

—  
Doing  
Business in  
**MÉXICO**



**H&CO.**



**This guide has been prepared to provide basic information for individuals interested in investing and doing business in Mexico.**

The following guide does not cover in detail all the requirements and topics that should be considered. Instead, its purpose is to provide a general overview of the advantages of doing business in Mexico and the basic tax requirements.

This document is intended for informational purposes, and its content is based on the information and regulations in effect as of January 2023. If you require further details, we recommend consulting a professional tax advisor.



# H&CO.



## Who We Are

**Since 1992, we have worked with one primary goal in mind: "simplifying the burden of global compliance and maximizing global operations through technology-enabled transformations." Over the years, we have empowered individuals and organizations to conquer new frontiers by providing world-class global services in more than 14 countries.**

Additionally, we are members of the BDO Alliance and founding members of BLITA International, an international association of independent tax advisors.



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01

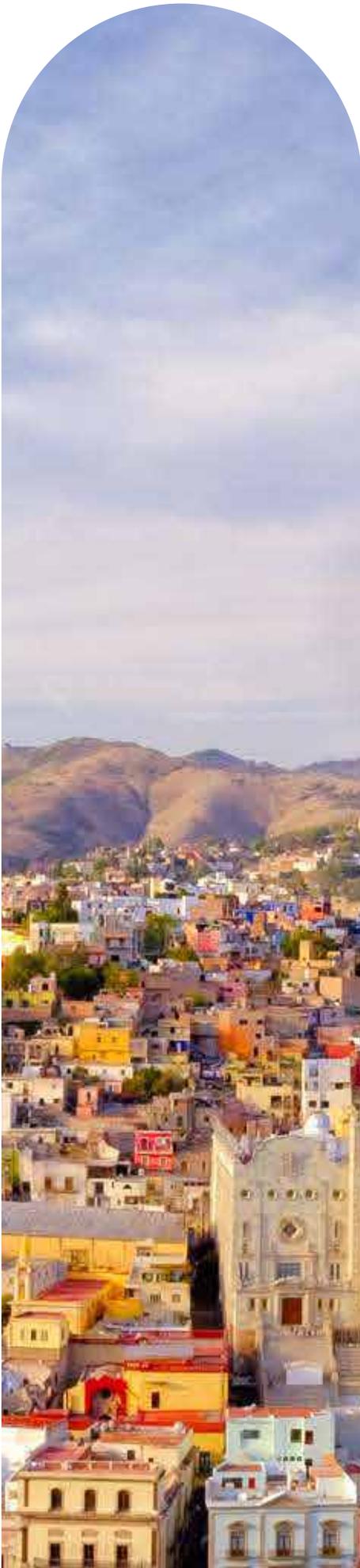
**Why Do  
Business in Mexico?**

## Aspectos Generales de México

Capital	Mexico City
Surface Area and Population:	1,960,189 km <sup>2</sup> (Territorial extension of Mexico, INEGI) with a population of 126,014,024 inhabitants (2020 Population and Housing Census, INEGI).
Language	Spanish
Currency	Mexican Peso (MXN)
International Dialing Code	+52
GDP	28,535,440.7 million pesos at current prices (Q3 2022, INEGI)
GDP – per cápita	127,425 pesos (Gross Domestic Product 2020, INEGI)
Exports	49,323.0 million USD (Preliminary figures as of December 2022, INEGI)
Imports	48,339.0 million USD (Preliminary figures as of December 2022, INEGI)
Inflation Rate	7.82% (INPC dec 2022, INEGI)
Government Structure	Mexico is a Federal Republic composed of 32 federal entities. The political system consists of three levels: Federal, State, and Municipal, each divided into three branches of government: Executive (President), Legislative, and Judicial.

