

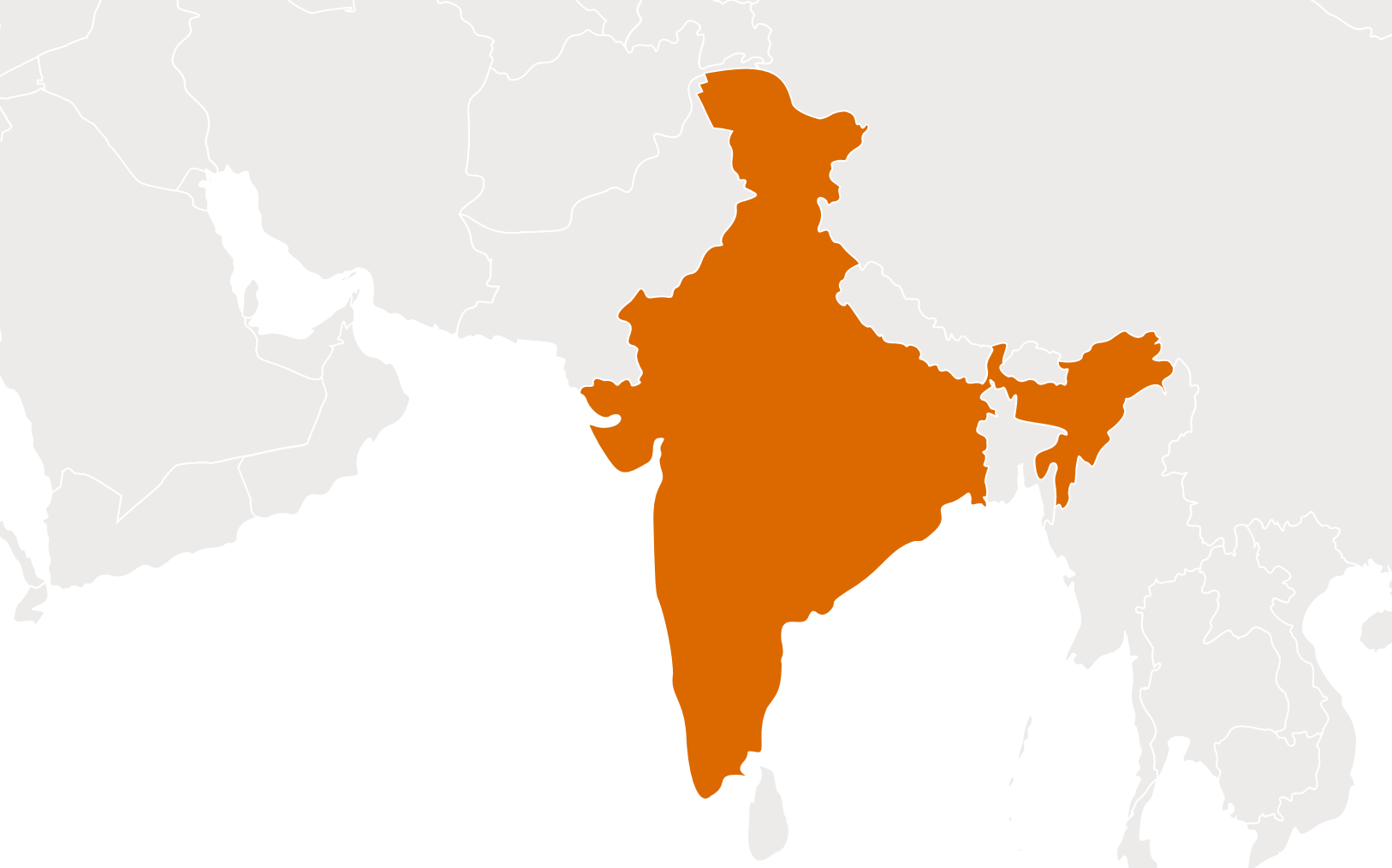
# *Doing Business in Mexico*

## *A Guide for Indian Investors*

April 2018







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## Introduction

### *Namaste India!*

We trust that this guide for Doing Business in Mexico: A Guide for Indian Investors will be a useful tool in assisting Indian business executives seeking information from a general reference guide. This guide has been structured in a way that we believe will make it easier for you to obtain the basic relevant information you require when considering a direct or indirect investment in Mexico or initiating a trade with a Mexican corporation.

Mexico has a network of free trade agreements (FTAs) with 45 countries, along with 32 Reciprocal Investment Promotion and Protection Agreements (RIPPAs) with 33 countries, nine trade agreements (Economic Complementation and Partial Scope Agreements) within the framework of the Latin American Integration Association (ALADI) and is a member of the Trans-Pacific Partnership Agreement (TPP)<sup>1</sup>, with only a handful of strategic sectors or industries not yet open to private investment. To facilitate business, the Mexican government has also negotiated an equivalent number of tax treaties and tax and information exchange agreements.

As of the end of 2017, Mexico had an estimated USD 2 billion in capital investment from about 180 Indian firms, which create about 30,000 jobs for Mexican nationals.

All of us in PwC Mexico are very excited and committed to bringing you the PwC experience and values portended through this publication. Rest assured that, in this guide, we have done our utmost to bring you a truly valuable tool that will help you to plan and grow your investment opportunities in Mexico.

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<sup>1</sup> ProMéxico

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# *Table of Contents*



<b>Introduction</b>	<b>5</b>	<b>Financial System in Mexico</b>	<b>51</b>
<b>Foreword</b>	<b>6</b>	Development Banks	52
<b>General Introduction</b>	<b>10</b>	Commercial Banks	52
Geography and Climate	12	Boutique Banks	53
History	12	Loans and General Requirements	53
Political System	12	<b>Tax System in Mexico</b>	<b>54</b>
Population, Language and Religion	13	Corporate Tax System	57
Education and Living Standards	13	Income Determination	59
Mexico-India Economic and Political		Deductions	61
Comparison and Relations	15	Tax Credit and Incentives	64
<b>Major Reforms in Mexico since 2013</b>	<b>19</b>	Tax Administration for Corporations	68
Energy Reform	20	Other Tax Matters	69
Telecommunications Reform	23	Individual Tax	70
Financial Reform	23	Tax Administration for Individuals	72
Tax Reform	24	<b>Investment Incentives</b>	<b>73</b>
Economic Competition Reform (Anti-Trust Reform)	25	Regional incentives	74
<b>Macro-Economic Analysis</b>	<b>26</b>	Industry incentives	74
Overview	27	Strategic Bonded Warehouse	75
Gross Domestic Product (GDP)	28	Industrial parks	75
Mexican Peso Exchange Rate	30	Export incentives	76
Inflation	30	Institutional Assistance	77
Economic Package for 2018	31	Financial assistance	78
Foreign Investment in Mexico (IDE)	31	Incentives and foreign investment strategy	78
Foreign Trade	34	Tax Exemption from various states in Mexico	79
Trade Agreements of Mexico	34	<b>India in Mexico</b>	<b>89</b>
<b>How to Invest in Mexico</b>	<b>36</b>	States with a presence of Indian companies	86
Types of Investments	37	<b>Interviews of Prominent Indian Companies in Mexico</b>	<b>88</b>
Types of Entities	39	JK Tyre & Industry Limited.	89
Incorporation Process	41	Dr. Reddy's Laboratories Limited.	91
<b>Labor Market</b>	<b>42</b>	WIPRO Limited.	93
Employee treatment	43	Bajaj Auto	95
Labor availability	43	Cadila Healthcare Limited (Zydus)	97
Labor unions	43	KEC International Ltd.	99
Employee training	43	Lupin Limited.	101
PTU	43	Tech Mahindra	103
Minimum wage and salaries	43	Indorama Ventures Public Company Limited	105
Working hours and overtime	44	Hetero Drugs Limited	107
Bonus and holidays	44	Mahindra Mexico	109
Termination of Employment	44	Tata Consultancy Services	111
Pensions	44	Infosys Limited	114
Social Security Contributions		Symphony Limited.	117
(IMMS and INFONAVIT)	44		
<b>Exporting to Mexico</b>	<b>45</b>	<b>Embassy of India in Mexico</b>	<b>119</b>
VUCEM	47	<b>PwC Inbound Team: Desk India</b>	<b>121</b>
PROSEC or SRPs - Sectoral Relief Programs	47	<b>Acknowledgements</b>	<b>123</b>
NEEC/AEO - Authorized Economic Operator		<b>Conclusion</b>	<b>125</b>
(Operador Económico Autorizado)	47	<b>Acronyms</b>	<b>127</b>
<b>Intellectual Property</b>	<b>48</b>	<b>Appendix</b>	<b>129</b>
Trademarks	49		
Patents	49		
Brand names	49		

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# *Foreword*



## **Ambassador of India in Mexico**

*H.E. Mr. Muktesh Pardeshi*

The publication *Doing Business in Mexico: A Guide for Indian Investors* is being brought out with the objective of informing business communities in India and Mexico about the immense business opportunities that await them. I have felt the need for such a business guide and am most pleased that this is finally being published with the support of PwC Mexico.

India and Mexico are amongst the largest democracies and rapidly emerging economies of the world today. They represent two ancient civilizations, whose first encounters date back to the colonial period of the 16th century through the Manila Galleon Pacific trade route. Those early contacts influenced a multitude of social factors including food habits, dress styles and artistic forms. Mexico was also the first Latin American nation to recognise India immediately after its Independence in 1947. Formal diplomatic relations were established in 1950. During the last 70 years, friendship and cooperation between the two nations have grown steadily.

We are witnessing a new dynamism in our bilateral relations following the successful visit of Prime Minister Shri Narendra Modi to Mexico in June 2016. The level and frequency of political dialogue between the two countries has risen. The Privileged Partnership which was agreed upon in 2007 has progressed well and both sides have continuously conveyed a mutual desire to elevate the bilateral relations to the level of Strategic Partnership.

The ten years of the Privileged Partnership has seen a threefold increase in bilateral trade and a substantial rise in investments. Mexico has emerged as India's biggest trade partner in the LAC region and the second biggest in all the Americas. Mexico is also the largest investor in India from this region. Furthermore, in 2017, India reached a milestone of entering the top ten trading partners of Mexico, overcoming the barrier of geographical distance. This is commendable considering that a decade ago (2008), bilateral trade was recorded at USD 2.9 bn and India did not feature even amongst the top 20 trading partners. This two-way trade has grown at an unprecedented rate of 33% and now amounts to USD 8.35 bn (2017). At this pace, trade between the two nations will hopefully cross the USD 10 bn mark soon.

The entry of Indian entrepreneurship in Mexico was first noticed in 1991-92 when the then Ispat International (now part of the ArcelorMittal Group) acquired the state-owned steel company in Lázaro Cardenas and swiftly turned it into a profitable venture. Today, more than 180 Indian companies have investments in Mexico and create more than 30,000 job opportunities, primarily in the IT, Pharmaceuticals and Automotive industries. Indian companies regard Mexico as a strategic investment destination and an opportunity to enhance their global competitiveness.

The Embassy of India in Mexico remains committed to further boosting economic relations, especially bilateral trade and investment, and supporting the endeavours of all stakeholders in this direction. The India-Mexico partnership has exciting potential and this publication will serve as a useful tool in this context.



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## ***PwC Mexico Lead Partner***

*Mr. Mauricio Hurtado*

Mexico and India, countries characterized by diversity, culture, vast historic heritage, have shown promise to the world through their economic potential. Both developing countries have had strong historic, political, and economic bilateral relations, with a promise of strong future partnership.

PwC Mexico, established with foundation of building trust in the society and solving important problems, has been an integral part of the Indian community. Desk India, PwC Inbound team was established in 2012, in collaboration with PwC India, to build strong relations with multiple stakeholders in the Indian community, and help the community build successful businesses in Mexico. Desk India cooperates with the Embassy of India, PwC India, and various chambers of trade and commerce, in order to create impact in the Indian community in Mexico.

Over the years, the economic relations between the two countries have improved greatly and the contribution of the professionals from both countries has been an important factor. To contribute to this increased momentum, we have decided to launch this publication to build a case that Mexico is opening doors for investment in various new sectors, and Indian businesses should capture this opportunity.

Indian Businesses in Mexico have made a large impact in the fields of automotive, pharmaceuticals, chemicals, information technology, and textile. To celebrate and commemorate these successful businesses, we have interviewed businesspersons to share their insight about doing business in Mexico. Through these interviews, we hope, not only that it helps the existing businesspersons with valuable insights, but also that it motivates companies from India to start doing business with Mexico.

Hence, finally through this publication, we hope that we provide enough insights on how to do business in Mexico, that it invites more Indian Investment, and to remain the point of reference for the entire Indian community and its business ecosystem in Mexico.



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## **DG ProMéxico**

*Mr. Paulo Carreno King*

Mexico and India are two countries that mutually recognize and praise each other, despite the physical distance that separates them. With India, we share characteristics that make us unique: we are both part of the 15 largest countries of the world (geographic and at population level); we both have a huge diversity of cultural and millenary roots; and, particularly, we both share the commitment to continue making our countries grow. India and Mexico are both countries currently considered “emerging economies”, with the perspective to positioning themselves amongst the strongest economies worldwide in the years to come. This might be the key characteristic: In an increasingly globalized and competitive world, standing out is not an easy task. It requires multiple efforts to manage new strategies and to reinforce our actions with allies that share our ideals.

For Mexico, the case of India stands out and that is why we have built up an amicable relationship with this country. In fact, we did this many years ago, since 1950, when Mexico became the first Latin American country in establishing diplomatic relations with India. Ever since then, our cultural and commercial ties have been vibrant and increasing.

And we have consolidated major achievements. In recent years and on an ongoing basis, our bilateral trade has rapidly increased - amounting to 6,406 billion dollars in 2016 and positioning India as our 12th trading partner (11th purchaser and 13th supplier).

Despite the very positive arrangements these numbers display, in ProMéxico we are convinced of the need to further deepen our relationship in strategic sectors that will continue boosting trade and investment.

This publication seeks to materialize this goal. In the following pages, there is a detailed analysis of the evolution of our relationship, as well as proposals to strengthen our future alliance.

We are confident that a prosperous future awaits us!

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# ***General Introduction***

## General Introduction<sup>2</sup>



**Capital:** Ciudad de Mexico - Mexico City

### Country Area:

1.96 million sq km (758,449 sq miles)  
Fourteenth largest country in the world  
Third largest country in Latin America



**Federal Entities:**  
**32 (with Mexico City)**  
(Government of Mexico)



**GDP Growth**  
More than **21%** cumulative GDP growth (2010-2016).  
30 consecutive quarters of growth until the second quarter of 2017.  
(INEGI, 2016)



### Manufacturing Strength

It is projected to be the 7th largest manufacturing country in the world by 2020  
(IndustryWeek, 2016)



**Internet domain:**  
**.mx**



**Population:**  
**122.76 millions**  
11<sup>th</sup> Most Populous Country in the world  
(INEGI, 2016)



**Main languages:**  
**Spanish**



**International dialing code:**  
**+52**



**Main Exports:**  
Automobiles and its parts and accessories, electrical machinery and equipment, mineral fuels and petroleum  
(Banxico, 2016)



**Global Positioning:**  
It is projected to be the 7<sup>th</sup> largest world economy by 2050 in terms of GDP in PPP  
(PwC, 2016)



**Urbanization Rate:**  
Approx 80% - at Latin American Average  
33.29 million homes in Mexico  
(UN DEPA & INEGI, 2016)



**Age Distribution:**  
**44.96%** of the population is between 12 to 39 years of age  
(INEGI, 2016)



**Internal Market:**  
Average monthly growth of 8.36% in retail sales from September 2016 to September 2017  
(ANTAD, 2017)



**Foreign Direct Investment:**  
From 2012 to 2016, Mexico received more than \$160 million USD of FDI, being one of the main countries for investment on the world  
(Ministry of Economy, 2016)



## Geography and Climate

Mexico (officially the United States of Mexico) has a geographic area of 760,000 square miles (1,970,000 square kilometers). It is the 12th-largest country in the world in size, and occupies the southern part of North America. It is the third-largest country in Latin America, after Brazil and Argentina. Almost 40 percent of Mexico, including the entire northern part of the country, is arid or semiarid. Annual rainfall increases toward the south, where there are zones with the highest levels of rainfall in the world. The rainy season usually runs from May to October, with very little rainfall during the rest of the year, except in the coastal areas near the Gulf of Mexico. Nevertheless, the Mexican climate varies widely, in part because of the wide variation in altitudes across the country and the effect of the Pacific Ocean and the Gulf of Mexico on the coastal areas. Mexico City and many other regions in the central part of the country have a semitropical climate. There are very few regions, aside from the higher mountains, where it snows regularly in winter. Most of the coastal regions have a humid, tropical climate. The altitude of more than half of the national territory is higher than 3,300 feet (1,000 meters) above sea level.

The central landmass is a plateau flanked by mountain ranges to the east and west that lie roughly parallel to the coast. The southern part of the plateau includes Mexico City, the political, economic and population center of the country, located at an altitude of about 7,500 feet (2,240 meters), making it one of the highest cities of the world. The northern area of this plateau is arid and thinly populated, and occupies roughly 40 percent of the country's total landmass.

The Mexico City metropolitan area has an average mean temperature of 63° F (17° C), with occasional lows of around 32° F (0° C) in December and January, and highs near 86° F (30° C) in April or May, before the beginning of the rainy season.



Source: Doing Business in Mexico, PwC Mexico

## History

For more than 300 years, Mexico was ruled as a tightly controlled colony of Spain. Independence in 1821 was followed by decades of struggle for political power and slow economic development, until the 30 years of internal peace achieved under Porfirio Díaz around the end of the 19th century. During this period, the great haciendas, huge areas of land used for cattle-raising and farming, reached their peak, although with little improvement in the economic condition of the great majority of the Mexican people. The Mexican Revolution of 1910 was followed by more than 10 years of civil war, which almost completely destroyed the agricultural economy of the country. Accordingly, although Mexican cultural, social and political life reflects the cumulative development of more than 10 centuries since the Spanish conquest and the earlier Aztec, Maya and other civilizations, the economy of modern Mexico is only about 90 years old, originating in the late 1920s.

## Political System

Mexico is now a federal democratic republic, divided into 32 states, including the Mexico City. The Legislature of Mexico City is elected every three years. This assembly is empowered to issue ordinances regarding the day-to-day administration of the city. In view of the immense size and economic importance of Mexico City, the annual budget is considerably larger than that of any of the other states.

The chief executive is the president, who is elected for a non-renewable period of six years. There is bicameral legislature (the Senate and the House of Deputies), as well as a judicial branch. The mayor of Mexico City is elected by popular vote for a single six-year term since 1997. For the last 20 years, Mexico City has been governed by the Democratic Revolutionary Party (PRD).

Currently, the federal government is headed by President Enrique Peña Nieto, from the Institutional Revolutionary Party (PRI).



## **Population, Language and Religion**

### **Population**

According to the World Bank and the Mexican National Institute of Statistics and Geography (INEGI), the total registered population of Mexico in 2016 was 122.7 million people – almost four times what it was in 1940. After Brazil, Mexico is the most populous country in Latin America.

Over the course of the last few decades, there has been a substantial movement of people from rural areas to towns and larger cities. The urban population is now considered to represent well over 80 percent of the total, compared to 49 percent in 1960.

Mexico City and its environs continue to be the largest and most concentrated population center, with about 8.8 million inhabitants and a disproportionate share of economic activity.

### **Language**

The official language of Mexico is Spanish. While the majority of the population speaks Spanish, a very small number of indigenous tribes still use their native languages. In Mexico, there are more than 200 indigenous languages. Currently, the majority of educated Mexicans learn English as their second language. English is understood by many Mexicans, especially within the international business community.

### **Religion**

According to the census of 2010, 83 percent of the Mexican population are Roman Catholics. Almost 10 percent of the population practice different forms of Catholicism.<sup>4</sup> Mexico is a liberal country, and people have the right to follow their own religious beliefs.

## **Education and Living Standards**

### **Education**

As of 2010, 92 percent of Mexico's population over the age of 15 years is literate, and 47.2 million students between the age of three and 24 are currently enrolled in formal education.

The Mexican federal and state governments provide universal free education through six years of primary school, three years of secondary school and three years of preparatory school, as well as preschool.

In 2013, the Mexican government passed an educational reform bill to strengthen the education system through increased school hours, as well as through the introduction of new foreign language programs in academic curriculums and the removal of administrative tasks for teachers. The reform also incorporated the involvement of the country's best teachers, and the inclusion of technology in public education.

Just as in India, students are charged small fees at the public preparatory schools and universities.

### **Living Standards**

As in India and in most developing countries, Mexico has been working to shorten its wealth gap, especially between the higher and upper-middle classes and the lower classes.

The GDP per capita of Mexico is much higher than that of India – about USD 6,500 higher. While both countries are combatting poverty, an opportunity of collaboration arises amid these challenges, as discussed below.



## Mexico-India Economic and Political Comparison and Relations<sup>3</sup>

Mexico was the first Latin American country to recognize India after its independence. Formal diplomatic relations between the two democracies were established in 1950. There have been a series of high-level official state visits between India and Mexico, including a visit by Pt. Jawaharlal Nehru to Mexico City in 1961 and by then-Mexican President Adolfo López Mateos to New Delhi in 1962.

Today, two-way relations are getting closer, as demonstrated by the visit of Indian Prime Minister Narendra Modi in June 2016, who, at that time, announced the strengthening of India's privileged partnership with Mexico. While it is a known fact that both India and Mexico have similar developing economies, the following chart illustrates certain indicators that help in a comparison of the two countries:



Topic	India	Mexico
GDP/Capita <sup>4</sup> (2016)	USD 1,709	USD 8,201
Life Expectancy <sup>5</sup> (2015)	68 Years	76.9 Years
Life Expectancy (2015) People Below Poverty Line <sup>6</sup>	29.8%	52.3%
Average Inflation (2017) <sup>7</sup>	2.49 <sup>8</sup>	6.04 <sup>9</sup>
Time Required to start a business (Days) (2016)	26	8
FDI in 2016 (USD)	46.4 Billion	29.4 Billion <sup>10</sup>

<sup>3</sup> CONAPO (Consejo Nacional de Población)

<sup>4</sup> World Bank: data.worldbank.org

<sup>5</sup> INEGI

<sup>6</sup> CIA World Factbook

<sup>7</sup> Banxico

<sup>8</sup> MOSPI: Ministry of Statistics and Program Implementation, Government of India

<sup>9</sup> Banxico

<sup>10</sup> INEGI





Source: Government of Mexico<sup>11</sup>

### **Historical Ties<sup>12</sup>**

Indian-Mexican relations have consistently been friendly, warm and cordial, characterized by a mutual understanding, upward bilateral trade and all-round cooperation. Antipodes as they are on the globe, the two countries have striking similarities and commonalities in terms of geography, history, physiognomy, culture and civilization, and even of attitudes, mindsets and social values.

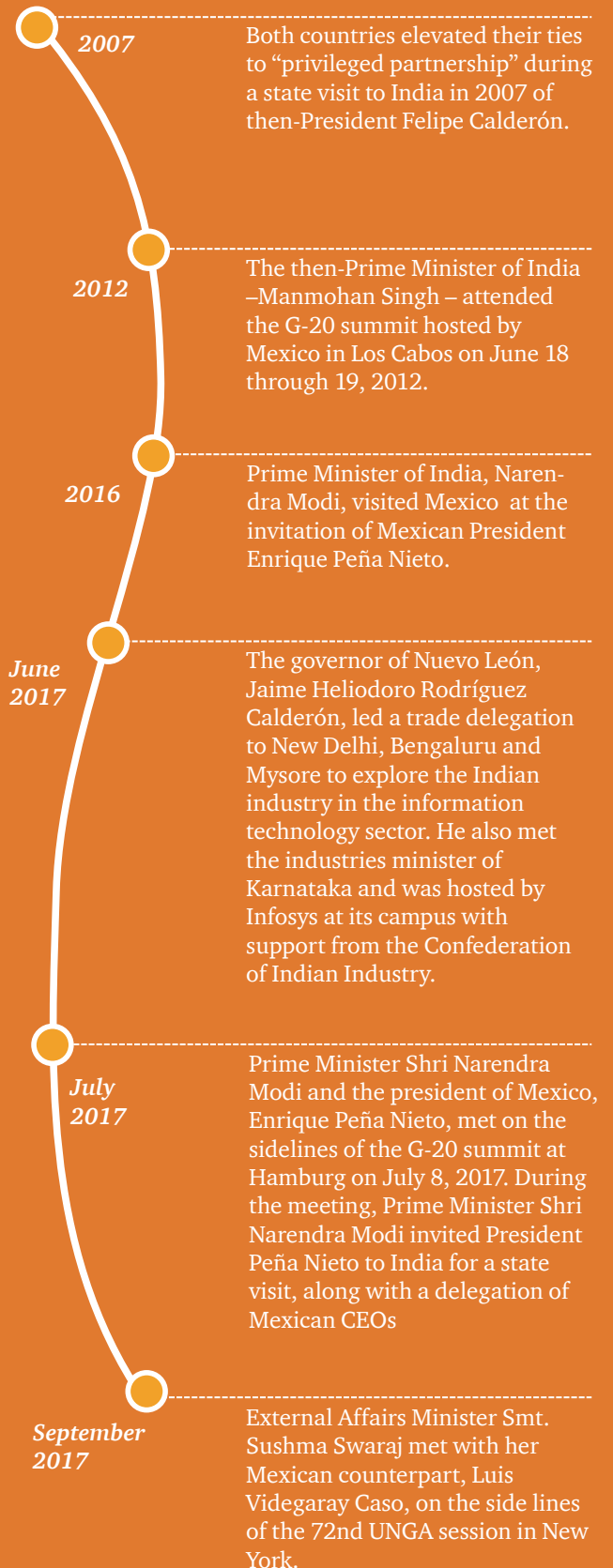
Both countries have large, emerging economies, with similar socioeconomic development priorities and constraints, and have democratic, secular and pluralistic political systems, as well as convergent worldviews. Both are at somewhat comparable levels of economic and technological development, and both are members of the very important G-20 organization of the world's largest advanced and emerging economies.

Also, Indians like Mahatma Gandhi, Jawaharlal Nehru, Rabindranath Tagore and Mother Teresa are widely held in high esteem in Mexico. The writings of Nobel Laureate and Indophile Octavio Paz, Mexico's envoy to India in the 1960s, with his long years in India, significantly impacted Mexico's view of India.

### **Political Ties<sup>13</sup>**

Impelled by their commonalities, convergence of worldviews and an issues-free relationship, India and Mexico have collaborated closely in international forums on many major global issues, such as nuclear disarmament, climate change, trade and global economic architecture.

India and Mexico elevated their ties to that of a "privileged partnership" during the 2007 state visit to India by then-Mexican President Felipe Calderón. Prime Minister Manmohan Singh attended the two-day G-20 summit hosted by Mexico in Los Cabos in June 2012.



