

MEXICO SALES TAX



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TYPES OF MEXICAN TAX



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MEXICAN SALES TAX IVA (VAT)

Value Added Tax (IVA) is a fundamental part of Mexico's tax system, impacting businesses and consumers alike. Understanding how IVA applies across different sectors is crucial for proper tax compliance and financial planning. In this guide, we'll break down how IVA functions in Mexico, its different rates, and how various industries are affected.

What is IVA?

IVA is an indirect tax levied on the sale of goods, services, and imports in Mexico. Businesses collect IVA from customers and then remit it to the Servicio de Administración Tributaria (SAT). The standard IVA rate is 16%, but there are exceptions and exemptions depending on the type of product or service.

Different IVA Rates in Mexico

- **16% Standard Rate:** Applied to most goods and services.
- **8% Reduced Rate:** Applicable in border regions to promote economic competitiveness.
- **0% Rate:** Applied to essential goods and services, allowing businesses to claim IVA refunds.
- **Exemptions:** Certain transactions, such as education and healthcare, are IVA-exempt, meaning no tax is collected or credited.

IVA by Sector

1. Retail and E-commerce

Retailers and e-commerce businesses must charge the standard 16% IVA on most products. Businesses must issue electronic invoices (facturas) reflecting IVA charges and submit periodic tax declarations.

2. Tourism and Hospitality

Hotels, restaurants, and travel services are subject to 16% IVA. However, travel packages sold to foreign tourists may qualify for the 0% rate if paid with an international credit card.

3. Real Estate

- **Commercial properties:** Sales and rentals are subject to 16% IVA.
- **Residential properties:** Sales of new homes are exempt, while rental properties used as primary residences are also IVA-exempt.

4. Professional Services and Freelancers

Independent professionals must charge 16% IVA on their invoices unless their services are explicitly exempt (e.g., education or medical services). Small businesses under the RIF (Régimen de Incorporación Fiscal) program may qualify for IVA benefits.

5. Agriculture and Food Industry

Basic food products (e.g., fruits, vegetables, tortillas, milk) are taxed at 0%, while processed foods and restaurant meals are subject to 16% IVA.

6. Healthcare and Education

Medical services and prescription medications are IVA-exempt. Educational services, including tuition, are also exempt, making them more accessible to the public.

7. Import and Export

Imports: Most imported goods are subject to 16% IVA upon entry into Mexico.
Exports: Generally taxed at 0%, allowing exporters to claim IVA refunds.

How to Comply with IVA Regulations

- Register for an RFC (Registro Federal de Contribuyentes) with SAT
- Issue proper electronic invoices (facturas) for all taxable transactions.
- File monthly IVA returns and pay any owed tax.
- Keep records of deductible expenses to optimize tax payments.

Conclusion

IVA compliance is crucial for businesses across all sectors in Mexico. Understanding the applicable rates and exemptions ensures tax efficiency and avoids penalties.

Value-added tax (VAT / IVA)

VAT is payable at the general rate of 16% on sales of goods and services, as well as on lease payments and imports of goods and services. The principal VAT-exempt transactions are the sale of land, credit instruments (including equity shares), residential construction, interest paid by banks, medical services, education, salaries and wages, rentals of residential property, and the sale of non-amortizable participation certificates on real estate investment trusts (REITs), provided specific requirements are satisfied.

Temporary imports under IMMEX and similar programs are subject to the general 16% VAT rate. Such imports may qualify for VAT relief when obtaining special certification from the tax authorities related to the adequate control of such imports. The relief is applied in the form of an immediate VAT credit when clearing customs, which means that the temporary import is done on a cashless basis for VAT. Companies not covered by the certification may apply the same cashless treatment if they post a bond as payment guarantee.

The VAT law also taxes sales in Mexico of temporarily imported goods by non-residents to (i) other non-residents, (ii) *Maquiladoras*, or (iii) companies in the automotive industry.

The 0% VAT rate, which generally means that no VAT is payable, is applicable to a substantial number

of transactions, including the sale of books, magazines, and newspapers published by the taxpayer, the exportation of goods and certain services (including some *Maquiladora* activities intended for exportation), the sale of certain basic foodstuffs, the sale of medicines, agricultural goods and services, sales and rentals of farm M&E, and other specified transactions.

VAT paid by business enterprises on their purchases and expenses related to VATable activities (including activities subject to the 0% VAT rate) may usually be credited against their liability for VAT they collect from customers on their own sales, services rendered, etc. The input VAT credit on goods or services of a general nature, or those not specially identified with either taxable, not subject to the tax, or exempt activities for VAT purposes, is computed based on a VAT ratio proportional to the VATable versus VAT activities (taxable, not taxed, and exempt) carried out by the taxpayer.

Creditable VAT paid on purchases and expenses in excess of VAT collected from customers is recoverable via either a refund or a credit against subsequent VAT liabilities.