## Business and Tax Advisors in Mexico





## Strategic Geographical Location

**According to the National Institute of Statistics and Geography (INEGI), Mexico has a continental surface area of 1,960,189 km<sup>2</sup>, making it the 6th largest country in the Americas and the 14th largest in the world.**

Furthermore, Proyectos México, a platform that supports the search for local and foreign investors for infrastructure and energy projects, highlights that due to this geographical position and its two major access points—the Pacific Ocean to the west and the Gulf of Mexico to the east—Mexico serves as an ideal hub for production and international trade worldwide. In fact, these areas facilitate the arrival of vessels from Asia and Oceania while also strengthening trade relations with Europe and Africa.

As a strategic destination, Mexico provides countries within the USMCA (T-MEC) access to 60% of global GDP, proximity to the world's largest market, competitive shipping costs, tax incentives along the US-Mexico border, and high standards for intellectual property protection.

## Highly Skilled Young Workforce

**According to the National Survey of Occupation and Employment (ENOE) conducted by INEGI, the Economically Active Population (EAP) in the third quarter of 2022 was 59.5 million people.**

Mexico has a young workforce, with individuals aged between 15 and 29 years. According to estimates, by 2030, this figure will reach 62 million workers, nearly equaling the entire population of the United Kingdom. There are more than 745,000 students in engineering and technology-related fields in Mexican universities, and the country graduates over 115,000 engineers annually—more than the rest of Latin America combined and more than the United States.



For its part, the Ministry of Foreign Affairs of the Government of Mexico emphasizes that the Mexican labor market is made up of a young population with a good level of education. This is the result of reforms implemented by the government to expand access to education and strengthen technical training, which has enabled the nation to develop a highly skilled workforce.

Thanks to this, the country has become one of the preferred destinations for investors and entrepreneurs due to its more competitive wage base and its proximity to the world's largest consumer market, the United States.

## Favorable Business Climate

**In the latest ranking by the World Bank, Mexico ranked 60th out of 190 countries in terms of the favorability of its regulatory framework for starting and operating a business. In Latin America, Mexico and Chile lead as the most favorable destinations for establishing a company.**

Currently, investors interested in starting a business in Mexico need 8 days to complete 8 procedures and 8.5 days to officially launch. Obtaining a construction permit requires 15 procedures, taking approximately 76 days. According to the World Bank, these are fewer requirements than in any of the BRIC countries. Additionally, closing a business takes an average of 1.8 years, with a recovery rate of 67.1% for creditors and shareholders.

At present, the Mexican government is working on implementing efficient, transparent, and easy-to-apply business regulations, recognizing that fostering a strong, dynamic, and competitive business sector is vital for economic growth. In 2018, the country passed the General Law on Regulatory Improvement, which established principles, foundations, and requirements to enhance the business environment at federal, state, and municipal levels. This initiative is considered an excellent international practice, even among OECD member countries.

The National Commission for Regulatory Improvement (CONAMER) emphasizes that these regulatory guidelines aim to establish clear business rules that promote smooth interaction between companies and the government. This is particularly significant given that the private sector generates approximately two-thirds of Mexico's GDP and 9 out of 10 jobs.

## Competitive Labor Costs

**Undoubtedly, foreign investors are attracted to the country due to its strategic geographical location and the profitable labor costs, which are competitive and appealing to business owners. These factors encourage investment in industries such as machinery manufacturing, automotive, aerospace, electrical, and electronics, among others, according to Mexico's Ministry of Foreign Affairs.**

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

According to the ministry, the Mexican labor market consists of a young population with a good level of education and training.

## Government Commitment to Infrastructure Development

**While Mexico has matured and transformed into the world's leading production hub, offering world-class facilities, the government remains focused on improving its infrastructure from various angles. The country ranks 54th globally in infrastructure quality (Global Competitiveness Report 2019) and has 78 airports (Federal Civil Aviation Agency, 2022), 30 official border crossings for goods and people (Ministry of Foreign Affairs, 2019), 118 ports and terminals (Mexican Chamber of the Construction Industry, 2022), 21,755 km of railway tracks (Regulatory Agency for Rail Transport, 2022), a National Road Network spanning 810,129.97 km (National Institute of Statistics and Geography, 2022)**

To further enhance infrastructure, the government, through the Ministry of Communications and Transportation (SCT), has designed and implemented ambitious infrastructure development plans across Mexico, aiming to create new trade links for international commerce.