11 <https://www.gob.mx/presidencia/prensa/mexico-and-india-agree-to-scale-their-relationship-to-move-to-a-strategic-partnership>

12 Embassy of India in Mexico

13 Embassy of India in Mexico

## Economic and Commercial Relations<sup>14</sup>

Bilateral trade between India and Mexico has been growing rapidly in recent years, at double-digit rates consistently. This is, however, well below the potential for combined binational trade. The figure touched USD \$6.45 billion in 2016. In the first eight months of 2017, total bilateral trade reached USD \$4.7 billion.

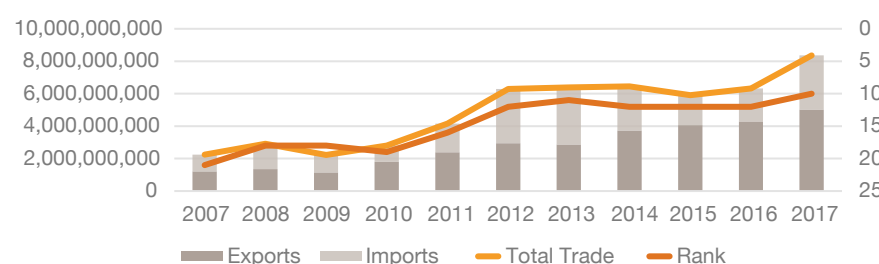
Mexico's imports from India grew at 14.6 percent in 2017 (August) year on year, with a well-diversified basket, comprised of, inter alia, chemicals and petrochemicals, engineering goods, automobiles and auto parts, pharmaceuticals, diamonds, textiles and garments, and gasoline.

Crude oil has traditionally been and is still the major Mexican export worldwide and to India. Mexico also sells India fertilizers, iron and steel, and engineering goods. The sectors assessed to have the maximum growth potential are mining (projects in Mexico), food processing and infrastructure (projects in India), automobiles and auto parts, textiles and garments, software and IT, pharmaceuticals, engineering, renewable energy and biotechnology.

### India-Mexico Trade Balance

The following chart shows the trade figures between India and Mexico over the last 10 years. According to the Embassy of Mexico in India, India still needs to be better branded as a destination for trade for the Mexican business community, even though two-way commerce is showing significant growth.<sup>15</sup> The bilateral trade shows a positive upward trend, and it is signified by the growth of India's rank as Mexico's bilateral trade partner – from 21st in 2007, to 10th in 2017.

India Mexico Historic Trade in USD, and India's Rank as Mexico's Trade Partner



Source: IHS Markit, and Secretaría de Economía<sup>16</sup>

The following chart shows the top 10 imports and exports between India and Mexico:

### Top 10 Exports From India to Mexico<sup>17</sup>

S. no.	Commodity	2016-2017	2017-2018 (Apr-Oct)
1.	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof.	1,872.68	1,237.14
2.	Organic chemicals.	253.86	149.52
3.	Aluminum and articles thereof.	164.32	101.50
4.	Iron and steel.	147.24	90.70
5.	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof.	141.35	85.88
6.	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts.	100.07	69.10
7.	Ceramic products.	56.76	45.36
8.	Plastic and articles thereof.	59.91	40.65
9.	Articles of iron or steel.	47.14	35.25
10.	Dyes, pigments and other coloring matter; paints, putty and other mastics; inks.	45.30	32.92

Source: Ministry of Commerce, Govt. Of India, AMOUNT IN Million USD

Note: Where periods are not mentioned with year, it is yearly data from April to March, e.g., 2012-2013 means Apr. 2012 to Mar. 2013

<sup>14</sup> Embassy of India in Mexico

<sup>15</sup> BW: <http://businessworld.in/article/We-Have-To-Make-India-More-Visible-To-Mexican-Traders-Says-Mexican-Ambassador/29-11-2017-133204/>

<sup>16</sup> Ministry of Commerce, Government of India: <http://commerce.gov.in/>

<sup>17</sup> Ministry of Commerce, Government of India: <http://commerce.gov.in/>

### Top 10 Exports From Mexico to India

S. no.	Commodity	2016-2017	2017-2018 (Apr-Oct)
1.	Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	1,842.40	957.35
2.	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts	448.49	305.69
3.	Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	156.32	72.71
4.	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	52.59	42.71
5.	Natural or cultured pearls, precious or semiprecious stones, imitation jewelry, coin	131.63	37.40
6.	Dyes, pigments and other coloring matter; paints, putty and other mastics; inks	38.20	34.23
7.	Optical, photographic cinematographic measuring, checking precision, medical or surgical inst. And apparatus parts and accessories thereof	51.46	29.43
8.	Organic chemicals	49.63	25.85
9.	Plastic and articles thereof	19.19	9.18
10.	Iron and steel	12.57	8.97

Source: Ministry of Commerce, Govt. Of India, AMOUNT IN Million USD

Note: Where periods are not mentioned with year, it is yearly data from April to March, e.g., 2012-2013 means Apr. 2012 to Mar. 2013

### **Important Bilateral Agreements between India and Mexico<sup>18</sup>**

India and Mexico have signed the following bilateral accords and memorandums:

- Cultural Agreement (1975)
- Agreement for Cooperation in Science and Technology (1975)
- Cultural Exchange Program (2005)
- Educational Exchange Program, (2005)
- Agreement on Visa Exemption on Diplomatic and Official Passports (2005)
- Memorandum of Understanding on Cooperation in SMEs (2006)
- Extradition Treaty (2007)
- Mutual Legal Assistance Treaty in Criminal Matters (2007)
- Double Taxation Avoidance Agreement (2007)
- Bilateral Investment Promotion and Protection Agreement (2007)
- Air Services Agreement (2008)
- MOU on Cooperation in the Field of New and Renewable Energy (2008)

<sup>18</sup> Embassy of India in Mexico

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# *Major Reforms in Mexico since 2013*

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## Major Reforms in Mexico since 2013<sup>19</sup>

Three decades ago, Mexico opened its economy to the world, creating competitive industries – automotive and aerospace. But, during the same period, Mexico's average annual economic growth was as much as 2.4 percent. Over and above these indicators, the country was in need of the regulation of economic competition and an increase in the price of goods, resulting in a decreased purchasing power of the citizens.

Considering this situation, structural reforms were passed in 2013, during the presidential term of Enrique Peña Nieto. These reforms are necessary to understand, as they have had a strong impact on the Mexican economy.

Since 2013, during the current government's administration, Mexico underwent 11 structural reforms:

- 1.** Energy Reform
- 2.** Anti-Trust Reform
- 3.** Telecommunications and Broadcasting Reform
- 4.** Tax Reform
- 5.** Financial Reform
- 6.** Labor Reform
- 7.** Education Reform
- 8.** New Injunction Law
- 9.** National Criminal Procedure
- 10.** Political Electoral Reform
- 11.** Transparency Reform

For the purpose of this document, we will be reviewing the energy reform, telecommunication reform, tax reform and financial reform.

### *Energy Reform*

The energy reform, introduced in 2013, was intended mainly to attract more foreign investment to Mexico and to end the general trend of a decline in oil and gas production. It had the following objectives:

- To support family economies through reduced electricity and gas consumption rates,
- To foster social development through utilizing profits for social welfare,
- To promote clean power generation through renewable energy technologies,
- To increase transparency within the energy sector,
- To increase the competitiveness of the industries, mainly through regulating prices in order for small and medium scale businesses (SMBs) to spend less on electricity,
- To reduce the nation's growing dependence on energy imports and to become more productive overall.

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<sup>19</sup> Reformas: <http://reformas.gob.mx/en/reformas>



The main result of the energy reform was to end the decades-long monopoly of the state-run oil exploration and production giant Petróleos Mexicanos (Pemex) and the Comisión Federal de Electricidad (CFE), a government-owned electric utility company.

The key elements that were included in the reform were:

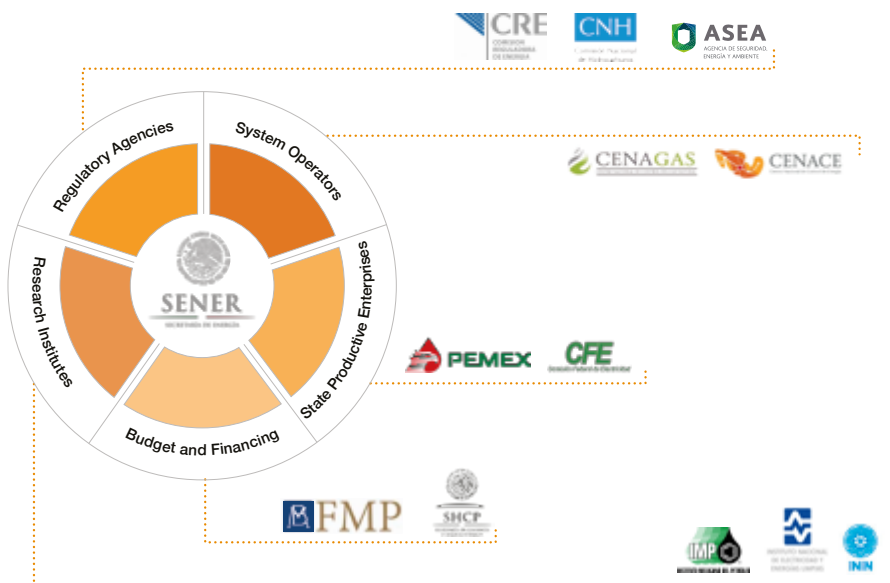
- Subsoil hydrocarbons are still the exclusive property of the nation.
- Four type of exploration and production contracts were established: service contracts, profit-sharing contracts, production-sharing contracts and license contracts.
- Refining, transportation, storage, natural gas processing and petrochemicals are now open to private investment.
- Hydrocarbon regulatory agencies were strengthened.
- A sovereign wealth fund, the Mexican Petroleum Fund, was established.
- Pemex would become a productive state enterprise with a self-sustaining budget.

Later, in 2014, several secondary laws were approved to fine tune the details of the Energy Reform. Those included:

- Pemex would be more independent from the federal government and would have to undergo internal reforms. Its national tax burden would drop from 79 percent to 65 percent, and the company would be entitled to keep some of its existing assets.
- Gasoline and diesel sales would be deregulated.
- Companies would pay royalties and taxes to the state, varying the price of oil.
- Companies would have to respect national content requirements (25 percent in 2015, increasing to 35 percent by 2025). Deep waters were excluded.
- Companies cannot expropriate land from communities for exploration and production development. Occupation of lands is temporary and landowners have to be compensated accordingly.

- The National Hydrocarbons Commission (CNH) was established as a constitutionally coordinated entity to gather and control all information regarding hydrocarbons, issue regulations and monitor compliance. Furthermore, the CNH will manage bidding rounds, award and supervise contracts.

The new institutional framework is as follows:



Following the reform, the prices of retail petroleum products were deregulated during 2017 in many stages, as shown below:

#### Deregulation Of Petroleum Prices



Source: Sener (Secretaría de Energía)

After the reforms, multiple rounds of bidding took place, in which private sector investment was allowed. Starting from Round 0, in which only Pemex was allowed to bid, Pemex was awarded with 83 percent of the productive assets and 21 percent of the prospective resources in the country in order to allow the company to maintain its production levels for the next few years. The following is a breakdown of each of the subsequent rounds.

Round	Sub Round	Winner Companies	Details
Round 1	Round 1.1	<ul style="list-style-type: none"> <li>Talos Energy Offshore Mexico won in consortium with Sierra O &amp; G. Exploration and Production, and Premier Oil Exploration and Production Mexico.</li> </ul>	Percentage of Fields Allocated: 14.3 Bidders Involved: 25 Expected Investment (USD Billion): 2.7
	Round 1.2	<ul style="list-style-type: none"> <li>ENI México,</li> <li>Hokchi Energy,</li> <li>E&amp;P Hidrocarburos y Servicios, S.A. de C.V, Fieldwood Energy E&amp;P México,</li> <li>Petrobal Upstream Delta 1.</li> </ul>	Percentage of Fields Allocated: 60 Bidders Involved: 14 Expected Investment (USD Billion): 3.1
	Round 1.3	<ul style="list-style-type: none"> <li>Diavaz Offshore,</li> <li>Consortio Petrolero 5M Del Golfo,</li> <li>CMM Calibrador,</li> <li>Calicanto Oil &amp; Gas,</li> <li>Strata CPB,</li> <li>Servicios de Extracción Petrolera Lifting de México,</li> <li>Dunas Exploración y Producción,</li> <li>Perseus Fortuna Nacional,</li> <li>Oleum del Norte, and Renaissance Oil Corp.,</li> <li>Grupo Mareógrafo,</li> <li>Mayacaste Oil &amp; Gas,</li> <li>Canamex Energy Holdings,</li> <li>Roma Energy México,</li> <li>GS Oil &amp; Gas,</li> <li>Secadero Petróleo and Gas,</li> <li>Tonalli Energía.</li> </ul>	Percentage of Fields Allocated: 100 Bidders Involved: 40 Expected Investment (USD Billion): 1.1
	Round 1.4	<ul style="list-style-type: none"> <li>China Offshore Oil Corporation E&amp;P Mexico,</li> <li>Total E&amp;P México, and Exxonmobil Exploración and Producción Mexico,</li> <li>Chevron Energía de México, Pemex Exploración and Producción, and Inpex E&amp;P Mexico,</li> <li>Statoil E&amp;P México, BP Exploration Mexico, and Total E&amp;P Mexico,</li> <li>PC Carigali Mexico Operations, and Sierra Coronado E&amp;P</li> <li>Murphy Sur, Ophir Mexico Block 5 Salina, PC Carigali Mexico Operations , and Sierra Offshore Exploration.</li> </ul>	Percentage of Fields Allocated: 80 Bidders Involved: 15 Expected Investment (USD Billion): 34.4
Round 2	Round 2.1	<ul style="list-style-type: none"> <li>DEA Deutsche and Pemex,</li> <li>PC Carigali and Ecopetrol Global,</li> <li>ENI México, Capricorn Energy and Citla Energy,</li> <li>Pemex y Ecopetrol,</li> <li>Capricorn Energy and Citla Energy E&amp;P,</li> <li>ENI México,</li> <li>Repsol Exploración and Sierra Perote,</li> <li>Lukoil International Upstream Holding,</li> <li>ENI México and Citla Energy,</li> <li>Total E&amp;P and Shell.</li> </ul>	Percentage of Fields Allocated: 66 Bidders Involved: 20 Expected Investment (USD Billion): 8.19
	Round 2.2	<ul style="list-style-type: none"> <li>Iberoamericana and PJP4</li> <li>Sun God and Jaguar.</li> </ul>	Percentage of Fields Allocated: 70 Bidders Involved: 6 Expected Investment (USD Billion): 5
	Round 2.3	<ul style="list-style-type: none"> <li>Iberoamericana and PJP4,</li> <li>Newpek and Verdad Exploration,</li> <li>Jaguar Exploración and Producción,</li> <li>Shandong, Sicoval and Nuevas Soluciones,</li> <li>Carso Oil and Gas.</li> </ul>	Percentage of Fields Allocated: 100 Bidders Involved: 17 Expected Investment (USD Billion): 1

Source: CNH (Comisión Nacional de Hidrocarburos): <https://rondasmexico.gob.mx/>

Rounds 1 and 2 included bids for onshore, offshore shallow and deep waters, and farm-outs from Pemex – creating at total of about 61.1 billion USD in investment over the next 25 years.<sup>20</sup> Through this energy reform, the Mexican government plans to raise about 242 billion USD.

<sup>20</sup> CNH (Comisión Nacional de Hidrocarburos): <https://portal.cnih.cnh.gob.mx/estadisticas.php>

## Telecommunications Reform<sup>21</sup>

Similar to the energy market before the reforms, the Mexican telecommunications market was run through monopolistic policies. To end the monopoly and to extend public access to information, the telecommunications reform was introduced.

The benefits expected out of the reforms are not only a lowering of prices, but also the generation of market growth through private investment. Under the telecom reform, now access to information and the right to information are considered as a fundamental right in Mexico. Further, up to 100 percent foreign investment is allowed for fixed telecoms and up to 49 percent foreign ownership is permitted in radio and television.

### New Regulatory Body



A new regulatory body, the Instituto Federal de Telecomunicaciones (IFT) was created as an autonomous, constitutional body responsible for the regulation, promotion and monitoring of the radio spectrum, networks and the provision of telecommunications and broadcasting services.

The IFT has as its mandate to guarantee two main aspects:

- To ensure economic competition and content plurality,
- To encourage universal coverage, convergence, quality and, importantly, access.

Any monopolistic practices, defined as when companies capture 50 percent or more of the market share through their number of users, capacity or network infrastructure, can be ended by the IFT, as it has the authority to apply appropriate sanctions or even split companies engaged in such practices.

Also, a new National Inclusion Policy and a National Digital Strategy were created, for which the federal executive branch was directly responsible. The aim of this strategy is to ensure that at least 70 percent of Mexican households and 85 percent of small and medium businesses have ready access to high-speed internet at international price standards.

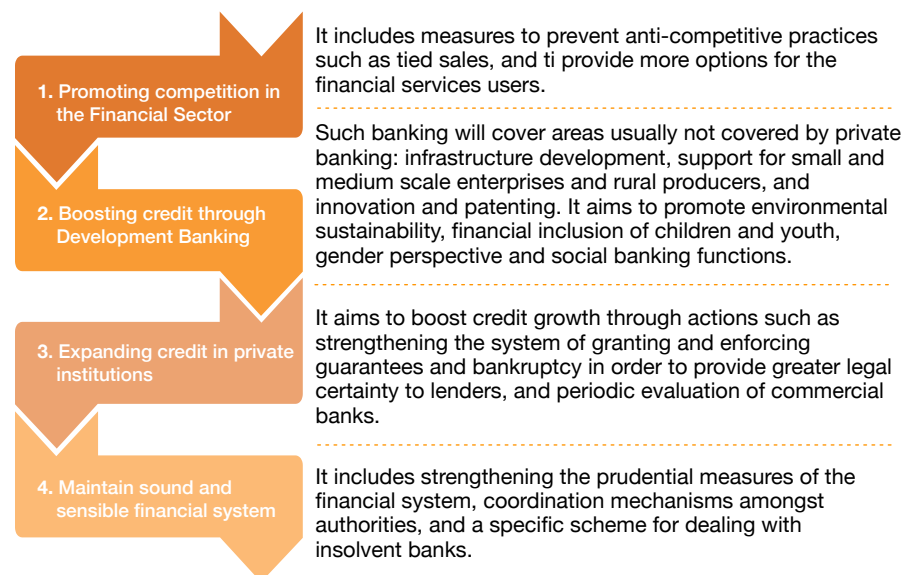
## Financial Reform<sup>22</sup>

The main aim of this reform was to expand the existing sector, allowing it to contribute in the Mexican economy, and to grant more credit to Mexican businesses and families. It established a legal framework that promotes competition, stability and the healthy development of the financial sector, with the explicit aim of expanding and improving credit options for all Mexicans.

The reform was intended to make the Mexican financial system focus on:

1. *Providing more people with access to financial products and services,*
2. *Reducing the cost of credit,*
3. *Strengthening financial education and the protection of financial service users,*
4. *Maintaining a solid financial sector,*
5. *Making financial institutions more effective.*

The reform was based on four strategic pillars:



Also, the Financial Reform aims to achieve greater efficiency in the operations of entities comprising the financial system of Mexico by updating legislation governing the operations of investment funds, the stock market and financial groups.

<sup>21</sup> Reformas: <http://reformas.gob.mx/en/telecommunications-reform/what-is>

<sup>22</sup> Reformas: <http://reformas.gob.mx/en/financial-reform/what-is>

## Tax Reform<sup>23</sup>

### 2013 Reform

On Jan. 1, 2014, the amendments approved by the Mexican parliament for the same fiscal year came into force. With the changes made by the reform, the federal executive branch aimed to increase the country's tax revenue, which is one of the lowest in Latin America. Tax revenue in Mexico is 13.7 percent, compared to 18.4 percent recorded in other countries of the same continent, according to the Organization for Economic Cooperation and Development (OECD).

Over and above combating such issues, the Mexican tax reform also aimed to bridge the gap of inequality in the distribution of income and to invest in strategic items that help boost the economy.

Some of the new objectives of the tax reform are:

1. To increase tax collection methods and ensure fairness: The system aims to eliminate the privileges of people from higher income bracket and ensure that they pay higher taxes while lower-income workers are protected.
2. To increase public funding: The result of the first action is perceived to increase revenue, which in turn should be used for public issues such as health, education, social security and infrastructure.
3. To reduce tax evasion: Replacing the old, informal structures of tax compliance by formalization of mechanisms for tax compliance.
4. Simplify tax payments through elimination of tariffs and the use of new technologies to facilitate tax compliance.

### Introduction of Electronic Accounting

All companies, regardless of size, as well as all individual entrepreneurs, are now required to issue digital tax receipts (CFDIs, by its Spanish acronym). In addition, companies with a turnover of 26,666 Mexican pesos or more annually are required to release accounting electronically to the Mexican Treasury (Sistema

de Administración Tributaria, SAT). Payments of emoluments must also be carried out in an automated way. Electronic accounting is required by Mexican tax authorities.

### Amendments Made by the Tax Reform to Foreign Trade Regulations

The tax reform has introduced changes aimed at simplifying customs clearance operations of goods coming from abroad. By virtue of these amendments, current legislation provides the following novelties:

- The use of agents or customs agents is no longer mandatory. Importers and exporters can dispatch their goods through an authorized legal representative who meets certain technical requirements and who has a certain degree of experience.
- There is an increase in the customs from which foreign companies can import and export certain goods.
- Customs clearance operations can be carried out using digital electronic systems, using the digital signatures and digital signatures, reinforcing the use of the Single Import/ Export Single Market (VUCEM). VUCEM (Ventanilla Unica) is a tool that allows foreigners to send electronic information only once to a single entity to comply with requirements of foreign trade. Practically, it is used to facilitate and simplify information flows between business and government and to reduce the time frame for all the participants involved in trade.<sup>24</sup>
- The procedure for revising the goods and the subsequent customs clearance are modified. The taxpayer can, in fact, provide the competent authorities with electronic archives certifying the fulfillment of their fiscal obligations.

### 2017 Reform<sup>25</sup>

On Oct. 27, 2016, the Mexican Congress approved a 2017 bill which includes amendments to Mexican tax legislation. The law was published in the Mexican Official Gazette and took effect Jan. 1, 2017. The tax amendments affect the Income Tax Act, the Value Added Tax Act and the Federal Tax Code.

The following are some of the major changes:

### Corporate Income Tax - ISR

The corporate income tax for corporations is now a flat 30 percent..

While understanding the assistance from government for corporate tax, it is important to note that when the government grants economic or financial assistance to taxpayers through governmental budgetary programs, the cash received will not be treated as taxable revenue, and also:

- (i) There is a public list of beneficiaries,
- (ii) The funds are wire-transferred to the beneficiaries' accounts,
- (iii) If applicable, the tax authorities issue a certificate of good tax standing to the beneficiary, and
- (iv) The assets or services the taxpayer acquires with the grant are not deducted.

Payments derived from labor subcontracting are deductible when, among other requirements, the contractor obtains certain listed documents.

The law creates a 30 percent tax credit for research and development (R&D) expenses, including investments in R&D. The tax credit is equal to current-year R&D expenses in excess of the average R&D expenses incurred in the previous three years. This incentive cannot be combined with other tax incentives.

### Value added tax (IVA)

The VAT (or IVA) in Mexico is 16 percent and it is due on the 17th of each following month (monthly declaration). Also, each taxpayer must prepare a VAT annual declaration by Dec. 31 of each year.

VAT paid for subcontracted labor is creditable to the extent that the contractor obtains a certain set of listed documents.

23 Reformas: <http://reformas.gob.mx/en/tax-reform/what-is>

24 Ventanilla Unica: <https://www.ventanillaunica.gob.mx/envucem/AboutVU/AboutVU/index.htm>

25 PwC Mexico: <https://www.pwc.com/us/en/tax-services/publications/insights/assets/pwc-mexico-approves-2017-tax-reform-measures.pdf>

Under current VAT law, a VAT credit is granted in the pre-operating period — that is, the period prior to the start of the taxable activities — based on an estimate of expected future activities subject to VAT.

The new 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.

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 does not apply to taxpayers engaged in extraction activities, such as mining and oil.

Certain information technology (IT) services physically rendered in Mexico for the benefit of foreign entities are classified as an exportation of services subject to a 0 percent VAT rate. The VAT law includes a list of the services that are classified as IT for purposes of the reduced rate.

#### **Federal tax code**

Effective tax year 2017, taxpayers must file an information return stating their tax status (declaración informativa de situación fiscal) with their annual corporate income tax return by the end of the calendar year.

### ***Economic Competition Reform (Anti-Trust Reform)***<sup>26</sup>

In 2013, Mexico was going through a period of slow economic growth, as reflected by the World Economic Forum Global Competitiveness Report of 2013-14, ranking Mexico 114th out of 148 countries in terms of “Effectiveness of Anti-Trust Policies.”

It was also noted that Mexicans pay a 40 percent premium in areas where there are restrictions on economic competition, according to the OECD.

To combat such economic hurdles, the federal executive branch proposed a new Federal Anti-Trust Law implementing a new anti-trust system in the country, seeking to create an internal market that is more competitive and robust.

The Anti-Trust Reform is based on following three strategies:

*1. A new institutional design allows more efficiency and effectiveness:*

- a.* To regulate the market, it creates a Federal Competition Commission (COFECE, by its Spanish acronym) as a Mexican state organization.
- b.* It establishes a labor scheme to ensure checks and balances.
- c.* It establishes control for transparency and accountability.
- d.* It assigns an internal control authority to monitor the performance of COFECE officials.

*2. The reform expands the list of anti-trust behaviors carried out in market.*

*3. It also defines a legislative technique for correct implementation and sanctions.*

- a.* It precisely defines procedures for the application of the law, and protects due process and the rights of all operators.
- b.* It strengthens the sanctioning powers of the COFECE by allowing it to divest an appropriate proportion of assets as a last resort for dealing with anti-competitive practices.

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# ***Macro-Economic Analysis***

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## Macro-Economic Analysis<sup>27</sup>

### Overview

As a result of the recent reforms, the Mexican economy has opened itself up to foreign investments in the fields of telecommunications, public utilities and petroleum, in which government-owned companies started reducing their predominant position. This will become more evident as Mexico is gradually changing with the energy and telecommunications reforms, as explained above.

In the 1880s and 1990s, the Mexican government sold a number of its holdings to private companies. Industries such as manufacturing, mining, commerce, entertainment and the service sectors, including construction and tourism, were included.

Foreign investment is found most frequently in the manufacturing, mining and financial sectors. The manufacturing sector is flourishing due to Mexico's proximity to the USA, which also provides a large market for the export of manufactured and semi-manufactured goods over and above the local market.