VAT is a 'cash basis's tax, with few exceptions (e.g. VAT on some types of interest must be paid on an accrued basis); consequently, only the receipt of payment for goods or services triggers the output VAT liability, and an input VAT credit may be claimed only when the taxpayer pays VAT to its providers of goods and services. VAT is calculated for each calendar month as a final tax.

VAT must generally be withheld by Mexican residents acquiring or leasing tangible goods from non-residents if such foreign residents do not have a PE in the country to which income is attributed.

Mexican business entities are required to withhold VAT on payments to individuals or entities for services consisting of ground transportation of goods. Mexican corporations must also withhold VAT on commissions paid to individuals, as well as on independent services rendered by Mexican individuals, and on tangible goods leased from individuals.

Information related to the VATable activities carried out by the taxpayer must be filed by monthly basis. Definitive monthly VAT payments are required by the 17th day of the immediately following month.

Subcontracting

VAT paid for subcontracted labor will be creditable to the extent the service is considered a specialized service for purposes of the outsourcing reform (*please refer to Outsourcing reform in the Other issues section*). The requirement for the payer to withhold 6% of the consideration and remit it to the Mexican tax authorities has been repealed as of 1 August 2021.

Pre-operating expenses

Under current VAT law, VAT credit is granted in the pre-operating period (i.e. the period prior to the start of the taxable activities) based on an estimate of expected future activities subject to VAT. However, there is no adjustment mechanism if the actual activities subject to VAT differ from the estimated activities.

The provision provides that VAT credits from expenses and certain investments in the pre-operating period can be used on the first VAT return for the month in which the company actually carries out activities subject to VAT, or in the month in which the company incurs the expense or makes the disbursement (in which case it can request a refund), provided that, in the latter case, the taxpayer provides information related to the VATable activities to be performed. In both cases, there will be a mandatory adjustment to the VAT credit once a 12-month period has elapsed from the date on

which the credit was applied.

In addition, if the taxpayer does not perform taxable activities once the pre-operating period has ended, a reimbursement of any refund should be remitted to the tax authorities. This rule will not apply to taxpayers engaged in extraction activities, such as mining and oil.

Digital services

Foreign residents, regardless of whether they have a PE, that are providers of digital services to recipients located in Mexico must register with the Mexican tax authorities to calculate and collect the VAT associated with those digital services from the Mexican users and remit it on a monthly basis to the Mexican tax authorities. A digital service is defined as any service provided through digital applications or format, over the Internet or other network, and which is fundamentally automated. It specifically includes the following:

- ♦ Downloading or accessing images, film, text, information, audio, video, music, games, gambling, multimedia content, multi-player environments, mobile tones, online visualizations, traffic information, and weather forecasts. Excluded from this definition are access to electronic books, newspapers, or other periodicals.
- Mediation among third parties for the offer of goods or services.
- Online clubs, online dating, and online learning.

The recipient will be considered a 'Mexican user' in any of the following circumstances: (i) a Mexican has registered with the service provider, (ii) the payment was made through a Mexican financial intermediary, (iii) the IP address used by the electronic device is in Mexico, or (iv) when the recipient provides a Mexican telephone number.

In this regard, as of June 2020, such foreign residents must comply with certain specific requirements including, as earlier mentioned, obtaining a Mexican tax ID, registering a Mexican legal representative and a tax address, obtaining an electronic tax signature, and issuing invoices that meet the Mexican requirements to be established by the Mexican tax authorities, among others.

Non-residents providing digital services subject to VAT that do not comply with certain tax obligations will have their access to the Internet in Mexico temporarily blocked. The Internet blockage would be carried out by regulated telecommunication networks pursuant to a government request. Prior to disabling the non-resident's Internet access, the tax authorities would consider all of the case's facts and circumstances and follow certain procedural requirements intended to ensure the affected entity has the proper information to comply with tax obligations. The process must be documented through specific administrative steps and written notifications. Once the tax authorities proceed with blocking Internet access, the block can continue until the non-compliance is cured.

Failure to comply with the following tax obligations, among others, can result in Internet blockage:

- Registration with the tax authorities.
- Designation of a legal representative for tax purposes.
- Designation of a tax domicile in Mexico
- Obtaining an electronic tax signature.
- Informing the tax authorities of the number of services or transactions performed in Mexico, as well as informing the recipients of said services.

Customs duties/import tariffs

Mexico's commercial conditions provide an excellent business and investment opportunity. Mexico is a member of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation Mechanism (APEC), and the Organization for Economic Co-operation and Development (OECD).

Mexico lies in a strategic geographical location for international trade, sharing borders with the United States (US) and representing an easy entry to the rest of Latin America, while also facing Europe and Asia.