## Extensive Network of Trade Agreements

**The Ministry of Economy indicates that Mexico has a network of 14 Free Trade Agreements (FTAs) with 50 countries, 30 Agreements for the Promotion and Reciprocal Protection of Investments (APPRIIs) with 31 countries or administrative regions, and 9 limited-scope agreements (Economic Complementation Agreements and Partial Scope Agreements) within the framework of the Latin American Integration Association (ALADI).**

Additionally, Mexico actively participates in multilateral and regional organizations and forums such as the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the Organization for Economic Cooperation and Development (OECD), and ALADI.

Mexico's main trading partners include the United States, Canada, the United Kingdom, France, Germany, and Japan. Furthermore, free trade agreements have been established with the European Union and countries such as Costa Rica, Colombia, Chile, Venezuela, Nicaragua, Bolivia, Norway, Israel, Iceland, Switzerland, and Uruguay, among others.

**On July 1, 2020, the United States-Mexico-Canada Agreement (USMCA) came into effect. This treaty represents the consolidation of Mexico's efforts to integrate into global production chains and position itself as a leading export hub.**

### Benefits of the USMCA

- It not only seeks greater economic integration among North American countries but also aims to improve societal well-being.
- One of its key achievements is maintaining free trade for all originating goods.
- Regarding trade facilitation, the agreement includes provisions that simplify and expedite the movement and clearance of goods at customs while ensuring transparency in administrative procedures.
- It establishes various disciplines to further strengthen intellectual property protection.
- It commits to reinforcing the legal framework to combat corrupt practices that could affect Mexico's business environment.
- Recognizing that regional competitiveness is crucial, the agreement seeks to enhance it through initiatives that promote greater participation of small and medium-sized enterprises (SMEs) in regional value chains.

## Excellent Business Environment

**Mexico attracted a record \$32.147 billion in foreign direct investment (FDI) during the first three quarters of 2022, a 29.5% increase compared to the same period in 2021 (Ministry of Economy, 2022).**

Since 2019, Mexico has been the second-largest economy in Latin America and the 16th



largest in the world. However, it is projected to close 2023 as the 15th largest global economy.

Additionally, Mexico ranks as the 14th largest economy worldwide and the second in Latin America. The country offers an attractive business environment, strong legal security, and a favorable regulatory framework for starting and operating businesses.

The investment promotion, protection, and double taxation agreements signed with over 40 countries make Mexico a safe destination for foreign investment.

Moreover, thanks to the monetary policies implemented by the Bank of Mexico and the Ministry of Finance, the country has achieved a stable and reliable macroeconomic environment, providing businesses and economic entities investing in Mexico with greater certainty in their decision-making.

## Growing Domestic Market

**According to the National Institute of Statistics and Geography (INEGI), Mexico's domestic market represents a potential consumer base of 126 million people, whose average annual income is steadily increasing, along with their demand for consumer products.**

The nation's per capita GDP is nearly double that of all BRIC economies.

Meanwhile, the American Chamber of Commerce in Mexico (AmCham) emphasizes that strengthening the domestic market is essential for Mexico's economic recovery. According to AmCham's estimates, economic growth for this year is expected to be between 1.8% and 2.5%.

AmCham, which represents the U.S. business community, also highlights the importance of the Mexican government fostering a strong level of trust and clear legal regulations to encourage the private sector through public investment.

It is essential to strengthen the domestic market by creating better jobs, ensuring decent working conditions, and offering competitive salaries.



**02**



**Taxes in México**

## Federal Taxes

Legal entities calculate the Income Tax (ISR) by applying a 30% rate to the fiscal result obtained during the tax year. This tax must be paid by those residing in Mexico, foreign residents with an establishment in the country, and non-residents who earn income from sources of wealth in Mexico. **In Mexico, the regular fiscal year runs from January 1 to December 31.**

## Capital Gains and Dividend Taxes

Mexican business entities are not subject to special tax treatment for capital gains. Therefore, capital gains are taxed at the general corporate tax rate. **Dividends are subject to a 10% withholding tax unless they come from the net tax profit account.**

## Impuesto sobre sucesiones y donaciones

If a donation is received by a legal entity under the general regime of the Income Tax Law (LISR), it is considered taxable income and must be added to other revenues. However, if the recipient is an entity under Title III ("Non-Profit Legal Entities") and the donation is used for its social purpose, it will not be subject to ISR.