It is important to keep in mind that, according to the World Bank, Mexico's foreign debt in 2016 was approximately USD 611,927 billion dollars. The public portion of that debt has been renegotiated several times, and Mexico is on schedule as regard payments of interest and principal on the debt. Moreover, Mexico has sufficient resources in its international reserves (USD 172.801 billion as of Dec. 30, 2017), to cover its external debt due in future years. Improved business confidence will support an upturn in investment.

But the main point is the fact that the Mexican economy has benefitted, and is expected to benefit even further, from open borders, an increase in foreign direct investment inflows and an integration in global value chains through multiple trade agreements.

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<sup>26</sup> Reformas: <http://reformas.gob.mx/en/economic-competition/what-is>

<sup>27</sup> PwC Doing Business in Mexico 2016



## Gross Domestic Product (GDP)

Mexico's GDP per capita, at current prices in USD, according to the International Monetary Fund (IMF) and World Bank, although having registered a decrease after a record high in 2014, is expected to do better in the coming years, due, in part, to recent government reforms. Market productivity is expected to continue to rise due to the increase in FDI, starting in 2017. A per capita deceleration of Mexico's GDP could be the result of a population increase, while, at constant prices, the annual GDP growth was 2.1 percent as of October 2017, according to the IMF.

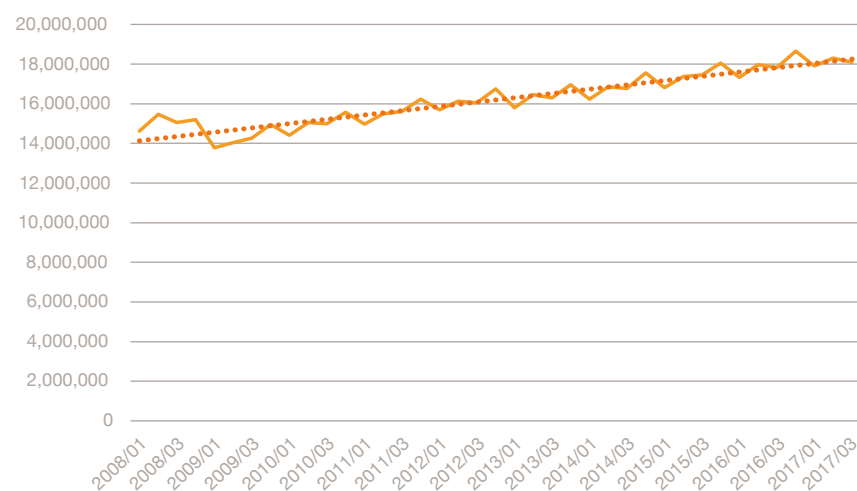
The following chart shows the GDP change based on constant prices in Mexican pesos in 2013, according to the INEGI:

% Change in GDP of Mexico, at 2013 constant prices (Quarterly)



Source: INEGI<sup>28</sup>

Mexico GDP, at 2013 Million MXN constant rate (Quarterly)



Source: INEGI<sup>29</sup>

By considering the performance of Mexico's GDP since 2008 and reviewing the consistent trend line as a linear forecast, we can predict that growth in the coming years will continue on a positive path.

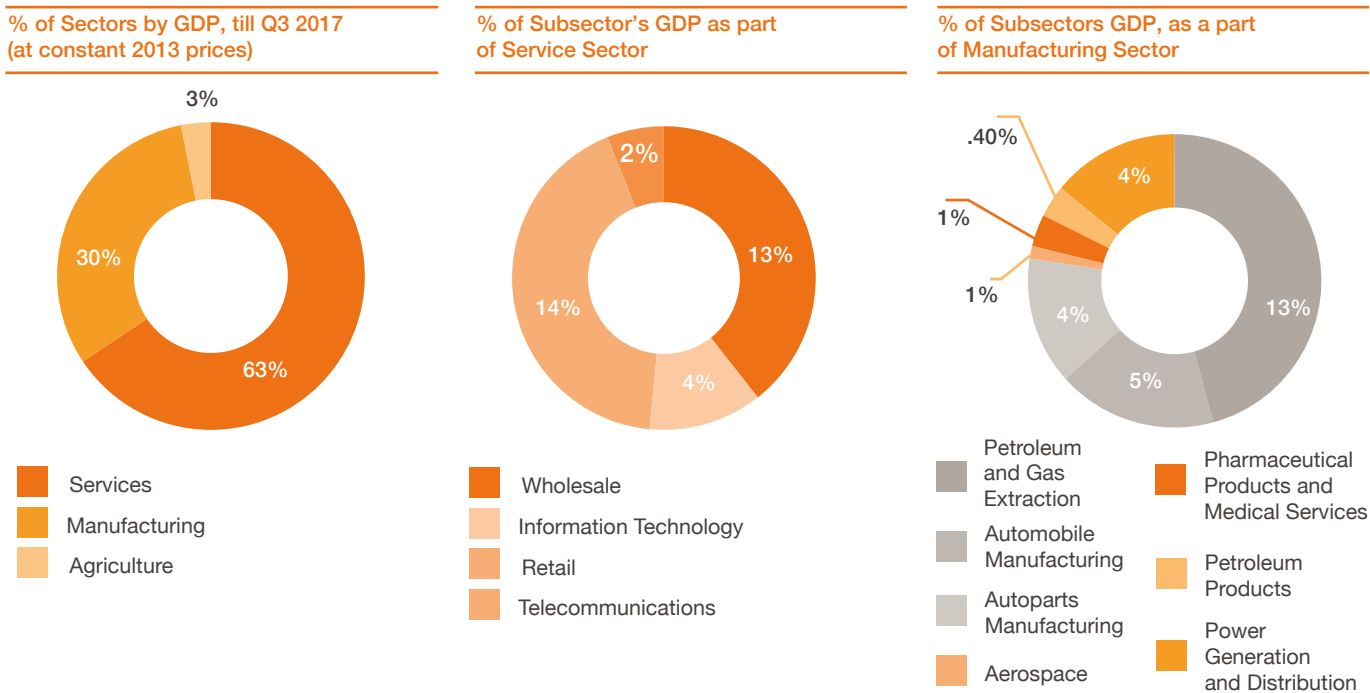
It is also important to note that, while there was a small deceleration in 2013 and 2014, the overall pattern shows a general upward trend.

<sup>28</sup> INEGI: <http://www.inegi.org.mx/est/contenidos/proyectos/cn/bs/default.aspx>

<sup>29</sup> INEGI: <http://www.inegi.org.mx/est/contenidos/proyectos/cn/bs/default.aspx>



While considering the change in the contribution of various sectors within Mexico's GDP in 2017 compared to 2016, it is to noteworthy that while a few sectors only showed a decrease, the majority of the sectors have shown strong growth.



Note: The total percent is missing approximately 5% here. The reason is that 5% is the taxes that are contributed to GDP.  
Source: INEGI<sup>30</sup>

While discussing the main sectors of Mexican industry, the following points should be considered as a snapshot of the overall economy:

Agriculture accounts for about 3.1 percent of Mexico's GDP and employs more than 13 percent of its active population. Mexico ranks among the world's largest producers of coffee, sugar, corn, oranges, avocados and limes. It is also the world's fifth-largest producer of beer. It is among the world's leading producers of many minerals, including silver, fluorite, zinc and mercury. Moreover, oil and gas reserves are one of the country's most precious assets. Mexico is the world's sixth-largest producer of oil. Cattle ranching and fishing are also important activities in Mexico's food industry.

Mexico's aerospace sector has grown sharply, thanks to the presence of nearly 300 international companies, including Bombardier, Goodrich, the Safran group and Honeywell, which together employ 30,000 people.

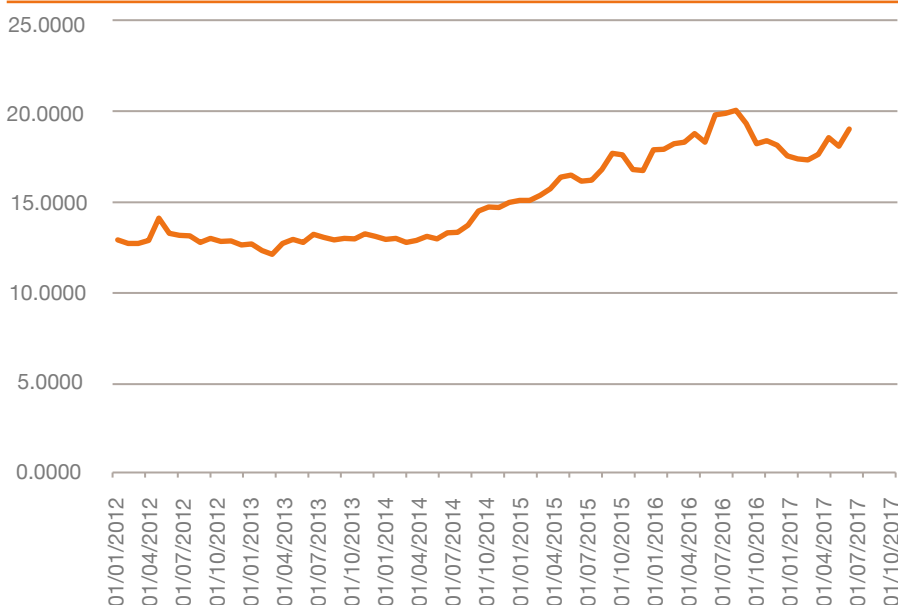
Mexico is also the world's seventh-largest car producer. The hi-tech, information and software development sectors are likewise experiencing real momentum, driven by the quality of the workforce. The service sector constitutes about 63 percent of the country's GDP and employs the same share of the national workforce.

## Mexican Peso Exchange Rate

The Mexican government kept the Mexican peso strengthened at an average of 12 per dollar from 2003 until the end of 2014. But starting in 2015, when global oil prices decreased and the Mexican economy, which depended on hydrocarbons for 35 percent of its revenues, took a hit, the Mexican peso began to lose strength against the dollar. In January 2016, the Mexican peso was at 18.19 per dollar.

While the Mexican peso regained strength as of February 2017, it dropped to 19.14 to the dollar in October 2017. This seems to have been a result of the ongoing NAFTA renegotiations and other trends. However, the peso-dollar exchange rate is expected to be more stable in the near future.

MXN - USD Exchange Rate, 2012 - 2017 (November)



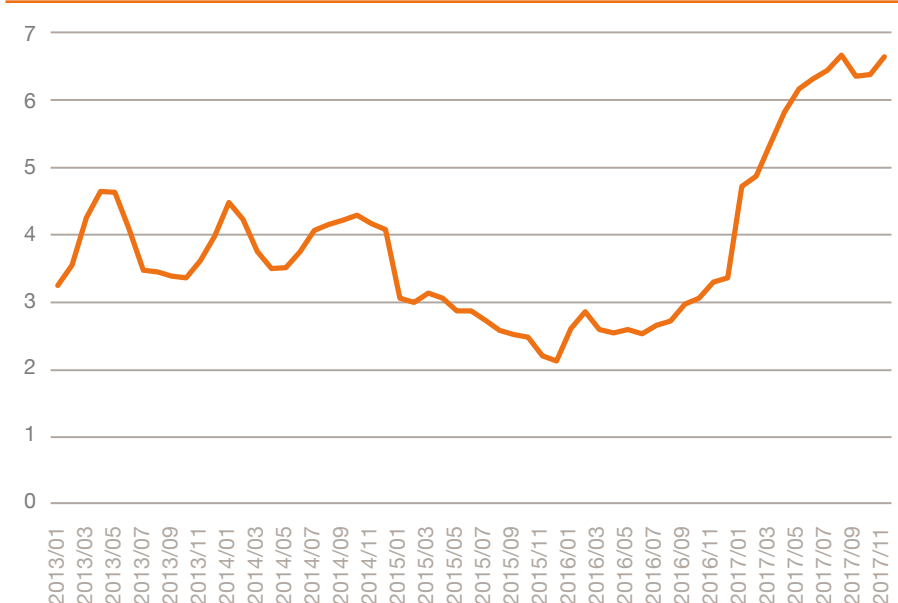
Source: Banco de Mexico<sup>31</sup>

## Inflation

According to the Bank of Mexico (Banco De Mexico), inflation, as of December 2017, was 6.63 percent annually.

The government managed to control inflation extremely well in the years of 2015 and 2016, as it did in previous years, after a high in 2009. But since January 2017, inflation is registering a general upward tick. It is, nevertheless, expected to be strongly controlled since FDI inflows are getting more significant and more opportunities are arising in the Mexican job market, particularly in the manufacturing sector.

Mexico Inflation, 2013 - 2017 (November), at constant prices



Source: INEGI<sup>32</sup>

<sup>31</sup> Banco De Mexico: <http://www.banxico.org.mx/SieInternet/consultarDirectorioInternetAction.do?accion=consultarCuadro&idCuadro=CF85>

<sup>32</sup> INEGI: <http://www.inegi.org.mx/sistemas/bie/>

## Economic Package for 2018<sup>33</sup>

On Sept. 8, 2017, the federal executive branch sent the Economic Package for 2018 to the Mexican Congress. It included the General Criteria for a Political Economy, which contained the Federation's Proposed Budget of Expenditures (PEF, by its Spanish acronym) and the Federation's Income Law (LIF, by its Spanish acronym) for the fiscal year of 2018.

The proposed budget includes the Federal Revenue Law (Revenue Law), General Economic Policy Guidelines and the Federal Spending Budget framework.

The House passed the budget in October. Consistent with an express commitment by the federal government, the proposed budget does not include any new taxes or increases to existing taxes. Instead, the proposed increase in revenue collection will be driven primarily by economic growth and the indexation for inflation of certain taxes and tariffs.

The increase in collection is expected to come primarily from Mexico's overall projected economic growth for 2018 and the updated inflation of some taxes and tariffs, such as the IEPS for flavored beverages.

For 2018, Mexico's Secretariat of Housing and Public Credit predicts that the GDP (PIB) will register an annual growth of between 2 and 3 percent. Nonetheless, the secretariat considered a growth rate of 2.5 percent for the purpose of the public finance estimates.

The LIF 2018 project is expected to obtain a total income of 5.2 billion Mexican pesos (6 percent higher than in 2017) and 2.9 billion Mexican pesos in tax revenue (7 percent higher than in 2017).

There will be an expected collection of 1.6 billion Mexican pesos in income tax (ISR) (7 percent higher than in 2017), 877 million Mexican pesos in aggregated value tax (IVA) (10 percent higher than in 2017), and 430 billion Mexican pesos from the Special Tax on

Production and Services (IEPS) (about the same as 2017).

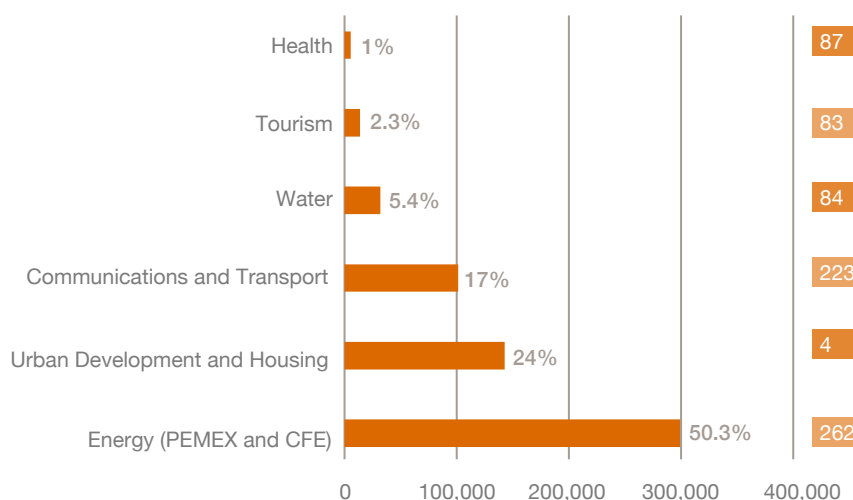
On the other hand, the federal executive office estimates the following economic variables for 2018:

- An average peso exchange rate of 18.10 to the dollar,
- An annual inflation rate of 3 percent,
- An average oil price of 46 USD per barrel,
- An internal debt of 470 billion Mexican pesos and external debt of 5.5 billion USD,
- A 0.9 percent primary GDP surplus and a public deficit equal to 2.0 percent of the GDP.

## Foreign Investment in Mexico (IDE)

Mexico is one of the emerging economies most open to foreign direct investment. According to the 2017 World Investment Report published by the United Nations Conference on Trade and Development (UNCTAD), Mexico ranks ninth worldwide for top prospective host economies for 2017-2019. FDI flows to the country fluctuate strongly, depending on the arrival and departure of large international groups. After reaching USD 34.8 billion in 2015, FDI flows to Mexico decreased to USD 29.4 billion in 2016 and by the third quarter of 2017, it had received USD 21.7 billion.

Programed Investment, USD Millions, and Number of Projects (on the right)



Source: National Infrastructure Program 14-18 (Programa Nacional de Infraestructura 14-18)

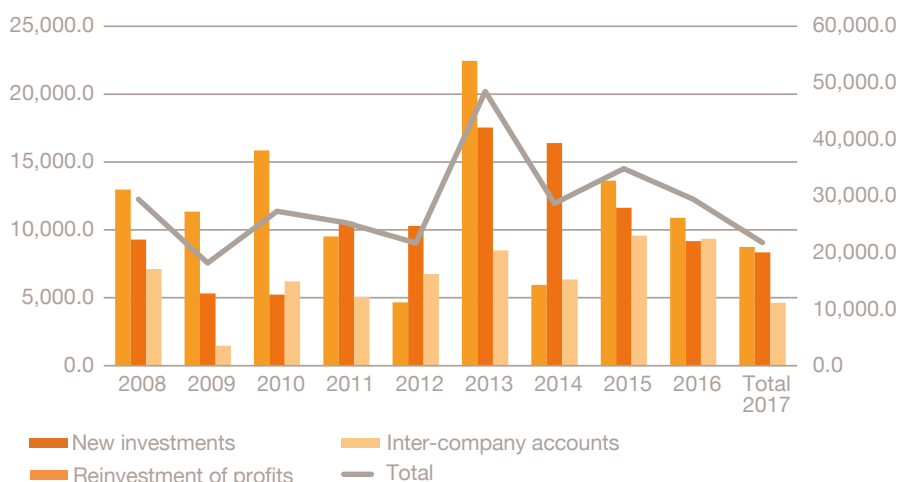
Type of Infrastructure	Total Number of Project Planned (2014-18)	Investment Planned (from 2014-18) USD Million
Roads	151	30,383
Railways	12	10,989
Ports	21	5,240
Mass Urban Transit	7	2,219
Logistics Infrastructure	2	347
Airports	20	279

Source: National Infrastructure Program 14-18 (Programa Nacional de Infraestructura 14-18)

33 PwC Mexico: <http://www.pwc.com/mx/es/publicaciones/c2g/2017-09-09-reformas-fiscales-2018.pdf>

The wave of political and financial reforms initiated in 2014 has greatly improved the economic situation in Mexico. The energy sector has been opened up to foreign investment. Mexico is planning a major expansion of infrastructure, including airport infrastructure, which could also attract foreign investors. Moreover, according to a report from the International Monetary Fund (IMF), the exploration of hydrocarbon reserves will require an investment of USD 40 billion annually between 2015 and 2019. And since the reforms, this sector is expected to receive approximately USD 60 billion over the next 25 years. Since 2014, the Mexican government has also been planning to create new industrial centers (located in the southern states of Guerrero, Oaxaca and Chiapas), which could encourage FDI.

FDI by Type of Investment, Million USD



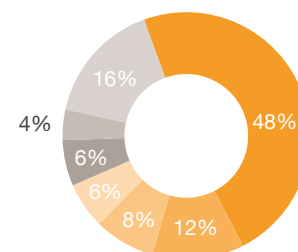
Note: 2017 is till Q3 only. Source: INEGI<sup>34</sup>

Manufacturing, which is supported by exports, attracts almost 45 percent of Mexico's total FDI. These exports are aided by several programs of the Ministry of Economy, free trade agreements (especially NAFTA) and the geographic positioning of Mexico – its proximity to North American countries and Latin America. Moreover, Mexico's burgeoning population and increasing buying power are expected to support local sales and, thus, the economy.

In manufacturing, the majority of FDI is concentrated in pharmaceuticals, chemicals, automobile and auto parts.

Recent reforms have opened many sectors, which may in turn boost overall FDI in coming years. The United States represents nearly half of total investment, while Canada comes in at second with 16 percent, followed by Spain at 12 percent.

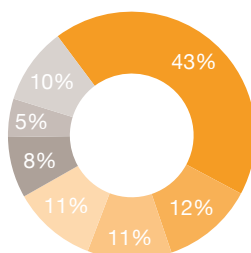
FDI by country of Origin, % of total, 2016



United States  
Spain  
Canada  
Germany  
Australia  
Japan  
Others

Source: INEGI<sup>36</sup>

FDI by Industry Sector, % of Total, 2016



Manufacturing  
Construction  
Financial Services  
Transportation, mail and storage  
Commerce  
Mining  
Others

Source: INEGI<sup>35</sup>

35 INEGI: <https://www.gob.mx/se/acciones-y-programas/competitividad-y-normatividad-inversion-extranjera-directa>

36 INEGI: <https://www.gob.mx/se/acciones-y-programas/competitividad-y-normatividad-inversion-extranjera-directa>

As evidenced in the table below, foreign investments are mostly concentrated in towns neighboring the U.S. border (where many maquiladoras, or in-bond assembly factories, are located), as well as in the capital, Mexico City, which registers as the highest receiver of FDI, accounting for 17 percent of the total direct foreign investment received, followed by the State of Mexico (Edomex) at 14 percent. The border states of Chihuahua, Baja California, Nuevo León and Coahuila also have large amounts of foreign investment, with 7 percent in Chihuahua and 5 percent in each the rest. Guanajuato, a manufacturing hub in the central Bajío region, is the fourth-largest investment area. The table details FDI in Mexico based on regions:

<i>Federal State</i>	<i>Amount in 2016 (USD)</i>	<i>% of Total</i>
<i>Mexico City</i>	3,597.1	17%
<i>Mexico State</i>	3,122.6	14%
<i>Chihuahua</i>	1,467.6	7%
<i>Guanajuato</i>	1,416.2	7%
<i>Baja California</i>	1,188.2	5%
<i>Nuevo León</i>	1,131.3	5%
<i>Coahuila</i>	1,005.3	5%
<i>Tamaulipas</i>	967.2	4%
<i>Querétaro</i>	880.0	4%
<i>San Luis Potosí</i>	870.2	4%
<i>Jalisco</i>	810.0	4%
<i>Veracruz</i>	687.2	3%
<i>Aguascalientes</i>	545.2	3%
<i>Sonora</i>	520.6	2%
<i>Sinaloa</i>	454.9	2%
<i>Baja California Sur</i>	404.9	2%
<i>Quintana Roo</i>	354.5	2%
<i>Campeche</i>	243.0	1%
<i>Morelos</i>	242.8	1%
<i>Tabasco</i>	241.4	1%
<i>Hidalgo</i>	236.3	1%
<i>Guerrero</i>	233.2	1%
<i>Oaxaca</i>	221.7	1%
<i>Tlaxcala</i>	147.1	1%
<i>Michoacán</i>	121.8	1%
<i>Chiapas</i>	115.7	1%
<i>Nayarit</i>	105.1	0%
<i>Yucatán</i>	104.6	0%
<i>Colima</i>	85.6	0%
<i>Puebla</i>	83.2	0%
<i>Zacatecas</i>	75.3	0%
<i>Durango</i>	75.2	0%

Source: INEGI<sup>37</sup>

37 INEGI: <https://www.gob.mx/se/acciones-y-programas/competitividad-y-normatividad-inversion-extranjera-directa>

## Foreign Trade

Mexican foreign trade figures, according to the WTO, show a constant negative balance, both in the goods and services sectors. Yet, for foreign producers, Mexico is a strong destination for production, thanks in part to the country's free trade agreements and its geographic positioning – proximity to USA and Latin America, to the north and south, respectively.

Foreign Trade Indicators	2012	2013	2014	2015	2016
Imports of Goods (million USD)	380,477	390,965	411,581	405,280	397,516
Exports of Goods (million USD)	370,770	380,015	397,129	380,772	373,930
Imports of Services (million USD)	26,203	28,364	30,341	29,495	31,926
Exports of Services (million USD)	16,146	20,194	21,086	22,609	24,097

Source: WTO – World Trade Organisation, 2017

## Trade Agreements of Mexico<sup>38</sup>

Mexico has signed 32 reciprocal promotion and protection of investments agreements with 33 countries, 12 free trade agreements spanning 46 countries and nine partial scope and economic complementation agreements within the framework of the Latin-American Integration Association (ALADI).

Furthermore, Mexico actively participates in a range of multilateral and regional organizations and forums, including the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the Organization for Economic Cooperation and Development (OECD) and the aforementioned ALADI.

Moreover, because the Mexican government has signed trade agreements in three continents, the country has become a platform from which a potential market of over a billion consumers, with access to 60 percent of the world's GDP.

### Mexico Free Trade Agreements

The following is the list of all Mexican trade agreements:

NAFTA (Mexico, Canada, and USA)*	Japan
Chile	Colombia
European Union (Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom)	Israel
EFTA (Iceland, Liechtenstein, Norway and Switzerland)	Peru
EFTA (Iceland, Liechtenstein, Norway and Switzerland)	Central America (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua)
Uruguay	Panama

Source: Trade agreement information from World Trade Organization, Regional Trade Agreement Database, at <http://www.wto.org>; and Organization of American States, Foreign Trade Information System, at <http://www.sice.oas.org>

### NAFTA

Born out of the Canada-U.S. FTA, the North America Free Trade Agreement (NAFTA) took effect on Jan. 1, 1994, and is a trilateral free trade accord between the United States, Canada and Mexico. The major focus of the agreement was to liberalize tariffs, primarily within the agriculture, textiles and automobile sectors.

According to the Congressional Research Service, the trade between the three countries increased from 290 billion USD in 1993 to 1.1 trillion USD by 2016. Proximity to the United States has been one of the most favored reasons for Indian companies to invest in Mexico. Even today, in the midst of an uncertain future of NAFTA, proximity to the United States is considered to be an extremely advantageous point for investing in Mexico.

NAFTA is currently under renegotiations and a final resolution is expected by July 2018.

38 Ministry of Economy: <https://www.gob.mx/se/acciones-y-programas/trade-and-investment>

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# *How to Invest in Mexico*

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## How to Invest in Mexico

*There are many methods to enter the market of Mexico. The main two ways are: the green field and the brown field. Both of these approaches require some bureaucratic procedures in order to achieve a successful investment. The best way to go about investing in Mexico is by having a strong market strategy.*

### 1 Entry Market Strategy

An entry market strategy consists of identifying strengths, potential risks and opportunities for your company to enter the market for your defined product or service.

