



# Mexico Tax Briefing

2021



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MATTERS**  
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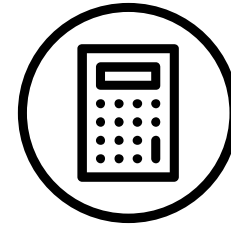
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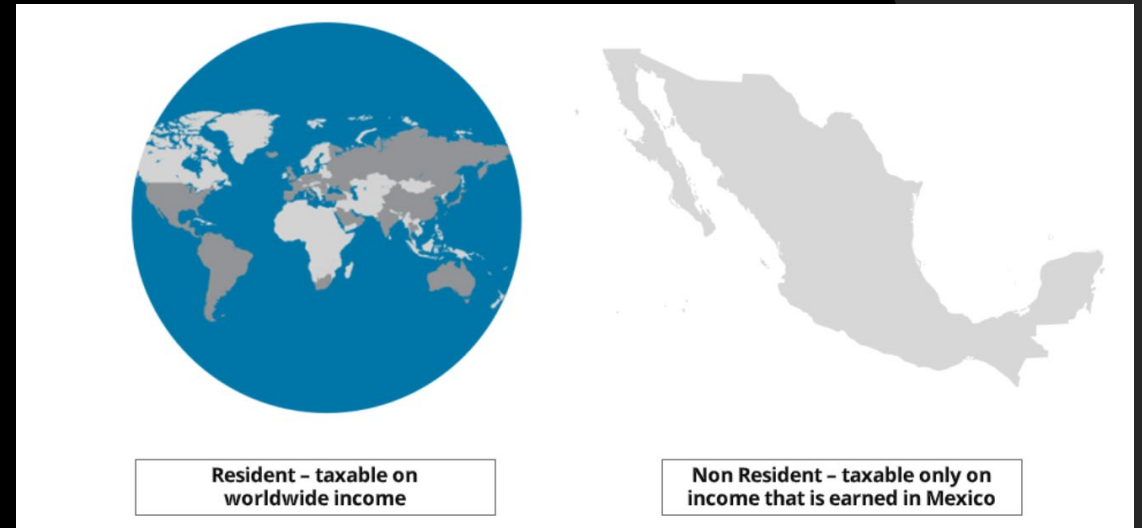
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# Mexico Tax Residency



# Mexico Tax Residency



Residency is determined based on facts and circumstances such as:

**Whether you are a Mexican national**

**Whether you are considered a tax resident in another country**

**Whether you have an available home in Mexico**

# Mexico Tax Residency

## If you are a resident

You are required to file an annual tax return.

When your compensation is paid by a MX entity, taxes are withheld through the MX payroll.

MX entity will issue monthly proof of payments called “CFDI” instead of the annual salary statement.

When your compensation is paid by a foreign entity, you are required to file monthly tax returns.

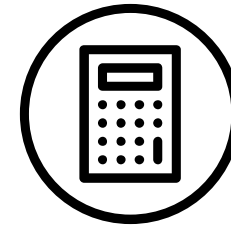
## If you are non-resident

You are required to file a suspension of tax activities by change of tax residency.

You will be required to file monthly tax returns in connection with your Mexico-sourced income. Additionally, any tax withheld during your period of residency during the year, if applicable, is considered final. As a non-resident you do not qualify to receive a refund.

An annual tax return is not required for nontax residents. As stated above, the withholding tax and tax paid via the monthly return process are final payments.

# Rates & Filing Status



## Rates & Filing Status\*

- Mexico follows a **progressive tax structure** meaning your income will be sorted into brackets and taxed at progressively higher rates, the higher the income.

Límite inferior	Límite superior	Cuota fija	% Sobre excedente del límite inferior
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	En adelante	1,222,522.76	35.00

\*Information Subject to Change



## Rates & Filing Status\*

- Income from wages and RSU's are subject to a monthly fee and this income must be reported no later than the 17th of the month following the one in which the income was received.