For the donor, the donation may be deductible, provided that it is made to an authorized donee organization.

## Impuesto al valor agregado / IVA

This is an indirect tax on consumption. The law establishes two VAT rates:

- 16%: Applies to the sale of goods, leasing, service provision, and imports.
- 0%: Applies to the sale of non-industrialized animals and plants, medicines, independent service provisions related to agricultural and livestock activities, etc. (Article 2-A LIVA).

Certain transactions are exempt from VAT, such as the sale of land, buildings attached to the land, books, used goods, etc. (Article 9 LIVA).

Additionally, tax incentives exist for the northern and southern border regions, consisting of a 50% VAT credit. This credit effectively reduces the applicable VAT rate from 16% to 8%.

## Personal Taxes

**1.** Residents of Mexico are subject to income tax on their worldwide income, with progressive rates reaching a maximum of 35%. An individual is considered a resident of Mexico if:

- They have a home in Mexico.
- Their center of professional activities and interests is in Mexico.
- More than 50% of their global income comes from Mexican sources.

**2.** Non-residents are taxed on income derived from Mexican sources. The taxes paid by foreigners in the country vary depending on the type of income, with rates ranging from 15% to 30%.

**3.** Income from economic activities and active income:

- A 30% tax rate applies.
- Registration with the Federal Taxpayer Registry (R.F.C.) and the submission of an income tax return are required.
- Transfers of real estate, sales of shares, and rental income are taxed at a 25% rate for non-residents earning income from a Mexican source.
- Capital gains from the sale of shares are taxed at a 10% rate.

## Employment Taxes

The usual rate is 3%, but it can vary from 1.8% to 4%, depending on the state where the company is located.

In addition to payroll tax, employers are also responsible for paying social security contributions, with progressive rates ranging from 0.54% to 20.40%, depending on the type of insurance being paid.

	Employee	Employer
Social Security	2.38%	35,59%
Infonavit	0%	5%
Payroll Tax	0%	3%

## Technological Facilities for Tax Filing

Mexican taxpayers have the convenience of making payments, filing returns, obtaining certificates, reviewing receipts, and more from the comfort of their home or workplace through the Tax Administration Service (SAT) website.

The SAT portal offers a wide range of procedures that can be carried out using an electronic signature, a technological tool that reduces the need for repeated visits to tax offices.



**03**

**How to Establish  
and Incorporate a  
Company in Mexico**



## Process for Incorporating a Company in Mexico

According to the website of the Mexican Ministry of Foreign Affairs, investors interested in establishing a business entity in Mexico must complete eight procedures, which take an average of 8.5 days. This duration places Mexico 48th worldwide as one of the best countries in terms of regulatory favorability for starting a business.

Procedure	Time to Complete
1. Obtain online authorization to use the company's name	2 days
2. Prepare the articles of incorporation, signed before a notary public	2 days
3. Register the company deed with the Public Registry of Commerce online	Less than 1 day (Online procedure)
4. Register with the Federal Taxpayer Registry (RFC) at the Tax Administration Service (SAT)	Less than 1 day (Online procedure)
5. Register with the Mexican Social Security Institute (IMSS)	1 day
6. Register with the local tax administration (Ministry of Administration and Finance of Mexico City) for payroll tax	- 1 day
7. Notify the local government online (Delegation) about the opening of a business establishment	Less than 1 day (Online procedure)
8. Register with the National Business Information Registry (Business Information System, SIEM)	1 day
<b>Total number of days</b>	<b>8,5 days</b>

## Requirements to Establish a Company in Mexico

In Mexico, the most common types of business entities are the Corporation and the Limited Liability Company. These have the following characteristics:

### ○ Corporation

One of the key aspects of this entity is that shareholders are not personally liable for the company's debts. Their responsibility is limited to the maximum amount of their capital contribution.