Key Considerations:

- Macro-economic details of the market during the time of entry (especially, market sizing)
- Competitive analysis
- Logistics
- Competitive market share
- Budgeting
- Segmentation of your product niche
- Analysis of industrial value chain and logistics
- Demand forecasting and consumer behavior toward the product in recent times
- Return on investment and recovery time
- Market barriers
- Legal and regulatory environment
- Taxation analysis
- Incentives

### 2 Planning Considerations

The main features are the following:

- Overview of the industrial plan, considering price and projection of sales volumes and channels as well as marketing strategy
- Financial plan (pro forma): based on the strategy and operating model, identifying also essential human resources and infrastructure
- Estimating investment costs (CapEx)
- Identifying direct costs: raw materials, salaries, services
- Projections of sales and administrative expenses (OpEx)
- Pro forma statement: profit and loss statement, balance sheet, including sensitivity analysis to identify strategic options (either alone or in partnership, distribution versus production) and comparison of financial reasons
- Roll-out plan: key activity and investment planning, and identification of critical phases
- Potential threats



## Types of Investments

This is the most critical decision stage. After the evaluation of the market, and a strong business plan, it is extremely important to decide the type of entry your company will make into Mexico, as these include legal and tax ramifications.

In general terms, there are two methods of Investment Entry in Mexico:

### 1.- Green Field Investment

One of the investment methodologies is the one known as green field, i.e., the expansion of an existing production plant, or the direct investment in a new production plant. Green field investments are a form of foreign direct investment in which a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up.

Here the company has to be incorporated as a Mexican entity, forms of which will be discussed later in this guide.

#### *a. Indicators of adopting green field investment as your strategy:*

- i. Well Established Brand and existing investment in other countries,
- ii. Established high valued logistics network,
- iii. Portfolio of well-established suppliers and customers,
- iv. Strong initial self-financing capacity.

#### *b. Advantages of a green field investment:*

- i. A green field investment provides maximum operational flexibility to meet the requirements of each customer.
- ii. A new production facility can be built according to present and future needs and demands, and also reduces maintenance costs.
- iii. Finally, it is important to mention that green field investments provide greater ease in obtaining state incentives.

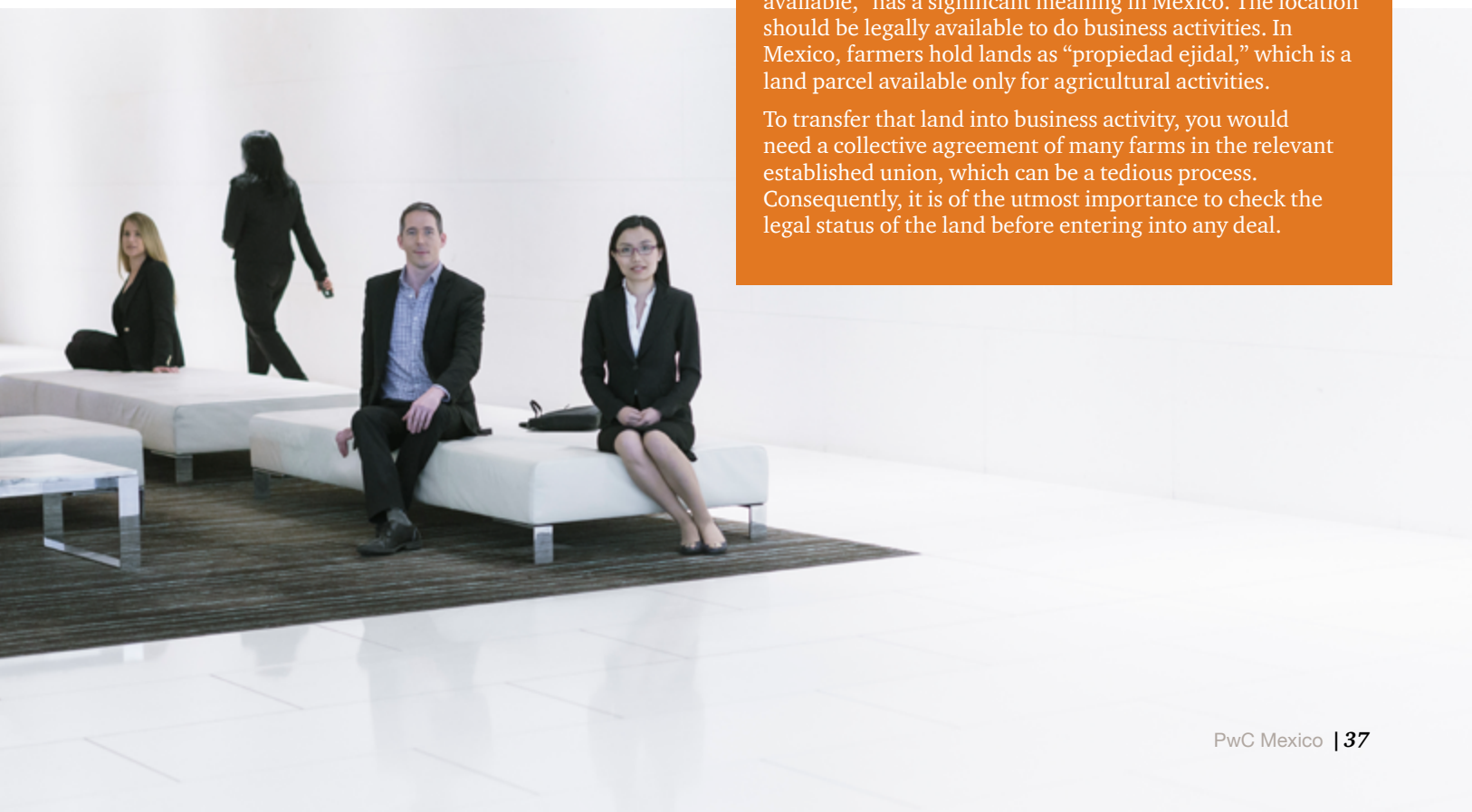
#### *c. Disadvantages of a green field investment:*

- i. Some strategic locations (industrial parks) are not yet equipped with the necessary infrastructure to operate, requiring a major initial investment by the company, and locations should be legally available\*.
- ii. Construction times are definitely longer, also, the demand for new manufacturing facilities could cause some complications in finding the right location for construction.
- iii. The existence of barriers to entry into certain industrial sectors could complicate access, and the search for new human resources may slow down the startup phase.

#### *\*PwC Mexico Insights: Legally Available Land*

The highlighted phrase in the above paragraph, “legally available,” has a significant meaning in Mexico. The location should be legally available to do business activities. In Mexico, farmers hold lands as “propiedad ejidal,” which is a land parcel available only for agricultural activities.

To transfer that land into business activity, you would need a collective agreement of many farms in the relevant established union, which can be a tedious process. Consequently, it is of the utmost importance to check the legal status of the land before entering into any deal.



**2.- Brown Field Investment – Mergers, Acquisitions, Partnerships, and Joint Venture**

Brown field investments, also referred to as brown field, is when an entity purchases or leases existing production facilities to launch a new production activity. This is one strategy used in foreign direct investment.

Inevitably, the development of a brown field project implies some compromises that require a prior analysis in order to assess the details and limits of the existing plant.

But brown field investment also have advantages.

These include: the positioning of the company’s target brand, the market shares held by the latter, the share of knowhow and brand value, and the investment capacity between two legal entities in order to improve the competitive bid.

*The various types of collaboration can be traced back to three different schemes:*

- 1. A partial or total acquisition of an existing entity (pure brown field).
- 2. A joint venture Agreement, which can be of two types: contractual or corporate.
  - i. In the first case, there is no new legal entity, but only an agreement between the parties to handle a joint initiative and then divide the profits subsequently.
  - ii. In the second case, there is a new legal entity that is characterized by the discipline of the activity of the mixed company, the relationship between the members and the distribution of profits.

Joint ventures are subject to taxation as any legal entity, and the participating companies are subject to taxation as shareholders. The reference legal entity is that of the association in participation (a. en p.).

A strategic alliance with one or more partners (partnerships) creates a value chain to maximize resources. A partnership is subject to taxation as any legal entity, and partners are also subject to dividend tax. The most preferred legal entities for the same are S.A. and S. de R.L., all of which are discussed below.

In terms of mergers and acquisitions, a foreign corporation can invest in the following manners:

- 1. Buying the shares – completely or partially,
- 2. Contributing to the capital stock of an existing Mexican entity,
- 3. By completely buying out a certain business unit of interest.

Taxation will be similar in terms of any legal entity in Mexico.

*Let’s look at the advantages and disadvantages of a brown field investment:*

Advantages	Disadvantages
Purchasing an existing production facility allows you to take advantage of the positioning of the acquired company brand and the market share held by it.	Flexibility constraints as regards the layout of machinery and the production process and logistics within the production plant.
It could also include some environmental certifications, as well as production certifications (Maquila, Immex, Prosec), resulting in a competitive advantage over a green field investment.	The location of the production plant could lead to an increase in logistics costs for suppliers and customers.
The start-up of operations requires less time, also thanks to the sharing of existing knowhow and the immediate availability of qualified human resources that already work in the company.	More maintenance costs than a green field investment.
Finally, the project could be cheaper, requiring less investment.	



## Types of Entities<sup>39</sup>

There are many entities a company can consider taking while investing in Mexico. According to Mexican laws, there are many different entities for doing business, but for consideration of your investment, only the most relevant and important ones are discussed below.

Mexican laws provide for several types of corporations that can be incorporated. Depending on the form chosen, there are various differences in how the company will be treated legally and for tax purposes.



The most common types of legal entities are:

Legal Entity	Comments	Legal Compliance
<i>Sociedad Anónima (S.A.)</i> <i>Sociedad Anónima de Capital Variable (S.A. de C.V.)</i>	They are legal entities most used by both local and foreign investors. They are comparable to Pvt. Ltd. companies in India.	<ul style="list-style-type: none"> <li>• Directors are completely liable.</li> <li>• Must hold one annual meeting a year</li> </ul>
<i>Sociedad de Responsabilidad Limitada (S. de R.L.)</i>	A limited liability company that is mostly used when one wants to reduce tax liability in the USA. Comparable to LLC companies in India.	<ul style="list-style-type: none"> <li>• Partners' liability limited to their partnership interest.</li> <li>• Partners must have at least one meeting a year.</li> </ul>
<i>Sociedad Anónima Promotora de Inversión (S.A.P.I.)</i>	Can be used if the company has long term plans to enter into the Mexican Stock Exchange.	<ul style="list-style-type: none"> <li>• Legal liabilities lies on all the shareholders.</li> <li>• Annual meeting is required with all shareholders.</li> </ul>
<i>Asociación en Participación (AP) or a Joint-Venture</i>	It is not a legal entity, but a contract that can be made with a local Mexican firm in order to do business.	<ul style="list-style-type: none"> <li>• Legal liability is applied to all partners (companies) associated in the joint venture agreement.</li> </ul>
<i>Mexican Branch Office</i>	In order to retain your liability characteristics from abroad.	<ul style="list-style-type: none"> <li>• All legal liability is transferred to the foreign company in the home country.</li> </ul>

The characteristics of each of the abovementioned entities are detailed below:

**a) Sociedad Anónima (S.A.):** This is usually recommended to incorporate a limited liability stock corporation, which may adopt the form of a fixed capital corporation or that of a variable capital corporation (S.A. de C. V.). The principal difference between the two is that the latter may increase or decrease its variable portion of the capital within the limits established in the bylaws by a mere stockholders' meeting resolution, without the need to fulfill the formalities applicable to the S.A. Nevertheless, both types of companies must notify the National Registry of Foreign Investments and other applicable government agencies of any capital amendment.

Key characteristics of both types of corporations:

- The shareholder's liability is limited to their stock interest in the corporation and the directors are fully liable for the loyal and diligent administration of the corporation.
- There must be at least two shareholders and no minimum capital is required, although a 50,000 Mexican peso fixed capital is an established practice.
- The company must appoint a statutory examiner who is a third party who supervises the operations of the corporation and represents the interests of the shareholders.
- The shares, which represent the capital stock of the corporation, are freely transferable and can be traded publicly, after the corresponding filings have taken place.

39 SIAVI (Sistema de Información Comercial Via Internet)



**b) Sociedad de Responsabilidad Limitada (S. de R.L.):** Recently, this form of limited liability corporation or limited partnership has become popular among foreign companies, in particular, those who want to reduce their tax liabilities in the United States. This type of corporation is viewed for U.S. tax purposes as a partnership and the key characteristics are as follows.

The partners' liability is limited to their partnership interest in the company and the directors are fully liable for the loyal and diligent administration of the corporation.

This type of company must have at least two partners with a maximum of 50 partners, and no minimum capital is required at the time of incorporation.

There is no requirement to appoint a statutory examiner; it's optional.

The shares representing the partnership interest in the corporation must not be freely transferable and cannot be traded publicly.

**c) Sociedad Anónima Promotora de Inversión (S.A.P.I.):** This is a form of a corporation currently gaining more popularity. It is very similar to a S.A., but with more robust minority share rights and certain tax advantages. This form should ideally be used if, in the future, the company wishes to enroll itself in the Mexican Stock Exchange (Registro Nacional de Valores – NSR). SAPIs then have the option to convert into SAPIBs (B standing for “Bursátil”) to be publically traded. A SAPI is perceived to have very flexible laws, strong transparency and corporate governance standards close to a publically traded company.

**d) Asociación en Participación (AP) or a Joint-Venture:** Although not a separate legal entity, the association in participation (AP) is another common form of doing business in Mexico. Generally, an AP is an agreement in which one or more partners (“asociados”) give goods or services to a managing partner (“asociante”) in exchange for the right to participate in the profits of a commercial operation, which is controlled by such a managing partner.

Generally, a joint venture agreement is an association of persons (individuals or legal entities) for a limited period of time in which such the participants jointly undertake a specific business enterprise.

Although a joint venture agreement is sometimes mistakenly categorized only as an AP, it can take any form in which the parties agree to develop their business and agree to provide their respective services and contributions of capital or resources in accordance with the bylaws of a new independent company, or both.

The exact type of business venture to be undertaken determines the liability and tax treatment of the agreement.

**e) Mexican branch:** Another possibility for a foreign company is to operate through branch offices in Mexico. As foreign companies are legally recognized in Mexico, they retain their liability characteristics from abroad. However, to carry out business operations, such branches must be approved by the National Commission of Foreign Investments and the Ministry of Foreign Relations, and must be registered at the Public Registry of Commerce.

For tax purposes, the foreign company will receive the same treatment as a permanent establishment (discussed below in Tax System) in Mexico and will pay taxes on the income generated from their branch offices.

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***NOTE:** Foreign companies should be careful to avoid the possibility of having income generated by the foreign company outside of Mexico to become attributable to the operations in Mexico. This possibility is due to the “force of attraction” rules contained in Mexico’s tax legislation, which will sometimes require a taxpayer to include this in his/her taxable income that is generated abroad.*

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## Incorporation Process<sup>40</sup>

### Choice of the entity

A potential investor, domestic or foreign, has a free choice to operate through almost any form of entity. A stock corporation (S.A., S.A.P.I or S.A. de C.V.) is the most commonly used entity for a subsidiary of a foreign corporation, or a limited liability company (Sociedad de Responsabilidad Limitada) is used, especially if the objective is that the Mexican entity be treated as a foreign partnership for tax purposes in the investor's home country, where applicable. A foreign corporation may also conduct most business activities through a registered branch or permanent establishment in Mexico, such as a representative office, with or without income.

### Government approval

All Mexican entities, prior authorization, are required to use a specific corporate name approved by the Ministry of Economy (SE) to form any business in Mexico. No approval is needed to amend its charter or bylaws unless the amendment involves either a change in the corporate name or the substitution of a provision allowing foreign participation for one prohibiting foreign participation.

Certain activities may require prior authorization from the Foreign Investment Commission if the entity will be wholly, partially or neutrally owned abroad. Consult later sections of this guide for details on restrictions on foreign investments.

### Formation requirements

The minimum share capital for a regular corporation established as an S.A. or S.A. de C.V. is that determined by the charter or bylaws of incorporation. There is no minimum, but it is customary that such share capital be in the amount of at least 50,000 pesos, and every corporation must have at least two shareholders. After all necessary governmental authorizations have been secured; the charter and bylaws must be formalized pursuant to a public instrument executed before a public attester (notary public or public broker). The corporation must then be registered in the Public Registry of Commerce (Registro Público de la Propiedad y del Comercio) and with all tax and regulatory authorities, as the case may be.

### Professional advice

Legal and tax advisers should be retained early in the planning stages to secure the necessary government approval and design the most flexible and desirable corporate structure suited for the particular global group, as well as to ensure a smooth setup and regulatory compliance.

### Forms of business enterprise

The main different forms of organization of business entities in Mexico are regulated by the General Law of Mercantile Companies (Ley General de Sociedades Mercantiles), Securities Exchange Law (Ley del Mercado de Valores) and the Commercial Code (Código de Comercio) or the Civil Code (Código Civil).

Consider this check-list for the process:

✓	No.	Descripción
	1	Market Entry Strategy
	2	Choice of Entity and Incorporation with Constitution
	3	Getting RFC (Registro Federal de Contribuyentes) – Tax ID
	4	Getting CIEC (Clave de Identificación Electrónica Confidencial) and FIEL (Firma Electrónica Avanzada) (They are user ID and Password for SAT)
	5	Registering in RIE (Registro de Inversión Extranjera)
	6	Registering foreign personnel with Instituto Nacional de Migración
	7	Registration in Registro de Importador General & Registro de Importador Especifico if you are planning to import products.
	8	Bookkeeping and compliance from Day 1.

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# ***Labor Market***

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## Labor Market<sup>41</sup>

*Mexico is perceived by businesses as an attractive investment destination for its labor. This is because the minimum wage in Mexico is 88.36 Mexican pesos a day, and, in 2015, the 49 percent of the total population was between 20 and 54 years of age.<sup>42</sup> More importantly, for the consideration of future years, 18.4 percent of the population in 2015 was between 10 and 19 years of age.<sup>43</sup>*

The following are important considerations for an investor in terms of labor:

### Employee treatment

Mexico is considerably advanced in the field of labor, with very strict provisions to protect workers. The Mexican Federal Law on Labor Law (Ley Federal del Trabajo) is clearly designed to favor the employee.

### Labor availability

Mexican labor is the cheapest in the North American market. The most widely available is the unskilled and semiskilled workforce. Nevertheless, in large urban areas and cities, skilled and specialized workers are available.

### Labor unions

Mexican law provides for 20 or more workers to form a union to negotiate collective labor agreements. The most influential trade unions usually belong to the oil, mining, education, entertainment, textile, catering, telecommunications, rubber, automotive and publishing sectors. The Mexican Ministry of Labor and Social Security (STPS) is responsible for mediating and settling disputes between employers and trade unions, with the power to sanction both parties in the event of violations of labor law.

Trusted employees, such as managers, do not have the right to join the union, nor can they call for a strike. All employees with managerial positions who perform management, supervision and inspection and control activities are defined as such.

### Employee training

Every employer in Mexico is required to carry out training sessions for their employees. Although there is not a minimum required number of hours, each employee should be able to acquire the skills necessary to increase their productivity by improving the classification in the company organization chart. The training courses can be carried out by the company itself or externally, and are tax-deductible.

Many companies in the automotive sector have partnered with local universities and have set up specialized training programs in order to recruit skilled labor.

### Profit Sharing (PTU)

PTU is explained in detail in the tax system below, but here is some introductory information. As of 1963 in Mexico, it is expected that 10 percent of corporate taxable profits will be distributed among all its employees, with the exception of the general manager.

The PTU does not confer rights of interference in the administration to the employees.

The following legal entities are exempt from the distribution of PTUs:

- Companies in their first year of operations,
- Manufacturing companies for the first two years,
- Companies in the mining industry during the exploration period,
- Public or private institutions recognized by law.
- Companies whose capital or gross income is lower than the provisions of the law.

### Minimum wage and salaries<sup>44</sup>

In Mexico, the minimum daily wage is set by the Minimum Wage Committee. From Dec. 1, 2017, the minimum daily salary is 88.36 Mexican pesos.

Some professional categories, such as technical and specialized operators, enjoy a minimum wage higher than the law. The salary can be weekly, biweekly or monthly. The last two cases are in force for less-qualified professions.

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41 PwC Doing Business in Mexico 2016

42 INEGI: <http://www.beta.inegi.org.mx/temas/estructura/>

43 INEGI: <http://www.beta.inegi.org.mx/temas/estructura/>

44 CONASAMI (Comisión Nacional de los Salarios Mínimos):

## Working hours and overtime

The work week includes a maximum of six eight-hour shifts, but it is common practice to apply a 40-hour weekly schedule, especially in office activities. Night shifts are limited to a maximum of 7.5 hours.

The first nine hours of weekly overtime provide for double pay, then triple. Finally, extra Sunday hours provide for a 25 percent premium on the hourly rate, despite the fact that the worker still enjoys a one-day midweekly rest.

## Bonus and holidays

Mexican law requires a minimum of six working days of annual leave after the first working year, with an addition of two days for each of the following three years. After which, every two years two days of vacation will be added. Holidays are paid with an additional 25 percent salary (prima vacacional) prize for each day enjoyed. Every employee has the right to enjoy a Christmas bonus (aguinaldo) equal to 15 days of paid salary (to be received no later than Dec. 20). Other common benefits in Mexico, but not compulsory, are the meal vouchers (vales de despensa), medical insurance, productivity bonuses and an annual savings fund (fondo de ahorro).

## Termination of Employment

There are many rules and regulations attached to the termination of employment, and while keeping in mind that the labor laws favor employee, the following things should be kept in mind.

An employer in Mexico may dismiss an employee without liability only if there is due cause for the dismissal. The Federal Labor Law enumerates specific kinds of conduct that are cause for dismissal:

- (i) Use of false documentation to secure employment,
- (ii) Dishonest or violent behavior on the job,
- (iii) Dishonest or violent behavior against coworkers that disrupts work discipline,
- (iv) Threatening, insulting or abusing, out of his/her service, of the employer or his or her family, unless provoked or acting in self-defense,

- (v) Intentionally damaging the employer's property,
- (vi) Negligently causing serious damage to the employer's property,
- (vii) Carelessly threatening work-place safety,
- (viii) Immoral behavior in the workplace,
- (ix) Disclosure of trade secrets or confidential information,
- (x) More than three unjustified absences in a 30-day period,
- (xi) Disobeying the employer without justification,
- (xii) Failure to follow safety procedures,
- (xiii) Reporting to work under the influence of alcohol or nonprescription drugs,
- (xiv) A prison sentence.

An employee may appeal his or her discharge within two months of the dismissal to the Conciliation and Arbitration Board, which is responsible for resolving labor disputes. The employer has the burden of proof showing that the employee engaged in conduct described above. If the employer fails to meet this burden, the employee can request either:

- (i) Reinstatement to his or her position,
- (ii) A statutory indemnification equivalent to three months full salary, including premiums, bonuses, commissions and any fringe benefits.

## Pensions

Old age, in Mexico, is not considered a strong ground for termination of employment, and the majority of companies follow the same policy. Most companies, once the employee has reached the age of retirement, practice paying full severance benefits. Pensions are payable from a minimum age of 65 years, provided that social security contributions have been paid for a period equal to or greater than 1,250 weeks (approximately 24 years).

Social security savings in Mexico are managed by two institutions: the pension fund administrator (AFORE) and the investment company specializing in social security funds (SIEFORE), dedicated to managing the contributions of the participants in the program and to preparing them for retirement.

AFORE deals with the opening of the pension account and the management of the resources deposited in the individual worker account. The total amount deposited monthly is obtained from the contributions made by the employer, employees and the government, for a total of 6.5 percent of the basic salary of the individual.

The SIEFORE is an integral part of the AFORE and is responsible for investing the savings of the people concerned according to the age group they belong to.

## Social Security Contributions (IMMS and INFONAVIT)

With the establishment of the Mexican Social Security Institute (IMSS, by its Spanish abbreviation) in 1942, the social security system came into effect in all industrial areas and agricultural zones throughout the country. In these areas, the employer's statutory obligations in connection with occupational risks are covered by payments of social security premiums.

The Institute provides for employees' and their dependents' medical attention, including medical expenses, and limited unemployment compensation in cases of illness and maternity, occupational disease and accidents, in addition to disability and old-age pensions. A separate social security system operates for employees of the government and its agencies.

## National Workers' Housing Fund Institute (INFONAVIT)

The INFONAVIT was established as an independent social service organization with legal management and control of its own assets. Control of the institute is vested in a general assembly of 45 members, 15 named by the executive branch of the federal government, 15 by national labor organizations and 15 by national employers' organizations.

In addition to having full authority over the policies and operations of INFONAVIT, the general assembly also elects the board of directors, consisting of five members, each representing government, labor, employers and the general director, who is named by the president of Mexico.



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## *Exporting to Mexico*



### Inland transport

The Mexican railroad system serves the following ports of entry: Nuevo Laredo, Matamoros, Piedras Negras, Ojinaga, Ciudad Juárez, Nogales, Mexicali and Tijuana, along the northern border; Matamoros, Tampico-Altamira, Veracruz and Poza Rica on the Gulf coast; and Mazatlán, Topolobampo and Salina Cruz on the Pacific coast.

All major cities/destinations are served by privately owned trucking companies. Exporters should consult with their importer/customer ahead of time to determine the optimal logistics applicable, depending on type of goods, volume and final destination.

### VUCEM

*VUCEM (Ventanilla Unica de Comercio Exterior Mexicano) is a tool that allows companies to send electronic information only once to a single entity to comply with requirements of foreign trade. Practically, it is used to facilitate and simplify information flows between business and government to reduce time for all the participants involved in trade.*

As of 2012, VUCEM is used for all customs operations and such operations are conducted electronically, reducing considerably the time required for customs clearance.

### PROSEC or SRPs - Sectoral Relief Programs

The Sectorial Relief Program (known as PROSEC) allows Mexican manufacturers to apply lower duty rates than the general on the import of raw materials and machinery required for manufacturing processes, regardless of their country of origin and regardless of if they are for the Mexican market or for export.

These programs were established by the government in order to encourage Mexican producers, and for them to establish competitive tariff conditions for Mexican manufacturers needing to import raw materials and fixed assets from non-NAFTA or other trade partner countries.

The Sectorial Promotion Program (PROSEC) is an instrument to companies producing certain goods, through which they are allowed to import with a preferential ad-valorem tariff (General Import Tax) various goods to be used in the elaboration of specific products, regardless of whether the goods to be produced are destined for export or the national market.

**More about PROSEC is given in the Section Investment Incentives.**

### NEEC/AEO - Authorized Economic Operator

In December 2011, the Official Gazette launched NEEC. NEEC is a voluntary program that plans to strengthen the security on the supply chain security of companies operating in Mexico and participating in the program, through the implementation of internationally recognized minimum standards. **It was latter renamed AEO.**

Minimum standards include safety checks for:

	Planning for security in the supply chain,
	Physical security,
	Access controls,
	Process safety,
	Customs management,
	Cargo vehicles, containers, trailers and semitrailers,
	Personnel security,
	Information security,
	Safety training,
	Management and incident investigation.