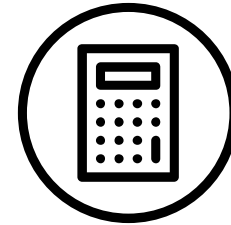
Límite inferior	Límite superior	Cuota fija	% Sobre excedente del límite inferior
0.01	644.58	0.00	1.92
644.59	5,470.92	12.38	6.40
5,470.93	9,614.66	321.26	10.88
9,614.67	11,176.62	772.10	16.00
11,176.63	13,381.47	1,022.01	17.92
13,381.48	26,988.50	1,417.12	21.36
26,988.51	42,537.58	4,323.58	23.52
42,537.59	81,211.25	7,980.73	30.00
81,211.26	108,281.67	19,582.83	32.00
108,281.68	324,845.01	28,245.36	34.00
324,845.02	En adelante	101,876.90	35.00

\*Information Subject to Change





# Taxation of Income



# RSUs income

## At vest:

### > For residents

- Mexican tax must be remitted through an individual monthly tax return on the fair market value of the vested shares.
- Taxes range from 0% to 35%\* depending on your level of income. RSUs income is not subject to Mexico social security contributions.

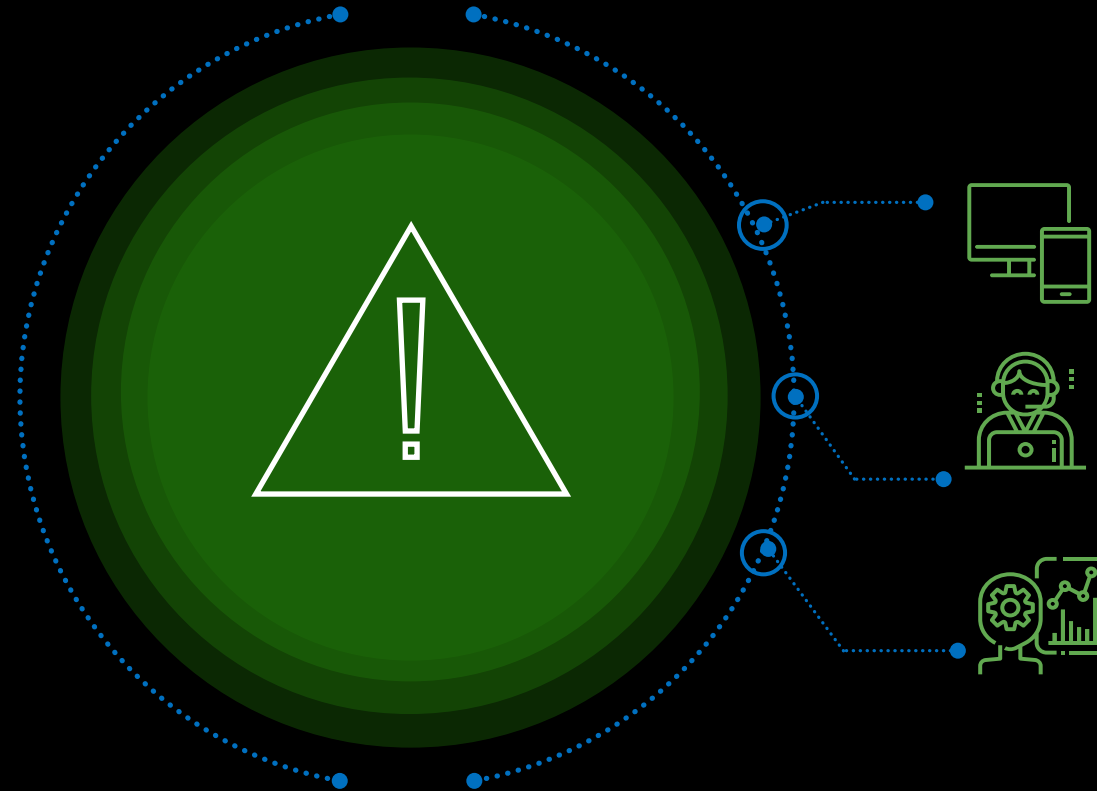
### > For Non Residents

- Mexican tax must be remitted through an individual monthly tax return on Mexican source portion only.