### ○ Company Name

The company name is freely chosen but must be different from any existing company name. Additionally, it must always include the words "Sociedad Anónima" or the abbreviation "S.A."

### ○ Requirements

- A minimum of two shareholders, each subscribing to at least one share.
- The corporate bylaws must establish the minimum share capital, which must be fully subscribed.
- At least 20% of the value of each share payable in cash must be deposited at the time of incorporation.
- The full value of any shares paid with assets other than cash must be contributed at the time of incorporation.

### ○ Administration

The highest governing body in a corporation is the shareholders' assembly, which may be ordinary or extraordinary, depending on the matters to be discussed. At least one ordinary meeting must be held annually. The management body may be a single administrator, or a board of directors (collegiate body).

### ○ Limited Liability Company (S. de R.L.)

In this type of company, partners are only liable for their contributions and do not have to risk their personal assets. The company itself is responsible for its obligations, using its assets.

#### Requirements

- Must have at least two and a maximum of 50 partners.
- Partners must clearly specify the elements to be registered in the articles of incorporation.

#### Administration

This type of company can be managed by a manager or multiple administrators, who may be either partners or external individuals. They are appointed by the partners' meeting, either for a fixed or indefinite term.



**04**

**Market Opportunities  
and Business Sectors**



## Tourism Industry

**In Mexico, the tourism industry is steadily recovering after the COVID-19 pandemic, showing encouraging figures. By the end of 2021, the estimated arrival of international tourists was 31 million, an increase of 28.1% compared to 2020 but still 46.1% lower than in 2019. Additionally, tourism revenue reached \$18.428 billion, 67.6% higher than in 2020 but 55.3% lower than in 2019.**

Technological advancements and consumer preferences will shape the growth and trends of the tourism sector through 2023. Travelers will favor destinations that offer relaxation, wellness, meditation, and nature-based experiences.

The new normal in Mexico's tourism industry requires adjustments from both business owners and travelers in how they approach travel. Tourists will seek activities, accommodations, and transportation services that are private or have limited capacity.



## Gastronomy

**Mexican gastronomy is a blend of pre-Hispanic Mexican culinary traditions and European cuisine. Mexican food boasts a wide variety of traditional dishes, with key ingredients such as corn, cilantro, chili, beans, piloncillo (unrefined cane sugar), nopal (cactus), and tomatoes.**

Mexican cuisine is also known for its sauces, which accompany many traditional dishes.

Gastronomic tourism is highly relevant in the country, offering numerous culinary experiences for both national and international visitors. Mexico is already a global reference in gastronomy, and Traditional Mexican Cuisine is part of UNESCO's Representative List of the Intangible Cultural Heritage of Humanity.



## Manufacturing

**Recently, U.S. companies have invested \$11 billion in Mexico, shifting operations from Asia and expanding their manufacturing capacities with new plants and factories. These investments are driven by nearshoring, facilitated by Mexico's international trade agreements.**

Mexico's supply chain is now less disrupted than during the COVID-19 pandemic, making it an attractive location for companies looking to be closer to their customers.

The maquiladora industry accounts for over 62% of trade between Mexico and the United States and generates more than 3.2 million direct jobs. One of the key principles in this sector is producing according to purchase orders rather than market speculation.



## Automotive

**Currently, Mexico has approximately 2,850 companies producing various auto parts, components, and supply systems for the automotive industry, with around 600 classified as Tier 1 suppliers.**

In 2023, an estimated 142,000 electric vehicles will be produced in Mexico—an 82% increase compared to the previous year. The industry's estimated investment for the year is around \$15 billion, though it could be higher. The expected sales of light vehicles are projected at approximately 127,000 units.

By 2030, at least 38% of vehicles sold in Mexico are expected to be electric.

The automotive industry also includes various sub-sectors, such as auto parts manufacturers, vehicle inspection and repair workshops, and detailing services, making it a highly significant sector.

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