professional advice on any tax matters as the consequences or implications may differ depending on the facts and circumstances of your case.

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