Mexico has signed multiple Free Trade Agreements (FTAs), which provide for preferential duty rates on foreign trade operations with many more countries. FTAs signed by Mexico include the new United States-Mexico-Canada Agreement (USMCA) in force as of 1 July 2020, and agreements with the European Union (EU), the European Free Trade Association (EFTA), and Japan, among many other countries. Most FTAs provide 0% duty rates for almost 90% of the goods to be imported into Mexico.

General Import Duty rates range from 0% to 35%, but most imports fall within the range of 3% to 20% (exceptionally, certain food products, shoes, and textiles pay higher duties).

In general, temporary imports are exempt from customs duties (except for fixed assets in certain transactions). *For VAT payments on temporary imports, see above.*

Excise tax

The excise tax law (*Impuesto Especial Sobre Producción y Servicios* or IEPS) levies substantial federal excise rates on the importation and/or sale of certain taxable items, such as gasoline (% variable), beer (26.5%), wine (26.5% to 53%), spirits (53%), and cigarettes and other tobacco products (160% plus an additional quota), and on certain services related to these activities, such as commission, mediation, and distribution of excise taxable items, as well as services for raffles and gambling (30%). Excise tax is also applicable to certain telecommunications services (3%).

The excise tax law applies to soft drinks at 1 Mexican peso (MXN) per litre and to 'junk' food at an 8% rate. In both cases, the excise tax is payable by the producer or importer.

In general terms, goods are exempt from IEPS when exported. The input IEPS paid by exporters on their purchases is not creditable, and that tax becomes an additional cost.

IEPS is payable (output tax) and creditable (input tax) on a cash basis. It is payable on the date that

the charge invoiced is collected from the client and can be credited when the respective payment is made to the supplier. On imports, IEPS is creditable when paid at the customs offices.

Per the 2020 Tax Reform, input IEPS resulting from the activities of one month will be creditable only with the output IEPS of the following months and for the alienation of the same goods. In certain cases, the IEPS legislation allows taxpayers that are not subject to this tax to credit IEPS paid on the acquisition and/or the importation of certain goods.

There is a specific procedure to calculate the tax for beer producers, bottlers, and importers; however, the tax can never be lower than 26.5%.

Among other obligations, IEPS taxpayers must file information returns before the Mexican Tax Administration periodically.

The 2020 Tax Reform also provided an update of the concept of energizing brewages as it defined as those that mix caffeine and taurine, glucuronolactone, thiamine, or other substance producing similar effects, independently of the amounts of the compounds involved (focus is on the mix regardless of the weight of the elements).

Property taxes

Annual taxes on real property are levied by Mexico City and all the states at widely varying rates applied to values shown in the property tax records. Assessed values have increased substantially recently in Mexico City and some other areas.

Title transfer taxes

The transfer of real estate is, almost without exception, subject to a variable transfer tax at rates averaging 2% to 5% on the highest of the value of the transaction, fair market value, or registered municipality value. The tax is levied by most states and Mexico City.

Stamp taxes

There are no stamp taxes in Mexico.

Payroll taxes

Most Mexican states levy a relatively low tax on salaries and other income earned by employees, which is payable by the employer (e.g. Mexico City imposes a 3% payroll tax payable by the employer).

Social security contributions

Employers and employees are required to make contributions to the social security system. These contributions are based on the daily salary plus any other compensation paid to the employee. There are various different rates that the employers are compelled to pay to the Mexican Social Security Ministry and or Housing Ministry that may vary in proportion of the so-called base salary of their Mexican employees and the type of concepts for which the compensation is given to the employee. For example, 2% on the base salary of the employee is paid by the employer for the concept of retirement, 5% on the employee base housing contribution salary for the concept of housing must be paid by the employer, among others.

Compulsory profit sharing

Although not a tax, every business unit with employees (irrespective of the type of organisation) is required to distribute a portion of its annual profits among all employees, except general directors and managers. The amount distributable to the employees is 10% of an adjusted taxable income. The main difference between the taxable income and the profit-sharing base is that the tax losses cannot be applied against the profit-sharing base. As of 2021 (*please refer to Outsourcing reform in the Other issues section*), the profit distribution to each employee will be capped to the highest of either (i) three months of its regular salary or (ii) the average of profit sharing received by the employee in the past three fiscal years (i.e. should the profit allocated to an employee be below these thresholds, the employer will only pay the corresponding regular distribution based on 10%).

No profit sharing is paid during the first year of operations. Also, special rules apply for personal service entities and for entities deriving their income from rental activities, both of which can limit their profit-sharing payment to the equivalent of one month of regular salary.

The profit-sharing amount paid out is a deductible item for CIT purposes, provided certain requirements are met.

Vehicle taxes

There is no federal tax on the ownership of vehicles; however, the states may impose a similar tax.

Tax is still levied on the acquisition of new vehicles. This tax is payable in addition to the VAT on the purchase. Note that some vehicles considered as 'hybrid' (e.g. battery assisted vehicles) are not subject to the new vehicle acquisition tax.