## At year end:

If the amount of tax paid differs from your actual annual tax liability, the balance will be reconciled on your Mexican return with a refund issued for overpayment or you will be required to pay additional tax. Any tax paid abroad is subject to be deducted from your annual tax liability.

# Capital Gain



There is no distinction between a short-term or long-term capital gain in Mexico.

Gains on regular assets are taxed up to 35%\* for tax residents.

Gains on sale of stocks made under the stock exchange are taxed at 10%\*. Dividend income is also reportable into the annual tax return subject to tax up to 35%\*. There is an additional tax of 10%\* on the net dividend income.

**Note:** Capital gains are not taxable if the sale of the asset occurs while you are a nontax resident of Mexico.

\*Information Subject to Change



# Rental income & Sale of property

## Rental income

- Rental income received from a property located in Mexico is fully taxable in Mexico, regardless of your Mexican residency status.
- Expenses relating to rental income may be deductible if you are a tax resident in Mexico.
- Mortgage interest repayments may be deductible if you are a tax resident in Mexico. The amount of deduction that you can claim varies depending on if the property is occupied or rented.

01 ➤

## Sale of property

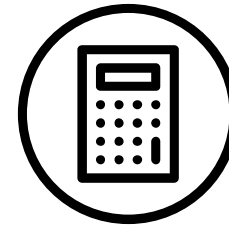
- If you sell your home, capital gains tax applies on the difference between the selling price and purchase price (there are certain costs that are also considered).
- The income from the sale is taxed depending on your tax residency status and your level of income.
- Tax rates range up to 35%\*.
- There could be a limited exemption if the house was your primary residence.

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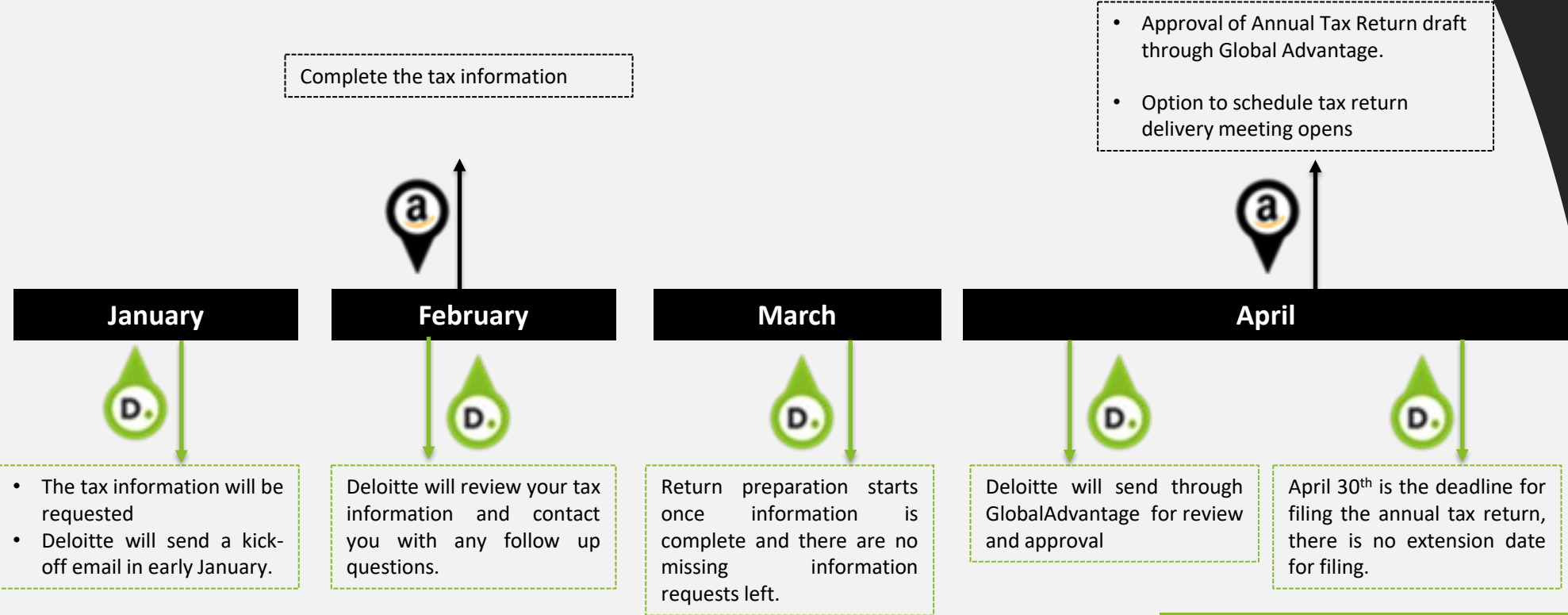
\*Information Subject to Change