In collaboration with the private sector bodies, both administrations (the United States and Mexico) have granted some benefits for companies participating in the program, such as a reduced number of checks and inspections and less time for the clearance of goods at the border crossing point.

Mexican entities granted by an AEO Certification are allowed to regularize customs situation identified at any time, without having to pay fines, even during an audit initiated by authorities. They are also allowed to conduct customs clearance through fast track rail, among other benefits.

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# *Intellectual Property*

## Intellectual Property

### Trademarks

Intellectual property is governed by the Industrial Property Act (Ley de Propiedad Industrial), issued in June 1991, and modified specifically for NAFTA standards. This law regulates all aspects of patents, trademarks, industrial designs, licenses, slogans and franchises.

Moreover, according to the aforementioned law, it is not necessary that the contracts for the use of patents, trademarks, trade names or contracts for the provision of technical assistance or knowhow be registered and approved in advance.

However, to protect patents, trademarks and brand names, and to guarantee their legal force and applicability to third parties, license agreements must be registered with the competent Mexican Authority, the Mexican Institute of Industrial Property (Instituto Mexicano de la Propiedad Industrial).

The validity of a trademark is for 10 years and is renewable.



### Patents

Generally, patents are valid for 20 years from the date of issue.

Holders of Mexican patents must use them within three years from the date of issue, with the sole exception of non-use if the patent holder has imported the patented product, or the latter is the result of a patenting procedure.

Otherwise, unless there is a technical or financial cause that can be ascertained, the Mexican Institute of Industrial Property will issue a compulsory, nonexclusive license at the request of the patent holder.

In this case, the amount of royalties to be settled and the other conditions will be specified by the competent authority. The license will expire if the patent holder has not used it within two years from the date of issue.

### Brand names

Under Mexican law, trademarks may be registered and used for a period of 10 years, possibly renewable.

Proof of effective use of the trademark over a period of three years must be submitted to the Mexican Institute of Industrial Property. Otherwise, registration will be deemed to have expired.

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# *Financial System in Mexico*

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## Financial System in Mexico <sup>45</sup>

The banking system in Mexico is mostly privately owned and allows for complete foreign direct investment. The Banking Savings Protection Law (Ley de Protección al Ahorro Bancario) was introduced in 1998 and revised multiple times, to protect depositors in the case of a bad bank debt problem.

The following are the agencies under the Ministry of Finance (Secretaría de Hacienda y Crédito Público, SHCP) that regulate various sections of Mexico's financial management:

- The National Banking and Securities Commission (Comisión Nacional Bancaria y de Valores, CNBV); a decentralized body of the Ministry of Finance and Public Credit, with powers to supervise and regulate the entities of the Mexican financial system so that they function properly.
- The National Commission for Retirement Savings Systems (Comisión Nacional de los Sistemas de Ahorro para el Retiro, CONSAR); a decentralized administrative body of the Ministry of Finance and Public Credit whose fundamental task is to regulate the Retirement Savings System (SAR), which is constituted of individual accounts that are the property of the workers.
- The National Insurance and Bonding Commission (Comisión Nacional de Seguros y Finanzas, CNSF); a decentralized body of the Ministry of Finance and Public Credit, in charge of supervising that the operation of the insurance and surety sectors adheres to the regulatory framework, preserving the solvency and financial stability of insurance institutions and guarantees, to guarantee the interests of the user public, as well as to promote the healthy development of these sectors with the purpose of extending the coverage of their services to as much of the population as possible.
- The National Commission for the Protection and Defense of Users of the Financial System (Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros, CONDUSEF); a government agency of the Mexican government that works as an advocate for users of any type of financial services in Mexico.
- The Institute for the Protection of Savings (Instituto para la Protección al Ahorro Bancario, IPAB); a decentralized body of the Federal Public Administration, with legal personality and its own assets, whose functions are regulated by the Banking Savings Protection Law (LPAB) and the Law of Credit Institutions (LIC).

Banking in Mexico is regulated by the Central Bank (Banco de Mexico), which sets monetary policies autonomously. The banking market is divided into three major categories:

- Development banks,
- Commercial banks,
- Niche banks.





## Development Banks

According to the National Development Plan (Plan Nacional de Desarrollo), the government established various development banks to develop specific industries.

There are seven development banks:

Banks	Objectives
<i>Nacional Financiera</i>	It focuses on the development of small- and medium-size businesses through financing, training and technical assistance.
<i>Banco Nacional del Ejército</i>	Its main activity is to provide banking services to the military population and to support the federal government as a depository bank.
<i>Sociedad Hipotecaria Federal</i>	It promotes the construction of houses for low-income sectors and provides mortgages.
<i>Bancomext</i>	It encourages Mexican companies, namely small- and medium-sized firms, to trade in global markets by providing financing, training and technical assistance to drive foreign trade, promote regional growth and create jobs.
<i>Banco Nacional de Obras y Servicios Públicos</i>	Its function is to finance or refinance public or private projects focused on public services.
<i>Banco de Ahorro Nacional y Servicios Financieros</i>	It focuses on providing financial opportunities to all the population, especially to low-income sectors.
<i>Financiera Rural</i>	It focuses on providing financial resources, technical assistance, training and consulting to the rural sector.

## Commercial Banks

The majority of checking and savings deposits are part of commercial banks, and they provide the highest amount the short-term credit.

The largest banks include Banamex – owned by the U.S. bank Citigroup. Spain's BBVA owns Bancomer known in Mexico as BBVA Bancomer. All of these, along with Santander (Spanish), Banorte, HSBC (United Kingdom) and Scotiabank (Canadian) operate throughout the country, offering a full range of banking services.

Individuals and companies which reside in border zones are authorized to maintain checking accounts denominated in U.S. currency.



## Boutique Banks

In February 2008, the Mexican Congress enacted several reforms to the banking law to allow the creation of “boutique banks” within the banking system.

These banks are allowed to develop their own niche without setting up all the necessary services deemed under the banking law.

## Loans and General Requirements

The availability of local capital for investments in new businesses or for expanding businesses has increased significantly in recent years, mainly thanks to the rapid expansion of mutual funds (private equity) that have opened the market to small investors, creating a new interest for investments.

The interest rates of short-term credit in weight vary between 8 percent and 30 percent per annum, depending on credit history and the guarantees offered by the company.

Although there are no restrictions on access to credit for foreign investors, due to the high financing costs, the latter rarely make use of local financing, but opt for the opening of credit lines through the parent company in the country of origin.

A new legal entity known as the Multi-Purpose Financial Companies (SOFOM) was created with the aim of providing finances through loans, leases and factoring. SOFOM funds come from financial institutions or through the issue of bonds. They do not require the prior authorization of the Ministry of Finance. Regulated SOFOM entities provide for patrimonial connections with a credit institution, while nonregulated SOFOMs do not provide for them.

To obtain financing, as in any other country, there are certain minimum requirements and types of guarantees.

### **Minimum requirements for obtaining financing**

1. Minimum two years of activity,
2. Good performance in the last years of activity,
3. Growth,
4. Gains,
5. Controlled debt (three times EBITDA),
6. Certified financial statements,
7. Five-year financial projections,
8. Resource planning,
9. Minimum revenue (6.6 million USD),
10. Good credit history,
11. Solid guarantees or guarantees.

### **Types of guarantees:**

1. 1st mortgage,
2. Contracts with government entities (CFE or Pemex),
3. Transfer of credit,
4. Productive asset,
5. Guarantees and joint guarantees.

When considering a line of credit, the following documents are necessary prior documents to the request and then to obtain the credit:

### **Prior documentation for the request for credit:**

1. Credit application form,
2. Request for a credit report from the Credit Office,
3. Certified financial statements for the last three years (if not available, annual tax returns for the last three years),
4. Internal budget and recent financial reports.

### **Documentation for obtaining credit:**

1. Constitutive act and powers of attorney,
2. Official identity document of the public prosecutor,
3. Proof of recent residence,
4. RFC Document (Fiscal Code/ VAT Number),
5. General information on the company,
6. Information on the use of resources and guarantees



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# ***Tax System in Mexico***

## Tax System in Mexico<sup>46</sup>

While dealing with the tax system in Mexico, we have divided the section into two parts. The first section deals corporations, laying down in chronological order the events they will encounter with tax obligations. Similarly, the second part is for individuals. Along with the information, we have outlined certain cultural nuances to help you navigate your journey in Mexico.

Taxes in Mexico are established through legislature at all the levels – federal, state and local – by respective governments. The federal income tax (CIT), value-added tax (VAT) and custom laws are administered by the Revenue Administration Service (Servicio de Administración Tributaria, SAT), a department of the Ministry of Finance responsible for the collection of federal taxes.

The principal taxes in Mexico are as follows:

### 1. Federal:

- A. Income Tax (CIT),
- B. Value-added Tax (VAT),
- C. Custom Duties (IEPS),
- D. Social security (*including Housing Fund*).

### 2. Local Taxes:

- A. On real estate property,
- B. On salaries.



### Important Definitions

#### • Resident Corporations or Permanent Establishments

Foreign investors can invest in Mexico through the corporate forms provided in the Corporate and Commercial Laws or by establishing a branch (that is, a permanent establishment) in Mexico. Both, the legal entities that may be used to incorporate a subsidiary in Mexico and the permanent establishments will generally be taxed in the same manner and under the same rules applicable to corporations.

These include most privately owned business enterprises and professional service providers. Also both corporations and permanent establishments are required to include all their income from all sources, with very few exceptions, in an annual return. In principle, to avoid or reduce a double taxation, a foreign tax credit may apply subject to limitations and restrictions.

### • Resident Individuals

According to the Federal Tax Code, a person is a resident for Mexican tax purposes when that person establishes a home in Mexico (for example, a real estate purchase).

Apart from establishing a home, the individual is a resident of the country where the individual's center of vital interests is located.

The following are considered as the vital interests of the individual to qualify as a resident individual:

- (i) more than 50 percent of the person's income comes from Mexican sources in a calendar year.
- (ii) Mexico is the primary place of the person's professional activities.

Foreign individuals who become resident individuals for Mexican tax purposes are subject to taxation. It is important to note here that this taxation is on their worldwide income of all types and not just on their Mexican income, thus all worldwide income should be included in the annual personal income tax return. Similarly to the case of entities, a foreign tax credit may apply subject to limitations and restrictions.

### • Nonresident corporations and individuals

Foreigners working in Mexico on short-term visits can be considered as nonresidents of Mexico for tax purposes. Other nonimmigrants entering the country for longer periods of time would remain as nonresidents unless they establish a home in Mexico or the vital center of interest is located in Mexico.

Nonresident individuals are not subject to Mexican taxation when paid from abroad by a nonresident employer that does not have a permanent establishment in Mexico, as long as they are present in Mexico for less than 183 days in any 12-month period. If their stay exceeds 183 days, they will be required to pay Mexican tax on their monthly salaries from the beginning of their stay.

Such individuals or corporations are only taxed on their Mexican income, as opposed to resident individuals or subsidiaries, which are taxed on their worldwide income.

The following are some examples of activities that can lead to a permanent establishment in Mexico:

Deemed as Permanent Establishment	Not Deemed as Permanent Establishment
Business activities or services such as agencies, offices, mining exploration sites or any other exploration or extraction of natural resources.	Sites used for display, storage or purchasing facilities; inventories imported in-bond to be processed by a third party; short-term construction services; offices to carry out auxiliary or preliminary activities and information gathering or scientific research.
If you are insuring risk or collecting premiums in Mexico.	If you are engaged with a maquiladora.
Conducting any oil and gas activities for more than 30 days.	

### What is a maquiladora/in-bond processing unites, and IMMEX?

Maquila operations, in a general and typical way, are generally defined as those with the following characteristics:

- Raw materials are supplied by a foreign resident (with which a Maquila contract is in place) and are temporarily imported to be processed, transformed or repaired and are subsequently exported, including, for these purposes, virtual import-export operations.
- The Maquila is also permitted to import goods in accordance with the permanent importation regime. Additionally, local purchases are allowed, as long as such goods are consumed in production and/or exported with the temporarily imported inventory.
- The processing, transformation or repair of goods must be performed with temporarily-imported machinery and equipment (M&E) that is the property of the foreign principal. In this regard, the foreign principal must own at least 30 percent of such M&E. It is important to mention that this M&E may not have been previously owned by the maquila or by any other Mexican-related party.

### Tax for Maquiladora

The corporate income tax rate on Maquila profits is 30 percent.

In terms of transfer pricing, only the safe harbor and advance pricing agreement (APA) alternatives are applicable to maquilas.

The following benefits are also granted to maquiladora industries:

- An additional deduction for 47 percent of tax-exempt benefits paid to employees involved in the relevant maquila operation,
- Temporary imports under the IMMEX program (it is an instrument through which a company is allowed to import temporarily the necessary goods to be used in an industrial or service process destined to the elaboration, transformation or repair of merchandise of foreign origin temporarily imported for export or to provide export services, without covering the payment of the general import tax, the value added tax and, where applicable, the antidumping duties). Similar programs are subject to the general 16 percent 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 VAT law also taxes sales in Mexico of temporarily imported goods by nonresidents to (i) other nonresidents, (ii) maquiladoras or (iii) companies in the automotive industry.



## Corporate Tax System<sup>47</sup>

### Federal Corporate Income Tax (CIT)

CIT applies to Mexican resident taxpayers' income from worldwide sources, as well as to foreign residents on the income attributed to their PEs located in Mexico.

The federal CIT rate is 30 percent.

All corporate entities, including associations of a civil nature, branches, etc., are subject to the tax rules applicable to Mexican corporations (unless specifically ruled out, such as revenue for associations of a civil nature or not-for-profit organizations).

Once a corporation has paid its CIT, after-tax earnings (i.e. earnings arising from the after-tax earnings account, Cuenta de Utilidad Fiscal Neta (CUFIN) earnings may be distributed to shareholders with no additional tax charge at the corporate level.

A withholding tax (WHT) on dividend payments to individuals or foreign residents (including foreign corporations) applies at the rate of 10 percent. This WHT does not apply to distributions of profits generated prior to 2014.

#### Local income tax

There are no state taxes on corporate net income.

### Value-added tax (VAT)

VAT is not an expense except to the final consumer and is payable at the general rate of 16 percent on sales of goods and services, as well as on lease payments and imports of goods and services. The sale of medicines, as well as the sale of most food products, is zero-rated.

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.

The 0 percent 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, agricultural goods and services, sales and rentals of farm M&E and other specified transactions.

An information return related to the VAT payable activities carried out by the taxpayer must be filed on a 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 that the contractor obtains from the subcontractor certain defined documents.

#### Pre-operating expenses

It is important to take into account pre-operating expenses and their corresponding VAT implications, since anyone investing Mexico will pass through this period.

The period prior to the start of taxable activities is considered as a pre-operating period. A VAT credit is granted in the pre-operating period based on an estimate of expected future activities subject to VAT.

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 tax authorities, along with surcharges and updates. This rule will not apply to taxpayers engaged in extraction activities, such as mining and oil.

### PwC Insights: Nuances Regarding VAT

While you are in the first year of operations, your VAT is recoverable for all the expenses until you start earning income.

In that sense, the law dictates that companies can get the VAT recovered in 90 days. Major finance heads of the companies consider this recovered tax as part of income source for that time period to reinvest in company. Such financial projections, even though seemingly accurate by the books, in reality, do not fulfil.

The actual time, on average, that it takes to recover VAT is about seven to nine months, and should be considered as such in financial projections.



<sup>47</sup> PwC Worldwide Tax Summaries

### **Customs duties/import tariffs**

Mexico has signed multiple free trade agreements (FTAs), which provide for preferential duty rates on foreign trade operations with many countries.

FTAs signed by Mexico include the North American Free Trade Agreement (NAFTA) and agreements with the European Union (EU), the European Free Trade Association (EFTA), and Japan, among many other countries. Most FTAs provide 0 percent duty rates for almost 90 percent of the goods imported into Mexico.

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

In general, temporary imports are exempt from custom duties (except for fixed assets in certain transactions)

### **Excise tax (IEPS)**

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 (percentage variable), beer (26.5 percent), wine (26.5 percent to 53 percent), spirits (53 percent) and cigarettes and other tobacco products (160 percent, 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 percent). Excise tax is also applicable to certain telecommunications services (3 percent).

The excise tax law applies to soft drinks at 1 Mexican peso per liter. 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.

The 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, the IEPS is creditable when paid at the customs offices.

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

### **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.

### **Title transfer taxes**

The transfer of real estate is, almost without exception, subject to a variable transfer tax at rates averaging from 2 percent to 4 percent on the highest of the value of the transaction, fair market value or registered municipality value. The tax is levied by most states.

### **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 2 percent 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 Institute and/or Housing Ministry that may vary in proportion to 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 percent on the base salary of the employee is paid by the employer for the concept of retirement, and 5 percent on the employee base housing contribution salary for the concept of housing must be paid by the employer, among others.

### **Compulsory profit sharing (PTU, Participación de los Trabajadores en las Utilidades)**

Although not a tax, every business unit with employees (irrespective of the type of organization) 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 percent 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.

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, states may impose a similar tax.

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

### **Branch Income**

Mexican branches of foreign corporations (i.e., PEs) are generally subject to the same tax rules as Mexican corporations, with some exceptions.

In general terms, profit distributions to the head office either in cash or in kind from branches or other PEs are subject to the statutory CIT rate on the grossed-up distribution, unless the remittance is made from the CUFIN account balance (i.e., the after-tax earnings account).

Branches are also subject to the 10 percent WHT on profit distributions, which can be reduced or eliminated based on any applicable tax treaty provision.



## Income Determination

### Recognition of income

Income is generally recognized on an accrual basis. However, the service revenues of civil entities that render professional services (e.g., law and accounting firms) and low-income entities (as defined in the Mexican Income Tax Law) are reported on a cash basis.

### Inventory valuation

The costing system to be used will be the incurred cost system, based on historic costs or pre-determined costs. If the requirements provided in the regulations of the income tax law are met, the direct cost system (based on historical costs) may be used.

Inventory may be determined by any of the following methods:

- First in, first out (FIFO),
- Identifiable costs,
- Average cost,
- Retail.

The FIFO method must be applied to each type of merchandise and each movement. The monetary FIFO method may not be used. Taxpayers selling goods that are identifiable by serial numbers, at a cost exceeding 50,000 Mexican pesos, must determine their inventory by the identifiable cost method.

Once elected, a method is compulsory for five years and can be changed only if the requirements established in the regulations of the income tax law are fulfilled. The monetary results of the change in method are amortized over the following five years.

For accounting purposes, different methods and certain variations can be adopted. However, a record of the differences must be maintained, and such difference will not be taxable or deductible.



### Capital gains

Capital gains are taxed as follows:

#### Securities

Gains on securities are included in regular taxable income.

The tax basis of shares of Mexican corporations sold may be increased by the inflation adjustment applicable for the holding period.

When computing the tax basis of the shares, there are certain items to be considered, such as: (i) the movement in the after-tax earnings account (CUFIN) of the issuing company (including the possible negative CUFIN effects), as adjusted for inflation, (ii) the unamortized prior years' tax losses at the date of the sale, (iii) tax losses arising prior to the date on which the shares were acquired and amortized during the holding period, and (iv) any capital reductions of the issuing company.

When the sum of: (i) the CUFIN balance at the date of acquisition of the shares, (ii) the capital reductions paid, (iii) the unamortized prior years' tax losses at the date of the sale, and (iv) the negative CUFIN balance of the issuing corporation is higher than the sum of: (i) the CUFIN balance at the date of the sale and (ii) the tax losses arising prior to the date on which the shares were acquired, and amortized during the shares' holding period, the difference must be subtracted from the tax basis of the shares to be disposed of (potentially resulting in the shares' tax basis being equal to zero).

When the aforementioned difference exceeds the tax basis of the shares disposed of, this excess (restated by inflation) must be subtracted from the tax basis of the shares in any subsequent share sale by the same taxpayer, even if the shares are issued by a different company. The aforementioned procedure allows the average cost (tax basis) of the shares to be determined, which is then updated and considered as the acquisition cost for future sales. A different but simpler procedure is available (optionally) for computing the tax basis of shares held during a period of 12 months or less.

Deduction of losses arising from the sale of shares is limited to the value of gains from similar transactions in the same or the following 10 fiscal years. Losses may not be deducted by nonresidents selling shares.

A gain from the sale of shares is considered Mexican-source income when the transferred shares are issued by a Mexican resident or when more than 50 percent of their book value arises directly or indirectly from immovable property located in Mexico, including cases where the shareholding is structured in different levels.

In general terms, the sale by nonresidents of shares issued by a Mexican company is subject to a 25 percent WHT applicable to the gross amount of the transaction (i.e. without deductions). However, there may be the option for gains realized by nonresidents on the sale of shares issued by a Mexican company to be taxed by applying the 35 percent rate to the net gain. The tax rate for these purposes is generally the same as the top bracket rate for individuals (currently 35 percent), unless a lower tax treaty rate is applicable.

This net income election is available only if the foreign shareholder income is not deemed to be subject to a regime considered as a 'preferred tax regime jurisdiction' (i.e. tax haven, which is deemed to exist when the non-Mexican resident income is not subject to taxation or taxed at a rate lower than 75 percent of the tax that would be paid in Mexico) or resides in a country with a territorial tax system. The nonresident seller must have previously appointed a representative in Mexico and have a public accountant assigned to issue a statutory tax audit report on the transfer of shares. The public accountant issuing the respective report must specify the accounting value of the shares sold and explain the factors used in determining the sales price and the market value of the shares if shares are sold between related parties. The representative is jointly liable for the tax on the sale of shares, even when the statutory report is issued by a public accountant.

The tax authorities may authorize the deferral of taxes that would otherwise be triggered by the transfer of shares in a group reorganization to the extent it is a share-for-share type of deal (the authorization must be obtained prior to the share transfer). The price used on the transaction must be at arm's length. The tax deferred, adjusted for

inflation, is due upon the sale of the originally transferred shares outside the same interest group. An interest group consists of shareholders that have over 50 percent common voting stock of the companies.

In principle, authorizations for tax deferral are not granted if the party acquiring or selling the shares is a resident in a tax haven or is a resident of a country that has not signed a comprehensive exchange of information agreement with Mexico. However, in the latter case, an authorization may still be granted if the taxpayer provides documentation to the Mexican tax authorities stating that the taxpayer has authorized the foreign tax authorities to provide information to the Mexican authorities regarding the operation in question.

If the share sale qualifies as an exempt reorganization under tax treaty rules, the nonresident must appoint a legal representative in Mexico prior to the sale and file a notice with the Mexican Tax Administration informing it of such appointment and the details of the reorganization process intended to be carried out. Additionally, certain formal requirements are established in the regulations of the Mexican income tax law that must be satisfied when carrying out this type of transaction.

Tax treaty rules (optionally) override domestic law rules when the seller resides in a tax treaty country.

#### **Shares sold through the stock market**

Capital gains realized on (i) the sale of shares issued by Mexican companies, (ii) securities exclusively representing such shares, (iii) shares issued by foreign companies quoted in the Mexican stock market, and (iv) derivative financial operations referenced to stock indexes and/or to the aforementioned shares, when the sale is conducted in stock markets or in derivative markets recognized under the Securities Market Law, are subject to a 10 percent income tax rate.

The applicable income tax on the gain obtained must be withheld by the broker/ intermediary. However, there is no obligation to make this withholding if the investor is a resident in a country with which Mexico has signed a tax treaty to avoid double taxation and

provides the broker with a sworn statement explaining said situation and providing their registration number or tax ID issued by the proper authorities in their country. If this is not provided, the income tax must be withheld.

When a non-Mexican resident sells shares that do not satisfy the above requirements to be taxed at a 10 percent income tax rate, they must pay their tax by applying either 25 percent of the sale price or 35 percent of the net gain, complying with the requirements established for these purposes in the domestic law.

#### **Real estate**

In determining the taxable gain of real estate, the cost basis of land and buildings may be adjusted (i.e. increased) for tax purposes on the basis of the period of time for which the assets have been held. This adjustment is performed by applying inflation adjustment factors to the net undepreciated balance. Similar rules apply to nonresidents electing to pay tax on net income by appointing a legal representative in Mexico. The rate of tax on the net gain, in the case of nonresidents is 35 percent (or lower treaty rate). Otherwise, the 25 percent final WHT on gross income applies to nonresidents.

#### **Machinery and equipment (M&E)**

Gains or losses from the disposal of machinery, equipment and other fixed assets are also calculated after adjusting the basis in these assets, by applying inflation factors to the net undepreciated balance.

#### **Dividend income**

Dividends received by Mexican corporations from other Mexican corporations need not be included in gross income. Dividend income must be included within the recipient corporation's CUFIN.

No further corporate-level taxes apply on dividends distributed out of the CUFIN. However, non-CUFIN distributions (i.e. distributions that, for any reason, have not been subject to CIT) are subject to tax at the level of the distributing company at the general income tax rate on the grossed-up distribution at the effective rate of 42.86 percent.



This tax is creditable in the year of payment or two subsequent years, subject to certain limitations.

#### **Interest income**

Interest received by Mexican corporations is generally subject to tax on an accrual basis and included in gross income (see also Inflationary gain or loss above).

#### **Royalty income**

Royalties received by Mexican taxpayers are taxable income at the general corporate rate (i.e., 30 percent). Such revenue shall be accrued for tax purposes at the earliest of the due dates for the royalty payment collection or the issuance of the corresponding invoice.

#### **Foreign income**

A Mexican corporation is taxed on foreign-source income when earned. Double taxation is reduced, or possibly eliminated, by means of foreign tax credits.

However, the undistributed profits of a foreign subsidiary are not subject to Mexican tax until dividends are paid, with the exception of companies base in what are called “tax haven.”

## **Deductions**

The applicable deduction requirements must be complied within no later than the last day of the tax year to which the deduction applies, although the invoice supporting the expense may be provided up to the date on which the tax return for the period in question is filed (or comes due). An expense invoice must contain a date within the year for which the deduction is claimed.

There are multiple rules while calculating deductions, but the following are the major points on which you can obtain deductions:

- |                                  |                                   |
|----------------------------------|-----------------------------------|
| • Depreciation and amortization, | • Fines and penalties,            |
| • Goodwill,                      | • Taxes,                          |
| • Start-up expenses,             | • Subcontracting,                 |
| • Interest expenses,             | • Net operating losses,           |
| • Bad debts,                     | • Payments to foreign affiliates. |
| • Charitable contributions,      |                                   |

#### **Depreciation and amortization**

Straight-line depreciation is permitted at the rates specified in the law (i.e., estimated lives for assets are 20 years for buildings, 3.3 years for computers, four years for cars [the deductibility threshold for cars has been raised from 130,000 Mexican pesos to 175,000 Mexican pesos, for electric cars the limit is 250,000 Mexican pesos, starting from 2017], 10 years for certain M&E, etc.), and the deduction may be increased by applying the percentage increases in the NCPI from the month in which the asset was originally acquired. When an asset is disposed of or becomes useless, the remaining undepreciated historical cost may also be deducted, after application of the appropriate inflation adjustment factor to the undepreciated historical cost.