# Annual Tax Return Process



# MX Tax Compliance Process



## Deadline for MX Taxpayers


*Note: It is important to mention that if there is a balance in favor, the authority will have 40 days to make the refund and, on the contrary, if there is a balance due, the payment deadline will be April 30<sup>th</sup>.*

# Who provides what?



Several documents are required before we can begin preparation of your MX tax return.

See which documents are your responsibility to provide to us:

 A background image of a businessman in a suit holding a tablet, with various financial charts and data points overlaid on the scene. <div><b>Amazon</b> RSU Compensation Detail Relocation Benefit Detail Information</div>	
You	
GA Information	
GA Location	
Payroll receipts.	
Electronic signature or password provided by the Mexican authorities.	
Receipts from any other relevant income received.	
Personal Deductions (Receipts)	

# Personal Deductions

Medical, dental fees and hospital expenses

Graduated optical lenses

Funeral expenses

Donations

Mortgage interest paid during the year.

Contributions to the retirement subaccount.

School Expenses / Tuition

School transportation



The expenses must be paid with credit/ debit card, check or electronic transfer. **Cash is not accepted.**

The total amount of personal deductions for the years is limited, therefore it cannot exceed the lesser of the following:

- > Amount equivalent to 5 times the Measurement and Update Unit (UMA), approximately MXN \$ 175,505.28 for 2022.
- > Amount equivalent to 15% of the taxpayer's total gross income, including exempt income.



## Annual filing process & refund processing times



Deloitte will send the draft of your tax return through GlobalAdvantage for review and approval, once we receive your approval, we will proceed to file the Tax Return at the portal of the MX Tax Authorities, you will receive a notification when your return is available to be viewed on the GA portal.

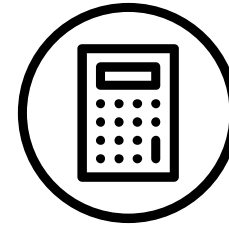
In case of a **balance due** the deadline to make the tax payment is April 30<sup>th</sup>

In case of a **balance in favor on your annual tax return:**

Offset – The balance in favor will be used to cover future income tax payments.

Refund – The authorities will have a period of 40 days to review and refund the balance in favor.

# Foreign Tax Credit (FTC)



# Foreign Tax Credit (FTC)

1

## Foreign Tax Credit

- If your income is taxed in both Mexico and the United States, one country will give the other country a credit for the taxes paid depending on which country has the taxing rights.
- The end result: You will pay the higher of the two tax rates.

### Worked example:

- \$100,000 income
- Taxing rights belong to Mexico
- Mexico effective tax rate = 20%
- U.S. effective tax rate (federal) = 24%

Mexico tax return	U.S. tax return
Pay \$20,000 tax (20%)	Pay \$4,000 tax (24% less 20%)

**The end result:** You claim a credit on your U.S. tax return for the Mexican taxes paid and pay a total of \$24,000 tax (24%).

2

## Double Tax Treaty

- If your income is taxable in both Mexico and the United States, income can be "exempt" in one country depending on which country has the taxing rights.
- The end result: You will pay the tax in only one country.

### Worked example:

- \$100,000 income
- Taxing rights belong to Mexico
- Mexico effective tax rate = 20%
- U.S. effective tax rate (federal) = 24%

Mexico tax return	U.S. tax return
Pay \$20,000 tax (20%)	Pay \$0 tax (income exempt)

**The end result:** You pay a total of \$20,000 tax only in Mexico (because Mexico has taxing rights).

3

## A combination of the Foreign Tax Credit and Double Tax Treaty



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