As of 2016, companies, including those dedicated to transportation infrastructure and those that invest in hydrocarbon-related activities and the generation of electricity, which have obtained revenues in the prior tax year up to 100 million Mexican pesos can apply an accelerated depreciation (i.e. lump-sum deduction) for investments in new fixed assets that were acquired in the last quarter of the 2015 tax year, or in 2016 or 2017. The accelerated depreciation rate varies from around 60 percent to 90 percent, depending on the type of assets and the year of acquisition (i.e., 2016 or 2017).

Intangible assets for the exploitation of goods that are in the public domain, or for rendering public services under concession, are considered deferred assets.

#### **Goodwill**

Goodwill is a nondeductible item for Mexican tax purposes, and the corresponding input VAT (if any) will not be creditable.

#### **Start-up expenses**

Start-up expenses incurred prior to the commencement of operations may be amortized at the rate of 10 percent per year, after applying the adjustment factors.



### **Interest expenses**

In general terms, interest expenses are deductible items if, among other factors, the principal is invested in the main activity of the Mexican taxpayer, withholding obligations are complied with, informative returns disclosing information related to the loan and transactions carried out with related parties are filed, thin capitalization rules (3:1 debt-to-equity ratio) are satisfied, the transaction is at arm's length and the interest does not fall into the deemed dividend criteria (see the rules for the deductibility of interest payments at the end of this section).

### **Bad debts**

Bad debts may be deducted on the earlier of the dates on which the debt prescribes or the date on which the taxpayer substantiates the practical impossibility of collection, as defined by the law, among other detailed rules.

### **Charitable contributions**

The maximum amount for deductible donations is limited to 7 percent of the taxable income of the previous year.

### **Fines and penalties**

In general terms, fines and penalties are nondeductible items for income tax purposes, except interest for underpayment of taxes.

### **Taxes**

In general, all federal, state and local taxes levied on a company (not including those required to be withheld from other parties) represent deductible expenses for CIT purposes, with the following exceptions:

- CIT,
- Federal VAT and excise tax when the company is entitled to credit the tax,
- Taxes on acquisitions of fixed assets and real estate, which must be capitalized and deducted as part of the total cost of such assets to be depreciated.

### **Subcontracting**

Payments derived from labor subcontracting will be deductible when, among other requirements, the contractor obtains from the subcontractor (i) copies of the tax receipts for salary payments made

to the employees performing the outsourced services, (ii) a copy of the acknowledgement of receipt, and (iii) a copy of the tax return showing that the income tax withholding and contributions to the Mexican Social Security Institute were paid.

### **Net operating losses**

Subject to certain limitations, losses incurred in prior years by a business may be carried forward and deducted from income earned over a subsequent 10-year period. Net operating loss carrybacks are not allowed.

Losses carried forward may be increased by the percentage increase in the NCPI between the seventh and 12th months of the fiscal year in which they are incurred and thereafter up to the sixth month of the fiscal year in which they are applied.

In the case of entities engaged in activities related to the exploration and production of hydrocarbons in maritime waters at depths of 500 meters or more, net operating losses (following the same adjustment rules mentioned above) may be used to reduce their taxable income within the following 15 years.

Tax loss carryforwards are nontransferable, not even by virtue of a merger. However, the tax losses the surviving entity had prior to the merger may continue to be used to offset the income derived from the same business activities that originated them and, with certain restrictions, may also be used to offset income that derives from new business activities. In the case of a spinoff, tax loss carryforwards should be divided between the surviving entity and the spunoff entities in accordance with their main business activity, prior to the spinoff, as follows:

- Commercial main business activity: In proportion to inventory and accounts receivable.
- Other noncommercial entrepreneurial activities: In proportion to fixed assets.

Current tax legislation may limit the offsetting of tax loss carryforwards upon direct or indirect changes in ownership that imply a change in control of the Mexican entity in certain situations (i.e., whenever the revenue of the last three years is less than the tax loss carryforwards updated for inflation

balance of the year prior to the change in control, among other situations). The limitation, if applicable, would restrict the netting of tax loss carryforwards available prior to the change in control against the income derived from the same business activities that originated them.

### **Payments to foreign affiliates**

Taxable income and authorized deductions must be determined on the basis of prices that would be agreed with independent parties in comparable transactions (arm's length values).

For this purpose, taxpayers must secure and maintain contemporaneous documentation supporting transactions with related parties residing abroad, supporting that income and deductions are based on fair market values in accordance with Mexican transfer pricing principles. The documentation must be prepared per type of transaction and must include all operations carried out with related parties.

Domestic transactions with affiliates must also be supported by the application of a recognized transfer pricing method selected in accordance with the Mexican tax legislation in connection with the particularities of the transactions.

Payments made to entities whose income is deemed to be subject to a PTR are considered nondeductible unless it is possible to support that the price of the transaction is substantially the same to the one that would have been used among nonrelated parties in comparable transactions. Unless otherwise supported, it is assumed that operations with companies, entities or trusts whose income is subject to a PTR are carried out between or among related parties and that the transactions are not at arm's length.

The sale price of shares (other than publicly traded shares) sold to a related party must be set at market value in accordance with Mexican transfer pricing provisions, and the transaction must be supported by the corresponding contemporaneous transfer pricing documentation.

Payments to nonresidents of a prorated portion of expenses (i.e., allocations of expenses) are, in principle, not deductible for Mexican corporations. However, per current administrative tax rules, they may be deductible if a comprehensive set of requirements is complied with.

Payments made by Mexican residents to domestic or foreign related parties, which are in the hands of such related parties also deductible, are not deductible for the Mexican resident unless the corresponding income is included in the related party taxable income in the same or in a subsequent tax year.

#### **Technical assistance, royalties and interest payments**

In order to be deductible, payments related to technical assistance, the transfer of technology or royalties must be made directly to companies with the required technical capabilities to provide the corresponding service and should correspond to services actually received. In some situations, the payments may be made to a third party to the extent the relevant agreement expressly includes it.

A deduction for technical assistance, interest or royalty payments (including those treated as royalties related to industrial M&E leases) is disallowed when paid to a foreign related party entity that controls or is controlled by the Mexican taxpayer and at least one of the following scenarios is applicable:

- The recipient of the income item is a fiscally transparent entity in its residency jurisdiction, unless its shareholders or members are subject to tax for income received by such transparent entity and the payment made by the Mexican resident to the foreign entity is at arm's length,
- The recipient entity considers the payment to be disregarded for tax purposes in its residency jurisdiction,
- The recipient does not include the payment as part of its taxable income in its residency jurisdiction.

#### **Group Taxation**

In general terms, the current consolidation regime allows companies to offset losses against profits of other companies in the same group during a three-year deferral period.

The previous tax consolidation regime was repealed starting in 2014, and a new simplified tax consolidation (deferral) regime was introduced.

The main requirements for applying the current tax consolidation (deferral) regime are as follows:

- That the Mexican tax resident holding entity holds, directly or indirectly (through other Mexican entities), 80 percent or more of the shares of the entities that would form part of the consolidation regime,
- That the Mexican holding entity is not held in more than 80 percent of other entities, unless such other entities are resident of a jurisdiction having an in force broad exchange information agreement with Mexico.

India is considered to have broad exchange information agreements on tax matters with Mexico.

The Mexican Tax Administration must authorize the application of the consolidation regime, and written consent of the legal representative of each of the companies that would be participating must be filed before Aug. 15 of the year prior to the first year of consolidation to request the proper authorization. Special tax accounts should be kept by each of the companies of the group.

There are some types of entities that would not qualify for the consolidation regime, including nonprofit entities, credit institutions, insurance corporations, trusts, auxiliary credit institutions, stock exchange entities, foreign exchange houses and capital investment companies, nonresident companies, companies in liquidation, civil or social associations, cooperatives and maquiladoras.

In general terms, the current consolidation regime allows an individual company to offset losses against profits of other companies in the same group during a three-year deferral period.

The deferred income tax must be paid by each of the entities of the group on the same date on which they are required to file their annual income tax return for the year following that in which the three-year deferral period concludes. The deferred income tax will be paid updated with the accumulated inflation adjustment from the month in which the tax was deferred to the month in which the tax is paid.

The deferral benefit must be paid before the three-year deferral period if:

- a member leaves the consolidated group,
- the ownership percentage is reduced, or
- the group is deconsolidated.

#### **Transfer pricing**

Mexican transfer pricing legislation is based on OECD principles. This has resulted in the implementation of transfer pricing guidelines that are in line with the global economy and trade.

In general terms, from a Mexican transfer pricing perspective, all related-party transactions (including certain joint-venture relationships) must be performed at arm's length.

Those taxpayers who are required to present an informative return with respect to their tax status (a DISIF, by its acronym in Spanish) are required to present information relating to transactions carried out with related parties and foreign related parties for each tax year.



### **Thin capitalization**

Interest generated by excess debt lent by a foreign related party to a Mexican resident is nondeductible for CIT purposes. Excess debt is defined as that exceeding three times the value of shareholders' equity (i.e., a 3:1 debt-to-equity ratio) as per the taxpayer's Mexican Generally Accepted Accounting Principles (GAAP) or International Financial Reporting Standards (IFRS) balance sheet.

In principle, all interest-bearing debts are considered in determining the annual average debt for purposes of calculating the ratio and thereby the disallowed interest expense amount. However, certain debts incurred for construction, operation or maintenance of productive infrastructure associated with Mexico's strategic areas or to generate electricity may be excluded from the computation.

Taxpayers may also be able to obtain a ruling from the Mexican Tax Administration in order to apply a higher financial leverage (i.e., not the 3:1 debt-to-equity ratio) if they support with the Mexican tax authorities that the particularities of their business activities required a higher leverage. Also, the thin capitalization rules do not apply to entities that are part of the Mexican financial sector for the realization of their business activities.

In addition, taxpayers may be entitled to use the sum of the average balances of their capital contributions account (CUCA) and their (CUFIN) to determine the 3:1 debt-to-equity ratio instead of shareholders' equity. Taxpayers that opt to apply this alternative for the thin capitalization computation must continue to use it for at least five years.

Please note that the alternative computation is mandatory for those taxpayers that do not apply Mexican GAAP. Specific provisions dealing with the disallowance of interest expenses for debt financing structured through back-to-back loans should also be closely observed.

## **Tax Credit and Incentives**

### **Foreign tax credit**

The Mexican tax authority (SAT) has published certain criteria to determine whether a foreign tax should be considered as an income tax for purposes of applying for credit.

The Mexican Income Tax law allows Mexican corporations and individuals to credit for Mexican income tax purposes the income tax paid abroad in connection with non-Mexican source income.

In general, creditability is available in respect of foreign income taxes withheld from foreign-source income or paid with a tax return filed in the foreign country in the name of the Mexican resident or by a foreign branch of a Mexican corporation. However, there are certain cases in which dividend derived from profits from foreign source is taxable in Mexico, but is creditable if the person or entity holds 10 percent of equity in the Mexican entity.

### **Duty-deferral programs**

A deferral program is an authorization provided by the Mexican Ministry of Economy to those companies importing raw materials or fixed assets to manufacture finished products within Mexico for export.

In addition to the benefits described for CIT purposes in the Income determination section, maquiladoras under the IMMEX program are entitled to the following customs benefits:

- No payment of import duties for temporarily imported raw materials, as long as they are exported,
- Temporarily imported raw materials and fixed assets will not be subject to VAT when the Mexican entity importing the goods obtains a VAT certification (see VAT in the Other taxes section) from the tax authorities related to the adequate control of such imports or posts a bond guaranteeing the VAT payment until the goods are exported.

Another program allowing preferential duty rates is the Sectorial Relief Program (known as PROSEC), which allows manufacturers to apply lower duty rates on the import of raw materials and machinery required for their productive processes, regardless of their country of origin and regardless of if they are for the Mexican market or for export. These programs were created by the federal government in order to establish competitive tariff conditions for Mexican manufacturers needing to import raw materials and fixed assets from non-NAFTA or trade partner countries.

Companies in Mexico that carry out import operations with values of 300 million Mexican pesos per semester, or IMMEX companies, can take advantage of significant customs and administrative benefits if registered into the 'Certified Company Registry' (authorized by the Ministry of Finance). In addition, companies that comply with certain requirements regarding controls and security within their supply chain, regardless of the 300 million Mexican pesos obligation, can also obtain the 'Certified Company Registry.'

In general terms, the main benefits provided by the Certified Company Registry allows simplified procedures to process imports and exports, including the reduction in time and number of reviews when clearing goods at customs facilities.

### **Research and development (R&D) incentives**

The Mexican Income Tax Law provides a 30 percent tax credit for R&D expenses, including investments in R&D. The tax credit will be equal to current-year R&D expenses in excess of the average R&D expenses incurred in the previous three years. This incentive cannot be combined with other tax incentives. The government will set up a committee to analyze and approve R&D credits. Further, taxpayers will have to file an information return each February with details of the R&D expenses to be validated by the authorities. Additional rules for the R&D tax credit were published in the Mexican Official Gazette in February 2017 and are in force as of Mar. 17, 2017. The given rules provide clarity on

the procedural requirements to apply for such tax incentive, some limitations and a list of expenses that are deemed as qualifying for purposes of obtaining the tax incentive benefits (e.g., fees paid to third party investigators, expenses incurred in testing, tools for testing, specialized equipment necessary for the development of the project, laboratory equipment, etc.).

#### Employment incentives

An incentive offers a credit equivalent to 100 percent of the income tax corresponding to the salary paid to workers/employees with certain types of disabilities.

An additional deduction, equivalent to 25 percent of the salary paid to such workers/employees, is also available.

Both benefits cannot be applied in the same fiscal year.

#### Real estate investment incentives

Some tax benefits exist for qualifying real estate investment trusts (i.e., REITs or the so-called FIBRAS, by its acronym in Spanish) in Mexico.

#### Capital investment

There are certain incentives to encourage risk capital investments in Mexico.

#### Other Important Incentives

Taxpayers dedicated exclusively to the generation of energy from renewable sources or efficient energy through cogeneration systems and that have fully deducted their investments will establish an account designated as a 'Tax Profit Account for Investments in Renewable Energy,' which will allow for the distribution of dividends without payment of CIT.

Individual shareholders of companies that reinvest profits generated from 2014 to 2016 are entitled to a reduction in tax on dividends of up to 5 percent to the extent such profits are distributed beginning in 2019.

## Withholding Taxes

### Payments to Mexican residents

Payments to resident corporations and permanent establishments (PEs) in Mexico are generally not subject to WHT.

Payments by resident corporations to resident individuals are subject to WHT as follows:

<i>Payment</i>	<i>WHT (%)</i>
<i>Wages, salaries, and other remuneration</i>	0 to 35
<i>Fees:</i>	
<i>Members of boards of directors and advisory boards</i>	35.0
<i>Other professional fees</i>	10.0
<i>Lease payments on real property</i>	10.0
<i>Interest on securities (1)</i>	0.58
<i>Interest on nonqualified securities</i>	20.0
<i>Dividends</i>	10.0
<i>Miscellaneous types of income of individuals, usually sporadic payments</i>	20.0

**Note:** 1. WHT on interest paid by financial institutions to Mexican resident investors is generally set at 0.58 percent of the invested capital.





## Payments to non-residents

Income tax must usually be withheld from payments to nonresident corporations and individuals. In the case of non-tax treaty countries, the statutory withholding rates are as noted below.

However, no tax arises on compensation (wages, salaries or fees other than board fees) paid by a nonresident with no establishment in Mexico (even if not subject to tax) to which the services relate, provided the individual remains in Mexico for fewer than 183 days (consecutive or not) in any 12-month period.

Statutory withholding rates (not mentioned above) under local legislation are as follows:

<b>Payment</b>	<b>WHT (%)</b>
Professional fees for services rendered in Mexico	25
Lease payments:	
Lease of real property	25
Lease of containers imported on a temporary basis, airplanes and ships authorized by the Mexican government to be commercially exploited in the transportation of goods or persons	5
Lease of personal property	25
Time-sharing services	25
Charter agreements	10
<b>Sales:</b>	
Real property located in Mexico	25
Shares of Mexican companies	25
Transfers of ownership of Mexican public debt by other than the original creditors (intended to cover debt-for-equity swaps)	25
<b>Derivative transactions:</b>	
On capital	25
On debt	Same rates applicable to interest
<b>Interest:</b>	
Paid to foreign government financing entities, to duly registered foreign banks and other entities that provide financing with funds obtained by issuing publicly traded debt instruments abroad, registered with the Ministry of Finance	10
Interest on debt instruments placed abroad	4.9
Interest payments to specific foreign financial institutions	4.9
Other interest payments (not otherwise included above) paid by Mexican financial institutions to residents abroad	21

<b>Payment</b>	<b>WHT (%)</b>
Paid to foreign suppliers of M&E, to others to finance purchases of such as-sets or inventory or working capital loans if the lender is duly registered	21
Paid to reinsurance entities	15
Other interest payments	35
Financial leases (on the portion deemed to qualify as interest or finance charge)	15
Dividends	10
<b>Royalties:</b>	
For the use of railroad cars	5
For the use of copyrights on scientific, literary or art works, including motion pictures and radio and television recordings, as well as software and payments for the transmission of video and audio signals via satellite, cable, optic fiber and similar media	25
On patents, invention or improvement certificates, trademarks, brand names and advertising	35
For the use of drawings or models, plans, formulas or procedures, and of scientific, commercial and industrial equipment; on amounts paid for information regarding scientific, commercial and industrial experience; and for technical assistance	25
Short-term construction and the respective installation, maintenance, technical direction or supervision	25
Reinsurance premiums	2
Income obtained by athletes and artists	25
Income derived from prizes (e.g., lottery tickets or raffles)	1/21
Other income (forgiven debts, indemnifications, rights to participate in business, investments, etc.)	35

Tax treaties with the countries listed in the following table have been published in the Official Gazette and are in force.

*Note that the below-given table has only a few countries considering that many Indian companies opt to open their subsidiary through a holding company in other countries such as the USA, Canada and Germany.*

The WHT rates negotiated under the tax treaties are as follows:

Recipient	Dividends (%)		Interest (%)	Royalties (%)
	Portfolio	Substantial holdings		
Canada	15	5	10	10
Germany	15	5	5/10	10
India	10	10	10	10
United States	10	5	4.9/10/15	10

The tax reform gives the Mexican tax authorities the ability to require that the foreign-related party provide a sworn statement through its legal representative confirming that the item of income for which a treaty benefit is claimed would otherwise be subject to taxation.

*This is the maximum WHT rate for dividends, with no distinction for substantial holdings. In the case of India, the tax payable on dividends paid to residents in Mexico must not exceed a limit established in the treaty.*

### Country-by-country (CbC) reporting

In 2016, the Mexican government enacted the requirement to file a master information return (master file), local information return (local file), and CbC report on a calendar-year basis, starting in FY 2016 and due by Dec. 31, 2017.

The provisions of the Mexican Income Tax Law on this obligation are consistent with the OECD's Base Erosion and Profit Shifting (BEPS).

Note that the filing of master and local files is required by Mexican taxpayers exceeding the established threshold, while the CbC report is required only for Mexican multinational groups meeting certain group revenue thresholds. However, Mexican tax authorities may also request a CbC report concerning foreign multinational groups. In both cases, specific thresholds for presenting documentation are established.

Failure to file the reports is subject to fines and disqualification of the taxpayer from entering into contracts with the Mexican public sector.



## **Tax Administration for Corporations**

### **Taxable period and Returns**

In general terms, the taxable period in Mexico is the calendar year.

Corporate taxpayers are required to file annual CIT returns for the preceding calendar year by Mar. 31 of the following year.

Employees' profit sharing payments are generally due by May 31 of the year following that in which the corresponding profit was obtained.

Information returns must also be filed not later than Feb. 15 each year, reporting on, amongst others, the following activities performed in the immediately preceding year:

- Payments made to parties that reside abroad,
- Loans received from or guaranteed by nonresidents,
- Transactions conducted through a business trust,
- Parties to which the taxpayer makes payments and withholds income tax,
- Parties to which the taxpayer has made donations,
- Parties to which the taxpayer has paid dividends, and the value of such payments.
- Transactions carried out with suppliers and clients, either local or overseas.

Taxpayers must file an information return stating their tax status with their annual CIT return. For tax year 2016, the information return due date remained June 30, 2017. However, due to particular provisions of the Mexican federal tax code for computing terms, it is possible to file it until July 3, 2017. The obligation to file the informative tax status return corresponding to fiscal year 2017 must be filed in 2018 on the same date that the annual corporate tax return is filed.

Taxpayers who elect to file their tax report will not be obligated to file the information return stating their tax status.

### **Payment of tax**

Corporate taxpayers are required to make estimated payments of CIT by the 17th day of each month based on their estimated taxable income at the end of the previous month and calculated principally by applying the profit factor to the cumulative monthly gross income.

Special procedures are provided for computing advance CIT payments and for obtaining authorization to reduce the amounts of monthly advances after the sixth month of the year.

### **Electronic accounting**

As of Jan.1, 2014, the new electronic accounting requirements were issued, which should have been implemented as of Jan. 1, 2015. The law provides that the company's accounting (i.e., balance sheet and profit & loss) should be presented on a monthly basis, with the related CFDI.

The Mexican accounting system requires that company accounts be drawn up according to a specific layout provide by the Mexican tax authorities.

Electronic invoicing requires all invoices and pay slips issued by a Mexican legal entity to be in electronic format (XML) with the accompanying supporting document in PDF format. During their issue, the invoices are stamped and validated by an accounting software (approved by the SAT) and subsequently authorized by SAT. If the invoices are not virtual or are not validated by the SAT, they will be considered nondeductible.

The Mexican tax law also provides that legal entities submit their accounts electronically on a monthly basis on the website of the tax authority. In order to carry out this administrative and accounting activities, such as presenting the monthly electronic accounting and declaring the relevant taxes, the taxpayer must first access the portal of the tax authority (SAT), where it will be necessary to identify with the RFC (VAT Code/Tax Code), as well as with the Confidential Electronic Identification Password (CIEC), and, where required, FIEL to authenticate the transactions.

### **Tax audit process**

In general terms, for taxpayers that elected to file a tax-compliance audit report, the tax audit (tax inspection) may start with a review of the audit report prepared by the independent CPA, such as PwC.

At this point, the tax authorities may finish the audit if they are satisfied with the information provided by the CPA. Otherwise, tax authorities may initiate a direct review on the taxpayer either at the tax authority's offices or at the taxpayer's facilities. Tax authorities may request several documents from the taxpayer and third parties that carried out transactions with the audited taxpayer.

Tax audits should be concluded within the following 12 months after the audit was initiated. The period to conclude tax audits for taxpayers that are either part of the financial system or consolidated for tax purposes is 18 months.

### **Conclusive agreements**

Prodecon, a decentralized Mexican government organization and tax ombudsman in Mexico, helps taxpayers file a petition in case of a dispute over a tax audit authorized by the authority.

It also provides advice and issues recommendations to the tax authorities. In recent years, Prodecon's Conclusive Agreements have become more common and have had a positive impact for taxpayers when it comes to reconciling differences with the tax authority in regards to an audit and controversial assessments.

### **Statute of limitations**

In general, the right of the tax authorities to collect taxes, review tax returns or claim additional taxes expires five years after the date the respective return is filed. However, in cases where the taxpayer has not secured a federal tax registration number, has no accounting records, has failed to keep accounting records for the required five-year period or has not filed a tax return, the statute of limitations expires in 10 years. Similarly, the period for claiming a refund of overpaid tax expires after five years.

### **Topics of focus for tax authorities**

Although there are no formal written communications from the tax authorities dealing with their topics of focus, in recent years the tax authorities have focused audits on:

- transactions with non-residents,
- inter-company transactions,
- transfer pricing,
- social security contributions, and
- customs duties, among other areas.

## **Other Tax Matters**

### **Relevant transactions disclosure**

The Mexican Supreme Court ruled against the regulation by which taxpayers are subject to report relevant transactions on a quarterly basis. However, it is not automatically applicable to all taxpayers, which means that Mexican taxpayers would still need to go to court in case they are sanctioned for not complying with such obligations. Additionally, the Mexican tax authorities are working on amending the return to incorporate it to the text of the law, which is one of the main reasons the court ruled against it in the first place. According to the Mexican tax authorities, relevant transactions include share acquisitions or dispositions, extraordinary transaction with related parties and corporate reorganizations, among others. The Mexican Supreme Court states that the rule is against the principle of legal security for the taxpayers.

### **Cash deposits reporting**

Financial institutions are required to report, by Feb. 15 of each year, to the Revenue Administration Service (Servicio de Administracion Tributaria, or SAT) information on customers making monthly cash deposits in excess of 15,000 Mexican pesos.

### **International Financial Reporting Standards (IFRS) adoption**

All companies listed on the Mexican Stock Exchange are required to submit annual consolidated financial statements accompanied by the opinion of a Mexican independent CPA. These financial statements must be prepared in conformity with IFRS and cover three years. Financial institutions and insurance companies must also file audited financial statements with the appropriate regulatory agency.

The elective adoption of IFRS in Mexico for other companies presents great challenges and opportunities. Changing from Mexican Financial Reporting Standards (MFRS) to IFRS requires companies to review their financial reporting procedures and criteria. Major changes in the requirements often have a ripple effect, impacting many aspects of a company's information reporting organization.

Nevertheless, the benefits to Mexican companies in reporting under IFRS are numerous. Among the greatest of these is the opening up of the Mexican Stock Market to overseas investors. By adopting IFRS, investors are able to compare two companies on different sides of the world with greater ease, and thus it is hoped that the change will encourage investment in Mexican companies.

Adoption of IFRS is not a straightforward process, and it will require time and effort on the part of the adopting entities to be able to ensure a smooth transition from MFRS to IFRS and ensure that the changes and benefits from this transition are duly implemented.

### **Foreign Account Tax Compliance Act (FATCA) intergovernmental agreement (IGA)**

FATCA was enacted in 2010 by the U.S. Congress to target noncompliance by U.S. taxpayers using foreign accounts. FATCA requires foreign financial institutions (FFIs) to report to the U.S. Internal Revenue Service (IRS) information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

Mexico signed an IGA with the U.S. Treasury on Nov. 18, 2012, under which Mexican financial institutions are required to report U.S.-owned account information directly to the Mexican tax authority, rather than to the U.S. IRS. The Mexican tax authority will then share that information with the U.S. IRS.

The IGA provides that the United States will reciprocate with the sharing of information. Mexican tax authorities have issued a set of administrative rules for banks and other financial and related entities to comply with the FATCA IGA.

## Individual Tax<sup>48</sup>

Now that we have covered the major areas through which you can know the taxes for your corporation, it is important to know and understand that as an individual how the taxes are going to apply to you and your expat employees.

### Taxes on Personal Income

Resident individuals are subject to Mexican income tax on their worldwide income, regardless of their nationality, where it is paid or where the services are performed.

Nonresidents, including Mexican citizens who can prove residence for tax purposes in a foreign country, are taxed only on their Mexican-source income.

### Personal Income Tax Rates

The following tax rates are effective for resident individuals for a single calendar year:

Taxable income (MXN)		Basic tax	
Over	Not over	Tax on column 1 (MXN)	Tax on excess (%)
0.01	6,942.20	0	1.92
6,942.21	58,922.16	133.28	6.40
58,922.17	103,550.44	3,460.01	10.88
103,550.45	120,372.83	8,315.57	16.00
120,372.84	144,119.23	11,007.14	17.92
144,119.24	290,667.75	15,262.49	21.36
290,667.76	458,132.29	46,565.26	23.52
458,132.30	874,650.00	85,952.92	30.00
874,650.01	1,166,200.00	210,908.23	32.00
1,166,200.01	3,498,600.00	304,204.21	34.00
3,498,600.01	and above	1,097,220.21	35.00

If an employee is considered a nonresident for Mexican tax purposes, he or she is subject to tax on their Mexican-source income only. Regarding salary income, the source is located where the employee performs his activities and the tax rate applicable will vary from 15 percent to 30 percent.

The first 125,900 Mexican pesos of employment income received in a 12-month floating period will be tax exempt.

The following tax table is applicable to taxable income of a nonresident employee as it is accumulated on his 12-month period (not necessarily a calendar year) since the first day of physical presence and no exempt income or deductions are allowed.

Taxable income (MXN)		Tax rate (%)
Over	Not over	
0	125,900	Exempt
125,900	1,000,000	15
1,000,000	and above	30

<sup>48</sup> PwC Tax Summaries: <http://taxsummaries.pwc.com/ID/Mexico-Overview>

Non-residents are subject to withholding taxes (WHTs) on Mexican-source interest income at rates varying from 0 percent to 30 percent, depending on several factors. Nonresidents are subject to Mexican tax on gains arising from sales of real property located in Mexico (including shares of foreign companies holding a significant amount of Mexican real property) as well.

#### **Social Security Contributions**

The Mexican Social Security Institute (IMSS) system is mandatory with regards to all nongovernment employees throughout the country and also is applicable to foreign employees working in Mexico for Mexican companies. Employers and employees are required to register at the IMSS and pay their contributions.

Employee contributions are withheld at source through payroll. The employer also makes contributions. Both contributions are calculated at varying rates and subject to various limits based on multiples.

#### **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 the Mexico City metropolitan area and some other regions.

#### **Cash Deposit Tax**

Since 2014, cash deposits into the Mexican financial system in excess of 15,000 Mexican pesos per month are no longer subject to a 3 percent withholding tax. However, financial institutions are still obligated to report to the Mexican tax authorities the information regarding who received such deposits.

#### **Income Determination**

##### *Employment income*

Income from personal services (earned income) includes salaries, commissions and allowances of all types, including those for housing, living expenses, education, foreign service, tax reimbursements and employer profit-sharing distributions.

##### *Equity compensation*

Regarding employee stock options, income tax is payable when the options are exercised. The taxable amount is the difference between the value at exercise and the strike price. There are no tax exempt amounts or caps.

##### *Business income*

All income received by individuals from business activities carried out by unincorporated enterprises and the fees of independent professionals are subject to ordinary income tax rates, and the individuals may deduct their normal business expenses.

##### *Capital gains*

Individuals that qualify as tax residents of Mexico are taxed on their worldwide capital gains. However, gains on sales of securities through the Mexican Stock Exchange are only subject to a 10 percent tax on the net gain for the year. Shares of Mexican companies traded abroad in authorized exchanges also receive the same treatment, when determined by the Mexican Ministry of Finance to be placed among the general public.

##### *Dividend income*

Resident individuals must include in taxable income dividends received from Mexican corporations (grossed up for the corporate income tax – CIT – paid by the corporation) in their individual income tax returns and claim the underlying CIT paid as a credit against their personal tax liability.

Moreover, with respect to dividends paid from profits that were generated by the company as of Jan. 1, 2014, a 10 percent tax on the net dividend will be withheld by the Mexican company.

Dividends paid by foreign corporations to resident individuals are fully taxable in the annual tax return. In addition, similar to domestic dividends, there is a 10 percent tax on the net dividend that the individual must pay by the 17th day of the following month.

This tax is in addition to the tax paid with the annual tax return, and it cannot be credited in the return.

##### *Interest income*

Interest from the Mexican banking system, except for certain exempt accounts with small balances, is subject to withholding and should be reported in the annual tax return. Except for certain transitional provisions, interest paid on most Mexican government obligations is taxable.

Interest on bank accounts, bonds and other debt obligations issued by nonresidents is fully taxable, and the taxable interest includes inflation adjustments, losses and exchange gains and losses with respect to the principal.

##### *Rental income*

Resident individuals are taxed on their worldwide rental income. They may deduct actual expenses incurred with respect to the property rented, including depreciation at 5 percent on the building's cost, indexed for inflation, property taxes, insurance premiums, maintenance, interest on loans for the purchase or construction of the property (inflation adjusted) and commissions paid, limited to 10 percent of the rental income for the period. In order to apply this option, a simplified accounting must be provided to the Mexican tax authorities. This means that you should be issued invoices for all the income and expenses that will be reported.

Alternatively, resident individuals may elect to deduct a standard deduction, equal to 35 percent of the gross rental income plus real estate taxes, in lieu of the deduction for actual expenses and depreciation mentioned above.

## Individual Deductions

### Personal Deductions

Personal deductions are allowed by the Mexican tax authorities in the annual tax return (the official receipts needed to claim the tax deduction must contain the name of the taxpayer, his/her Mexican tax ID number (RFC) and his/her tax domicile). These personal deductions include:

*Limited to 15 percent of total income (including tax exempt income) or 137,694 Mexican pesos:*

- Unreimbursed medical, dental, clinical analysis and funeral expenses disbursed in Mexico for the resident taxpayers and their dependents, as well as health insurance premiums, also disbursed in Mexico. Medical expenses paid in cash are no longer deductible,
- Home mortgage interests paid to Mexican financial institutions (limited to real interest paid that corresponds to mortgage principal of about 3,750,000 Mexican pesos),
- Mandatory scholar transportation.

*Limited to 7 percent of the prior year total income:*

- Charitable contributions to authorized entities in Mexico and some tax treaty countries, limited to 7 percent of the prior year taxable income.

*Limited to 10 percent of the current year total income or 137,694 Mexican pesos:*

- Voluntary contributions to the Mexican retirement funds (AFORE) and private retirement plans,

*Capped depending on the level education (varying from 12,900 Mexican pesos to 24,500 Mexican pesos per year):*

- Tuition (except for university education) paid for the spouse, children, parents and themselves.

\* The taxpayer should keep official receipts (receipts should comply with local tax requirements) and it is mandatory that medical, dental, clinical analysis and hospital expenses be paid by check, electronic transfer or credit, debit or services card.

### Business Deductions

Business owners and independent professionals are allowed to deduct most of the same business expenses as corporations, which include the following main topics.

### Foreign Tax Relief and Treaties

Though a resident is subjected to worldwide income, there are certain reliefs and treaties that you should be aware of.

#### Foreign tax relief

An individual resident may derive income from another country, which is subject to tax in that country. The individual may credit the foreign income tax paid against the Mexican income tax liability.

However, the credit is limited to the lesser of:

- i. The amount of foreign tax paid with respect to foreign-source income that is taxable in Mexico, or
- ii. The amount of Mexican tax corresponding to that income.

#### Tax treaties

Tax treaties may reduce or eliminate tax withholding from nonresidents, and the treaty provisions should be analyzed accordingly, depending on the country of residence of the individual receiving Mexican-source income.

Mexico has concluded double-taxation agreements (DTAs) with 51 countries around the world, including India.

## Tax Administration for Individuals

### Taxable period

The Mexican tax year runs from Jan. 1 through Dec. 31.

For nonresidents who pay income tax on Mexican-source compensation income, the tax year is the 12-month period that starts with the first month the nonresident is subject to tax.

### Tax returns

All residents receiving income during the calendar year are required to file an annual tax return no later than Apr. 30 of the succeeding year, except in certain cases.

Although joint returns are not allowed, miscellaneous rules allow a married couple to have the highest income earner report all investment income. Since income splitting is not allowed, personal service income should be declared by the spouse earning it.

Under the current rules, most taxpayers must file the annual tax return electronically and will need to have previously registered an electronic signature, which will be used in the return filing process.

### Information disclosures

Under certain circumstances, individuals are required to report six non-taxable items on their annual tax returns, for informational purposes only.

These items include loan proceeds, prizes, gifts, inheritances, proceeds from the sale of a personal residence and travel expense reimbursements. Although disclosed on the return, these items remain non-taxable. If these items are not disclosed, there is a risk of losing their tax-exempt treatment.

*In addition to the obligation to file an annual tax return, individuals are also required to file an annual tax haven investment information report by Feb. 28.*

### Payment of tax

The monthly returns are generally due by the 17th day of the following month, and are filed electronically.

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# *Investment Incentives*



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## Investment Incentives<sup>49</sup>

The government of Mexico has initiated several incentives to boost foreign direct investment while at the same time increasing the productivity of the country itself. Incentives can be tax or non-tax in nature on the basis of region, industry and various business activities.

### Regional incentives

State and local governments may get authorized to grant certain incentives or benefits within their jurisdiction. Mainly, such incentives are granted to less economically developed states and areas through a regulatory framework.

#### Tax incentives

Regional tax incentives are very limited. A few states grant a temporary reduction in real property or state payroll taxes to new industries established within the state.

#### Non-tax incentives

No regional non-tax incentives are granted at the federal level. Certain states donate land for plant sites or sell industrial sites at reduced prices, and guarantee the availability of public services, including electricity, water, transportation, etc.

#### Earnings

There are no state or local income taxes on corporate earnings.

### Industry incentives

The industries discussed below enjoy special incentives, regardless of size and with no restrictions as to their location or the foreign ownership of their capital.

#### Tax Incentives

The following industries receive tax incentives:

- Agriculture,
- Livestock,
- Fishing, and
- Timber.

Taxpayers engaged exclusively in these industries are subject to a special tax regime that provides certain exemptions based on the number of shareholders.

#### Non-tax incentives

##### Tourism industry

The tourism industry in Mexico has expanded over the years with development of various hotels and resorts, combined with the rich heritage of history that the country boasts.

With the government undertaking to stimulate expansion of the tourism industry in Mexico, foreigners purchasing residential real estate are now allowed to own all rights, except bare title to land in the coastal areas or along the country's borders.

No restriction applies in the case of nonresidential real estate in these areas, provided the real estate is acquired by a Mexican legal entity (regardless of the nationality of the shareholders/partners), and provided notice is given to the Foreign Affairs Ministry within 60 days after the acquisition takes place.

A government trust, FONATUR, has made substantial investments in the infrastructure necessary for the development of a number of resorts. FONATUR sells beneficial rights to land in its resort areas for use for hotels, condominiums, shopping centers, etc., on relatively favorable terms, and provides expert advice in planning such projects.

#### Science and Technology Incentive

The National Council of Science and Technology (CONACYT) is the governmental entity in charge of promoting research and development of technology (R&D) in Mexico. It has been operating several programs with this purpose, such as the "Program to Incentivize Innovation."

This national program covers micro, small and medium enterprises (Mipymes), big companies and individuals with business activity, duly registered in the RENIECYT 4 (CONACYT's internal registry) with R&D projects focused on the creation of specialized jobs, green projects, competitiveness, innovation and added value.

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<sup>49</sup> PwC Doing Business in Mexico 2016



The most important issues to consider related to this program are:

- Companies will be able to request financial support for the projects developed during the current business year. It is important to consider that this support is subject to budgetary guidelines.
- In addition to the information requested in the application, companies must have a feasibility study, a plan of activities and an annual and per-project budget, a strategy for the appropriation of the intellectual property and copyright, a description of the impact and benefit derived from the project and an action plan for the exploitation of its results.

Schemes and characteristics

The application could be filed under three schemes:

- **INNOVAPYME:** Focuses on the technological innovation of high added value for R&D projects filed by micro, small and medium size companies (MIPYMES), with an important impact on their competitiveness. Under this scheme, companies may file their project individually or linked with at least one research center or university, and this alliance should represent at least 10 percent of the total budget. Linked projects will have priority. The maximum amount of support per company under this scheme is 21 million Mexican pesos.
- **PROINNOVA:** Focuses on the development and innovation of precursory technologies for R&D projects which are filed by MIPYMES or by large companies in a network that is integrated at least by one company and two research centers and/or universities. This alliance should represent at least 10 percent of the total budget. The maximum amount of support per company under this scheme is 27 million Mexican pesos.
- **INNOVATEC:** Supports technological innovation for the competitiveness of R&D projects filed by large companies which cause productive chains regarding research and development of technological activities, and which bring about the

investment in infrastructure (foundations and human resources), as well as the creation of new specialized jobs. Under this scheme, the company may file its project individually or linked with at least one research center or university, and this alliance should represent at least 10 percent of the total budget. A linked project will have priority. The maximum amount of support per company under this scheme is 36 million Mexican pesos.

## Strategic Bonded Warehouse

The Strategic Bonded Warehouse regime consists of introducing for a limited period of time, national or imported goods into authorized warehouses, with the purpose of being stored for safekeeping, exhibition, distribution or transformation or to be repaired. Authorized warehouses must be established next to a customs facility.

*The main benefits of this regime are:*

- Neither import duties nor countervailing duties will be paid on temporary imports, except for cases contemplated within free trade agreements rules,
- Nontariff restrictions and regulations do not apply, except for those regarding animal and vegetable sanitations, public health, environmental security and national security.

## Industrial parks

Industrial parks have been established in a number of areas all over the country to provide needed infrastructure. Land is usually available in these areas on relatively favorable terms. Some states have donated land for new industries or sell it at relatively low prices.

The Asociación Mexicana de Parques Industriales Privados (AMPIP) promotes the certification of industrial parks.

The biggest advantage of industrial parks is that they are built on private land and have all the legal permissions. (Check the chapter on How to Invest in Mexico to understand our insights on legally available land).

You also have all your utilities – power, water, telecommunications, etc. – already covered by the industrial park in Mexico. In Mexico, there are 261 certified industrial parks at various locations throughout the country.



## Export incentives

The most significant benefits under the Mexican economic development plan are precisely those provided to promote the export of manufactured goods. These export benefits apply to all entities, regardless of size and degree of foreign ownership, and are provided in both tax and non-tax forms.

### **The Ministry of Economy (SE) export programs are as follows:**

#### **Import duty drawback**

All exporters (including indirect exporter suppliers) are entitled to the refund of import duties paid up to one year before on imported merchandise integrated into exported goods or sold to other entities that physically export the related goods.

Exporters may also be able to recover import duties through the drawback system when they export products in the same condition in which they were imported.

#### **Sectorial Relief Programs (SRP)<sup>50</sup>**

The SRPs benefit companies with preferential import taxes on goods being used for production, regardless of the country of origin. The rates vary from 0 percent to 5 percent, depending on the type of industry. Such sectorial relief programs are called PROSEC (Programas de Promoción Sectorial).

The authorized industrial sectors in which companies are able to get the above benefit are the following industries:

 Electricity	 Steel
 Electronic	 Pharmaceutical, medication and medical equipment
 Furniture	 Transportation, except the automobile industrial sector
 Toy, recreational games and sporting goods	 Paper and cardboard
 Footwear	 Leather and fur
 Mining and Metallurgy	 Automobile and auto parts
 Capital goods	 Textile and apparel
 Photographic	 Chocolate, sweets and candy
 Agricultural machinery	 Coffee
 Sundry	 Food
 Chemical	 Lumber
 Rubber and plastic manufacturing	 Fertilizer

50 SE (Secretaría de Economía): <https://www.gob.mx/se/acciones-y-programas/sicex-transparencia-prosec>

## Institutional Assistance

### **ProMéxico**

ProMéxico is an entity of Mexico's federal government that is responsible for coordinating strategies aimed at strengthening the participation of Mexico in the international economy, supporting the export process of companies that have settled in Mexico and coordinating actions aimed at attracting foreign investments.

ProMéxico has a large network of offices abroad (32 offices in 22 countries), which are the reference point for investors from all over the world who want to import or invest in Mexico. This federal agency also engages in the promotion of international strategic alliances between foreign and Mexican companies, offering the opportunity to hold B2B meetings with local companies, in order to increase free competition on the territory.

ProMéxico supports investors of any industry both in the choice of the geographical location of the company and in the meetings with the competent officials of the respective federal states. Moreover, through its offices in the area, it carries out consultancy activities.

**INADEM**<sup>521</sup> The National Institute of the Entrepreneur is an administrative body of the Mexican Ministry of Economy, whose function is to coordinate the national support policy to national and foreign small- and medium-sized enterprises (SMEs), promoting their innovation, competitiveness and market projection nationally and internationally. INADEM has created the "Business support network for entrepreneurs," a strategy aimed at integrating support programs for entrepreneurs and SMEs. This network was created as a promotional and dissemination point, in which entrepreneurs can identify the various opportunities made available to them by the public and private sectors. Based on the profile of the entrepreneur and the maturity of the project, one can identify the most suitable product package for each individual case.

Among the support areas for the entrepreneur are:

- Support for suppliers,
- Sectoral and regional competitiveness,
- Economic reactivation,
- Strategies for grouping companies,
- The creation of business events for the promotion and development in strategic sectors,
- Consultancy for access to finance,
- The "Development of the Business Capital Ecosystem" program,
- The "High impact entrepreneurial program,"
- "PYME" program (fund for the development of small and medium-sized enterprises).

### **CONACYT**<sup>52</sup>

The National Council of Science and Technology (CONACYT) is an institution of the federal government to support local and foreign companies in strengthening the scientific development and technological modernization of Mexico, through a program of support for research, development and innovation.

The CONACYT allocates funds for some high innovation projects able to contribute to the development of the country.

Among the types of resources available are:

1. Sectoral funds: The agencies and bodies of the federal public administration, in collaboration with CONACYT, can allocate resources for scientific research and technological development in specific sectors.
2. Mixed funds: These support scientific and technological development, as well as municipal administrations. The municipal, state and federal governments participate in it.
3. Institutional funds: These are aimed at satisfying and supporting the needs of science and the technological community. These include the institutional fund of CONACYT (FOINS), the Institutional Technological Fund, the Regional Development Institution for Science Technology and Innovation (FORDECYT), the Institutional Fund of Science and the IDEA Program.
4. International Fund: This is an international cooperation fund for the promotion of scientific and technological research, with joint projects between Mexico and the European Union.
5. Institutional supports: These are granted to support scientific research, technological development and innovation, by individuals or bodies in the public and private sectors. To be granted, these supports require the authorization of the General Director of CONACYT, with the support of the Institutional Committee (IAC).
6. Innovation stimulus programs: These support programs for companies that invest in research, technological development and innovation aimed at creating new products, processes or services.

51 INADEM (Instituto Nacional del Emprendedor): <https://www.inadem.gob.mx/>

52 CONACYT (Consejo Nacional de Ciencia y Tecnología): <https://www.conacyt.gob.mx/>



## Financial assistance

### Foreign Trade Bank

The Foreign Trade Bank (Banco Nacional de Comercio Exterior, Bancomext) is the Mexican export development bank and it is primarily engaged in all aspects of export support. The bank's authorized activities include the following:

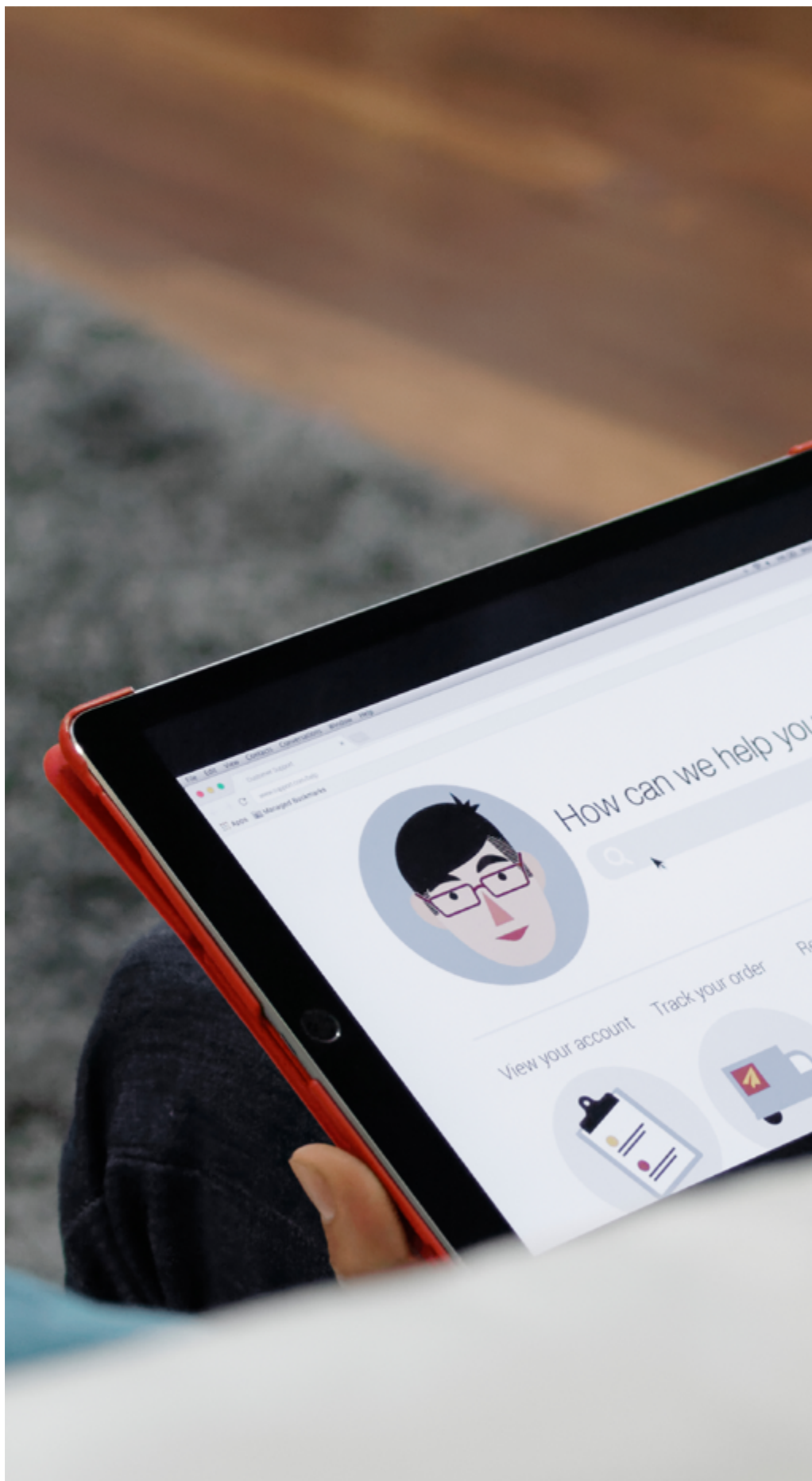
- Providing financial assistance to direct exporters,
- Providing loan guarantees,
- Providing promotional assistance domestically and overseas,
- Providing financial assistance to indirect exporters (those selling to ultimate exporters),
- Assisting in the development of export policies and programs,
- Acting as fiduciary for trusts and funds engaged in export development activities.

### Nacional Financiera, S.N.C.

Nafinsa (Nacional Financiera, S.N.C.) is a large government-owned development bank that takes an active part in stimulating new industry in Mexico. In this connection, it operates a number of services and trust funds that offer assistance, ranging from feasibility studies to direct investment in capital stock and long-term financing. The bank is particularly active in arranging joint ventures of foreign and Mexican investors in companies for the production of capital goods.

## Incentives and foreign investment strategy

The current trend of Mexican government policy with regard to incentives is not to grant them except in exceptional cases. With respect to foreign investment, the current trend is toward welcoming it, especially when it contributes to increasing Mexico's employment levels, exports and technological development.





### ***Tax Exemption from various states in Mexico<sup>53</sup>***

While deciding on a location for investment, it is also critical to evaluate the tax exemptions in various Mexican states.

The analysis of state incentives presented below is merely indicative of the opportunities offered by individual states within the Mexican republic.

It is important to point out that the nature of the incentives obtainable by each state may vary, depending on the type of investment made and direct negotiations with the state and federal government for incentives such as land concessions, access to the electricity grid or paving of the roads leading to the production plant.

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53 PwC: Mexico States of Opportunity





### 1. Baja California

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemption from the payment of the "Construction License"
- Exemption from the payment of property tax on motor vehicles used
- Exemption for connection rights for drinking water and drainage
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area
- Temporary reduction on public lighting contributions

### 2. Sonora

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption for connection rights for drinking water and drainage

- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the transfer tax on property
- Reduction of the tax on "Registering and Shipment of License Plates and Moving Books of State Vehicles"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area
- Temporary reduction on public lighting contributions

### 3. Chihuahua

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment of property tax on motor vehicles used
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet

- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

### 4. Coahuila

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption for connection rights for drinking water and drainage
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area
- Temporary reduction on public lighting contributions

### 5. Nuevo León

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Cost reduction on the estimated value of real estate
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

### 6. Tamaulipas

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Reduction of taxes and state rights
- Reduction of emoluments taxes for businesses that generate new jobs
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

### 7. Sinaloa

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Exemption from the payment of property tax on motor vehicles used
- Exemption for connection rights for drinking water and drainage
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Cost reduction on the estimated value of real estate
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for projects outside the metropolitan area

### 8. Durango

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects
- Temporary reduction on public lighting contributions

### 9. Zacatecas

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Reduction of taxes and state rights
- Reduction of emoluments taxes for businesses that generate new jobs

### 10. San Luis Potosí

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

### 11. Nayarit

- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the transfer tax on property
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects

### 12. Jalisco

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemption from the payment
- of the "Construction License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

### 13. Aguascalientes

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Exemption for connection rights for drinking water and drainage
- Reduction of taxes and state rights
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for projects outside the metropolitan area

### 14. Guanajuato

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemption from the payment
- of the "Construction License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

### 15. Querétaro

- Reduction of the transfer tax on property



#### 16. Hidalgo

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Exemption for connection rights for drinking water and drainage
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Cost reduction on the estimated value of real estate
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

#### 17. Veracruz

- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects

#### 18. Colima

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemption from the payment of property tax on motor vehicles used
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the tax on "Registering and Shipment of License Plates and Moving Books of State Vehicles"
- Reduction of emoluments taxes for businesses that generate new jobs
- Reduction of payment of rights for connection to the drinking water network

#### 19. Michoacán

- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Cost reduction on the estimated value of real estate

#### 20. State of Mexico

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemption from the payment of property tax on motor vehicles used
- Reduction of taxes and state rights
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

#### 21. Ciudad de México

- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects

## 22. Morelos

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

## 23. Tlaxcala

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Exemption from the payment of property tax on motor vehicles used
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Cost reduction on the estimated value of real estate
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects

## 24. Puebla

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemption from the payment
- of the "Construction License"
- Exemption from the payment of property tax on motor vehicles used
- Reduction of taxes and state rights
- Cost reduction on the estimated value of real estate
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area
- Temporary reduction on public lighting contributions

## 25. Guerrero

- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects

## 26. Oaxaca

- Reduction of taxes and state rights
- Special incentives for research and technological development projects
- Temporary reduction on public lighting contributions

## 27. Chiapas

- Exemptions from payment of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Cost reduction on the estimated value of real estate
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

## 28. Tabasco

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the transfer tax on property
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the tax on the purchase of real estate

## 29. Campeche

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment of property tax on motor vehicles used
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the tax on the purchase of real estate
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

## 30. Yucatán

- Temporary exemption from taxes and statutory rights
- Temporary Fees on Temporary Fees (ISNs) for newly established companies
- Exemptions from payment
- of rights on the "Public Register of Property and Commerce"
- Exemption from the payment of the "Land Use License"
- Exemption from the payment
- of the "Construction License"
- Exemption from the payment of property tax on motor vehicles used
- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the tax on "Registering and Shipment of License Plates and Moving Books of State Vehicles"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the balance sheet
- Reduction in the payment of rights for the issuance of construction licenses
- Reduction of payment of rights for connection to the drinking water network
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

## 31. Quintana Roo

- Reduction of taxes and state rights
- Reduction in costs associated with enrollment in the "Public Property and Trade Register"
- Reduction of the transfer tax on property
- Reduction of the tax on "Registering and Shipment of License Plates and Moving Books of State Vehicles"
- Reduction of emoluments taxes for businesses that generate new jobs
- Temporary reduction of the fee tax
- Reduction of the tax on the purchase of real estate
- Reduction in the payment of rights for the issuance of construction licenses
- Special incentives for research and technological development projects
- Special incentives for projects outside the metropolitan area

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# *India in Mexico*



## India in Mexico

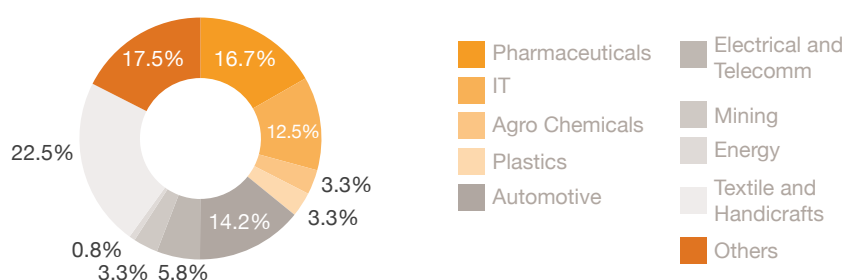
The Indian community, including working professionals and their families, is estimated to be about 8,000 in Mexico.<sup>54</sup> The Indian textile industry established a foothold in Mexico earlier than most Indian firms, back in the 1970s and 1980s, and it represents the largest number of Indian companies in Mexico. Though not large in terms of total investment, the textile industry pioneered business relations between Mexico and India. It currently represents about 22.5 percent of the total Indian companies in Mexico.

At least one Indian company is present in 17 of Mexico's 32 states. According to PwC records, combined with those of the Embassy of India in Mexico, there are about 180 Indian companies in Mexico, out of which 52 companies have a global presence. Indian investment in Mexico is responsible for the employment of approximately 30,000 individuals, according to the estimates of the Embassy of India in Mexico.

Following the textile industry, Indian companies from the pharmaceutical industry sector register the second-highest presence in Mexico, with 16.7 percent, followed by the automotive industry, with 14.2 percent, and IT, with 12.5 percent.

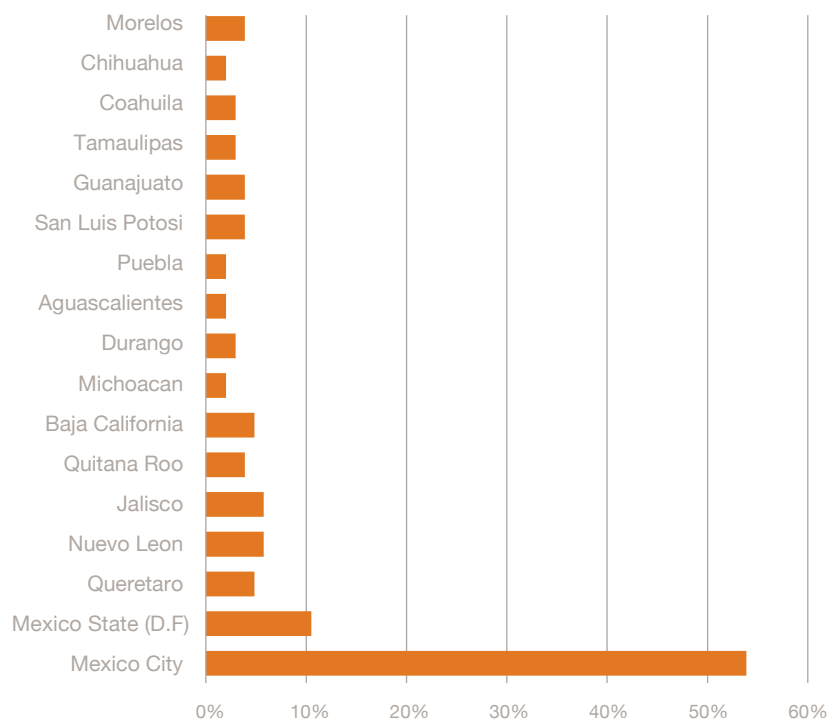
Accumulated Indian investment in Mexico, according to estimates from Desk India, PwC and the Embassy of India in Mexico, amounts to just over 2 Billion USD, including both green field and brown field investments.

Indian Companies Distribution by Sector, %



Source: Desk India PwC Mexico, and the Embassy of India in Mexico

Concentration of Indian companies according to location, % of total Indian companies



Source: Desk India, PwC Mexico and the Embassy of India in Mexico

<sup>54</sup> Embassy of India in Mexico.

The majority of Indian companies – more than 50 percent – are present in Mexico City, and the State of Mexico, followed by Jalisco and Nuevo León.

The Bajío region, which is comprised of Aguascalientes, Guanajuato, Queretaro and Jalisco, has many Indian companies, mainly in automotive manufacturing because of the states’ incentives\* and location benefits (close to major OEMs).

**States with a presence of Indian companies**

The following is a map portraying the presence of Indian companies in Mexico



The following represents the map according to the states and presence of all the prominent Indian companies in Mexico:



#### Mexico City and State of Mexico:

Accord Farma  
Zydus Pharmaceuticals  
TCS Mexico City  
Micro Pharmaceuticals  
Lupin Pharma  
Tech Mahindra  
Aspen Labs  
Emcure Pharma  
UPL Agro  
Sun Pharma  
WIPRO  
Indorama Ventures Polymers  
Torrent Pharma  
H.U.T International  
JK Tornel  
Glenmark Pharmaceuticals  
Macleods Pharma  
Bajaj Auto Ltd  
Claris Lifesciences  
ParleG  
Tejas Networks  
Axis Clinicals  
Impca Pharama  
Arcelor Mittal Mexico

#### Puebla and Morelos

PMP Auto (Puebla)  
UQUIFA Pharma (Morelos)  
Amerox, part of Hetlabs Group India (Morelos)  
Dr. Reddy's Laboratories (Morelos)  
Samwardhana Motherson Pegiform (Puebla)

#### Bajío region + Michoacán

Mahindra Mexico (Aguascalientes)  
WIPRO (Jalisco)  
RSB Transmission (Guanajuato)  
Sandhar Technologies Ltd. (Guanajuato)  
Spark Minda KTSN (Querétaro)  
Comestel Automotive Technologies (Branch of Comstar Technologies) (Guanajuato)  
Uno Minda (Querétaro)  
Servicios Siderúrgicos Integrados (Michoacán)  
HCL Technologies (Jalisco)  
Tata Consultancy Services (Jalisco)

#### Nuevo León, Tamaulipas and San Luis Potosí

Infosys Technologies (Nuevo León)  
WIPRO Technologies (Nuevo León)  
PKC Group (Nuevo León)  
Impco – a Symphony Ltd. subsidiary (Nuevo León)  
Samwardhana Motherson Reflectec Automotive Vision Systems (San Luis Potosí)  
MSSL Wiring Systems (San Luis Potosí)  
Varroc Group (Nuevo León)  
Motherson Techno Precision (San Luis Potosí)  
KEC International (Nuevo León)

#### Chihuahua, Durango, Coahuila, Baja California, Baja California Sur

Sakthi Automotive Group (Durango)  
Alphabet Saltillo – Part of Samwardhana Motherson Group (Coahuila)  
Suprajit – Wescon (Chihuahua)  
Vijai Electricals (Durango)  
Hexaware Technologies (Coahuila)  
Industrias Apon (Baja California)  
Global Packing Solutions (Baja California)  
PKC Group (Coahuila)

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# *Interviews of Prominent Indian Companies in Mexico*

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*To bring you the experience of the experienced, we have interviewed 14 executives of successful companies spanning across multiple sectors. From these interviews, we hope that you get the first-hand insights of doing business in Mexico. Interviews of these executives contain their subjective experience divided into mainly 2 parts. First is a qualitative review, which portends their experience through numeric values, and second a business review that shares their personal experience and insights.*

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# JK Tyre & Industry Limited

## Mr. Krishnakumar Joshi

Executive Director

JK Tornel S.A. de C.V.

### General Information

<b>Mexican Entity Name:</b>	<b>JK Tornel S.A. de C.V.</b>
Years of experience with Mexican Entity	6
Industry	Auto-parts
Mexican Entity Revenue	Approx. USD 158 Million
Group Revenue	Approx. USD 1.1 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	10
Support from the government, regulators and government bodies, and ease business?	9
Ease in finding labor force?	8
Knowledge and education of your employees in your industry?	10
Ease of understanding and compliance of tax and taxation systems?	10
Ease of applying for, understanding of and rewarding of incentives from the government?	9

### Business Review

#### **Please tell us more about your company's history in Mexico.**

Tornel company & brand has been in the Mexican market for 84 years as the only Mexican technology tyre manufacturer in this country.

After 4 generations the brand has been participating in the domestic and LATAM markets with products manufactured in the 3 plants located in Mexico

After been a well-known brand in Mexico, it was acquired by JK Tyre in 2008.

#### **How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

JK Tyre & Industries is ranked in the world wide tyre manufactures in the place 18 with a production of 35 m. tyres annually.

There has always been interest to have plants in the American continent.

After 3 years of making deep analysis of several issues as product quality, manufacturing procedures, financial situation, and market participation opportunities between a lot of more issues JK tyre took the decision to invest overseas in Mexico.

#### **What were the top three reasons you decided to invest in Mexico?**

- To be close to the market. IK India was already exporting products to LATAM. This acquisition has helped to increase sales and deepen presence.
- Mexico is second largest economy in LATAM and relatively high growth rate in LATAM.
- Geographic location of the country. Mexico has commercial trade agreements with most of LATAM countries. NAFTA is great advantage to be competitive and serve US Market.



**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

The financial actual situation has change the value of the Mexican peso vs. USD and that has been an issue that has made difficult for expansion and serve foreign currency debts.

The internal inflection has increased considerably in last 3 years.

Almost 50% of raw material in imported, high increase in the landed material cost.

Another important issue has been the Chinese product imports to Mexico. Mexico is the only country having no antidumping duty on Chinese Products. USA, Brazil, Colombia have imposed antidumping duty on Chinese product. As a result Mexico is only large open market available in Americas for China to dump their products.

China has more than 50% market share in domestic market due to very low prices.

We are hopeful that Mexico Economy will grow faster, and Government will support local industry.

**What do you think about Mexico's transport system and infrastructure facilities?**

- Mexico has a very large terrestrial infrastructure to transport our products by truck.
- For the imports and exports we have good sea ports in the main regions of the country.
- Unfortunately the insecurity in the highways has increased and our shipments are always under risk.

**How do you perceive the banking system and credit access in Mexico?**

There are a lot of banks in Mexico, however the interest rates are high. Banks offer several versions of credits and loan options for the companies.

**How do you perceive security issues in Mexico?**

Unfortunately delinquency has been getting worse in Mexico under a lot of issues. Transport costs have substantially increased due to thefts, and increase in transit insurance cost, and also due to increase in fuel prices.

Recent frequent earthquakes has increased general insurance premiums.

High inflation, a slow growing in the economy has affected very hard the financial situation of the population.

We hope that the situation will improve with the next government and general elections in July 2018.

**Does your company import/export your products? If so, then what is your experience with the Mexican customs department?**

Our major raw material is natural rubber which is not manufactured in Mexico. We import almost 50% of our raw material, from several countries.

We also import tyres from our plants in India. That help us to complete our product line to maintain the product portfolio with all kind of product lines, designs, sizes and services to keep offering to the Mexican market a complete product line.

Our 40 % revenue comes from Exports. Exports are mainly to LATAM and USA.

We also have an international certification "CTPAT" that make us have the most severe and caring procedures of security in our company.

That allows us to have an effective conduction in customs for all of our import and export shipment operations.

Our overall experience is good of customs department and regulations.

**Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?**

The biggest challenge has been to have a constant analysis of the financial, marketing and government procedures to keep always our plants in the best and effective production and quality levels. Mexico being open economy necessity is to keep pace with technology and cost.

**Please share with us the best memories you have about doing business in Mexico.**

Recently we did major labor reform. It was possible only because very high support from the government authorities.

**What do you think are the similarities and differences between the Mexican and Indian business cultures?**

There are a lot of similarities between both cultures.

Both countries have a constant growing impulse that you can find in every member of the staff.

Workers, management team, technical staff - everybody in our company is always looking to improve the systems and company production systems.

That help us to have a constant and great understanding between executives from India and the Mexican members of the team at all company levels.

Efficiency of workmen and speed to move things in government are shed better in Mexico over India.

What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?

- Workmen productivity.
- Ease of doing business.
- zMany trade agreements with neighboring countries.

**What advice would you give to companies or persons looking to invest in Mexico?**

To keep having confidence that Mexico is a great territory to invest because it will offer growth for the future.

**Finally, how would complete this sentence: Mexico for me is ... ?**

A promising place to work and invest.

# Dr. Reddy's Laboratories Limited

**Mr. Karun Gaur**

Director

Industrias Quimicas Falcon de Mexico S.A. de C.V.

## General Information

<b>Mexican Entity Name:</b>	<b>Industrias Quimicas Falcon de Mexico S.A. de C.V.</b>
Years of experience with Mexican Entity	4.5
Industry	Pharmaceuticals
Mexican Entity Revenue	USD 60 Million
Group Revenue	USD 2.2 Billion

## Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	9
Support from the government, regulators and government bodies, and ease business?	8
Ease in finding labor force?	7
Knowledge and education of your employees in your industry?	7
Ease of understanding and compliance of tax and taxation systems?	8
Ease of applying for, understanding of and rewarding of incentives from the government?	5

## Business Review

**Please tell us more about your company's history in Mexico.**

Dr. Reddy's acquired a pharmaceutical raw material manufacturing facility in 2006 from Roche. The facility is one of the largest to manufacture Naproxen and Naproxen Sodium, widely used NSAIDs in the world.

**How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

The transfer of ownership was very smooth. Local bodies were very supportive in making the required regulatory and administrative changes.

**What were the top three reasons you decided to invest in Mexico?**

1. One of the leading pharmaceutical market and proximity to US
2. State of art manufacturing facility and ease of getting skilled and non-skilled labor
3. Synergy with the Dr. Reddy's business and product portfolio

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

Pharmaceutical industry is growing with increased penetration of health services globally. Challenges are to keep the cost of medication low so that it is affordable to masses and on the other hand keep on investing in new drug development to bring newer and safer therapies. Industry has to keep a balance between the two. Mexico has a robust pharmaceutical industry and a comprehensive universal public healthcare system. With more and more pharmaceutical products going to lose patent protection in coming years, the cost of medication is bound to come down. However the regulators have to ensure good quality products by implementation of strict regulations.

**What do you think about Mexico's transport system and infrastructure facilities?**

Mexico has a very good road network and land transport system. The whole country is very well connected by good quality road network. All the major business centers are connected with international air network. The access to Pacific and Atlantic oceans with good ports makes Mexico a very accessible destination.

**How do you perceive the banking system and credit access in Mexico?**

Mexican Peso is a fully convertible currency and this country has many international banks that have established themselves here. The banking system is of international standard. However, the rate of credit is still to be matched with international rates

**How do you perceive the security issues in Mexico?**

This is one of the major concerns as criminal activities amongst organized gangs keep happening. This however doesn't affect the normal life and day to day business activities, but brings a sense of fear amongst businesses and investors.

**Does your company import/export your products? If so, then what is your experience with the Mexican customs department?**

We export 70-80 % of our production across the globe and have no major issues with Mexican Customs department. The process and systems are user friendly.

**Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?**

The biggest challenge was integrating different cultures and business practices. Dr. Reddy's being a pharma company with global presence and more than 20 nationalities working with the organization, it was overcome by understanding and customizing people and business practices as per local requirements.

**Please share with us the best memories you have about doing business in Mexico.**

Way back in 2006 and since then, despite the change in management, a smooth transition helped in maintaining the productivity resulting in the facility emerging as a leading manufacturing site. This was made possible due to a very open and welcoming nature of Mexico culture.

**Please share with us one must-do and one don't about doing business in Mexico.**

**Do's:** Act local, think global. Accept local culture, environment and people practices.

**Don't:** Do not impose pre-conceived ideas and systems. Remember that one size may not fit all.

**What do you think are the similarities and differences between the Mexican and Indian business cultures?**

Both countries have similar business practices where people to people connect has more weightage than the process. A lot is being done by communicating and connecting with the human resources on a personal level. This is because of the friendly and extrovert nature of people from both countries.

Mexicans maintain a very good work life balance which is very role specific. However, by and large the balance maintained by the Mexican helps them handle work in a better way.

**What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?**

Indian companies can learn to adapt and implement processes with discipline from large Mexican companies. This seems to be a reason for Mexico being a preferred foreign investment destination.

Global outlook with a goal to expand internationally is what Mexican companies can adapt from Indian companies.

**What advice would you give to companies or persons looking to invest in Mexico?**

- a) Understand the local market access for a foreign investor
- b) Understand local culture, business practices and political scenario
- c) Deal transparently as many of the businesses in Mexico are not public listed and information may not be available in public domain

**Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.**

Mexico is a focus market for us and we are looking at expanding our footprint in the country by strengthening our manufacturing base and expanding our presence in the market.

**Finally, how would complete this sentence: Mexico for me is ... ?**

Exciting, welcoming, challenging but amazing.

# WIPRO Limited

## Mr. Ituriel Mata

Country Manager, Mexico

WIPRO Technologies S.A. de C.V.

### General Information

<b>Mexican Entity Name:</b>	<b>WIPRO Technologies S.A. de C.V.</b>
Years of experience with Mexican Entity	6
Industry	Information Technology
Mexican Entity Revenue	USD 100 Million
Group Revenue	USD 8 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	7
Support from the government, regulators and government bodies, and ease business?	7
Ease in finding labor force?	8
Knowledge and education of your employees in your industry?	8
Ease of understanding and compliance of tax and taxation systems?	7
Ease of applying for, understanding of and rewarding of incentives from the government?	5

### Business Review

**Please tell us more about your company's history in Mexico.**

WIPRO Mexico was started in 2006 and has invested from 3-5 years to understand the Mexican market, regulations, etc. In the last two years, it has grown to 1,800 employees and approximately 50% year on year.

**How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

3 months

**What were the top three reasons you decided to invest in Mexico?**

- 1) Local market
- 2) Talent availability
- 3) Global market

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

- 1) Digital transformation of the country and market companies
- 2) Integrated and consolidated services
- 3) Increasing efficiencies market to capture local and global market

**What do you think about Mexico's transport system and infrastructure facilities?**

Not up to the expectations.

**How do you perceive the banking system and credit access in Mexico?**

On a scale of 1 to 10, I say 6.

**How do you perceive security issues in Mexico?**

On a scale of 1 to 10, 1 being worst, I say 5 (from business perspective).

**Does your company import/export your products? If so, then what is your experience with the Mexican customs department?**

No, only services.

**Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?**

Finding right talent and retaining it.

**Please share with us the best memories you have about doing business in Mexico.**

Mexico is one of the few open economies receptive for foreign investment and good talent availability.

**Please share with us one must-do and one don't about doing business in Mexico.**

**Do's:** learn Spanish.

**Don't:** do not underestimate the security issue.

**What do you think are the similarities and differences between the Mexican and Indian business cultures?**

**Similarities:**

- A) Relationship oriented
- B) Culture defines the pace of business decisions

**Differences:**

- A) Size of the market
- B) Dependence of local language

**What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?**

**Indians from Mexicans:**

- 1) How to adapt the market conditions to grow the business.
- 2) Learn how to work hard and enjoy hard

**Mexicans from Indians:**

- 1) Cultural adaptability
- 2) Global mindset

**What advice would you give to companies or persons looking to invest in Mexico?**

Always consider the following:

- 1) Market
- 2) Competition
- 3) Available talent

**Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.**

Double in the next 3-5 years.

**Finally, how would complete this sentence: Mexico for me is ... ?**

Home!



## Bajaj Auto

### Mr. Dharmesh Banerji

General Manager, International Business (Latin America)

Bajaj Auto Mexico (Branch Office)

#### General Information

Mexican Entity Name:	Bajaj Auto Mexico
Years of experience with Mexican Entity	5
Industry	Automotive
Mexican Entity Revenue	Not Disclosed
Group Revenue	Approx. USD 3.5 Billion

#### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	9
Support from the government, regulators and government bodies, and ease business?	8
Ease in finding labor force?	9
Knowledge and education of your employees in your industry?	9
Ease of understanding and compliance of tax and taxation systems?	8
Ease of applying for, understanding of and rewarding of incentives from the government?	9

#### Business Review

**Please tell us more about your company's history in Mexico.**

We set up our representative office in Mexico around eight years ago. The logic behind setting up the office is to be closer to the market and work closely with our distributors in the North Latin America region.

**How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

It took us five months to set up our office in Mexico City. It was a smooth experience in terms of starting operations, and we could settle in easily. The facilities and infrastructure are world class.

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

The motorcycle industry has bucked the overall trend of economic slowdown in Mexico over the past couple of years. It has grown strongly and we expect this trend to continue. Bajaj Auto is confident of doing well in the near future.

**What do you think about Mexico's transport system and infrastructure facilities?**

We rate it high in terms of quality of infrastructure. Different parts of the country are well connected by different means of transport.

**How do you perceive the banking system and credit access in Mexico?**

The banking system is strong, with leading international banks having a wide presence. Credit is easily accessible for both individual consumers and corporates.

***How do you perceive security issues in Mexico?***

Parts of the country are unsafe due to narcotics problems. However, by taking due precautions that an expat must take in any country, we have not faced any issue so far.

***Does your company import/export your products? If so, then what is your experience with the Mexican customs department?***

No, we do not conduct import/ export through our Mexico office. Goods are exported from Bajaj Auto India to our Mexican distributor. Our experience with the customs department has been positive.

***Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?***

None.

***Please share with us the best memories you have about doing business in Mexico.***

It has been a very positive experience throughout. Mexico is welcoming for foreign companies. The local culture is rich in traditions and the people are very friendly and warm. It adds to the overall experience of living and working here.

***Please share with us one must-do and one don't about doing business in Mexico.***

**Must Do:** Pay attention to local etiquettes and sensitivities.

**Don't:** Pay attention to security and the background of companies with which you are doing business, especially source of funds.

***What do you think are the similarities and differences between the Mexican and Indian business cultures?***

**Similarities:** Businesses are hierarchical.

**Differences:** Mexican are relatively more process oriented and formal. Indians are more efficiency- and cost-oriented and more intense. Mexicans are relaxed.

***What advice would you give to companies or persons looking to invest in Mexico?***

Geographically, Mexico is a vast country. Distribution and reach are a key challenge to overcome.

***Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.***

Mexico is an exciting market for Bajaj products. We would like to be a leading brand in the motorcycle and small commercial vehicle market, fulfilling Mexican consumers' needs to their satisfaction.

***Finally, how would complete this sentence: Mexico for me is ... ?***

An exciting place with a plethora of opportunities for Indian companies across different sectors.

## Cadila Healthcare Limited (Zydus)

**Mr. M.S. Nagendra**

**Director General**

Zydus Pharmaceuticals Mexico S.A. de C.V.

### General Information

<b>Mexican Entity Name:</b>	<b>Zydus Pharmaceuticals Mexico S.A. de C.V.</b>
Years of experience with Mexican Entity	4
Industry	Pharmaceuticals
Mexican Entity Revenue	Not Disclosed
Group Revenue	USD 1.4 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	8
Support from the government, regulators and government bodies, and ease business?	8
Ease in finding labor force?	8
Knowledge and education of your employees in your industry?	8
Ease of understanding and compliance of tax and taxation systems?	7
Ease of applying for, understanding of and rewarding of incentives from the government?	7

### Business Review

**Please tell us more about your company's history in Mexico.**

We started our commercial operation in July 2013. We focus our RX business in CNS segment. We laid out our plan to achieve critical mass to become relevant to the market and to the Group.

**How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

I joined the company in February, 2015. As it was briefed to me that we registered our subsidiary in 2012 and started registering our products in record time.

**What were the top three reasons you decided to invest in Mexico?**

1. Attractive Macro Economic Indicators.
2. Market size.
3. Market opportunity.

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

I feel there are 3 trends emerging in Mexico pharmaceutical Market.

1. The cost pressure in GX and Government Tenders leading to huge pressure on P&L.
2. The increasing HR and operational cost with moderate market growth limiting the investment in RX segment.
3. From long term perspective, growing socio-demographic trend will have very positive impact on pharmaceutical sector.

In order to mitigate the future risk in RX business, we focus on differential tech driven products and our own innovated products.

In GX and Government tenders, we try to be selective and less bullish from the future perspective.

From the socio- demographic perspective remain committed to life style disease segments.

***What do you think about Mexico's transport system and infrastructure facilities?***

The transport system and infrastructure is getting better every year. Even though Mexico is one among top 10 oil producing country in the world, no benefit found in cost of transportation. With respect to pharmaceutical logistics, we remain dependent on Air cargos beyond 500km- 700Km distance. Which turns out to be expensive.

***How do you perceive the banking system and credit access in Mexico?***

Banking systems in Mexico is well guarded and evolved. Long term financing practice is limited in Mexico. Less clarity on resolution and crisis management framework will lead to uncertainty in the mind of investors.

***How do you perceive security issues in Mexico?***

This point remains concern for the foreign investor and expat community. Need strong political will to improve on security front.

***Does your company import/export your products? If so, then what is your experience with the Mexican customs department?***

We import our product from India. The systems are well established and hassle free.

***Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?***

Biggest challenge for any foreign company to run their business in Mexico is "learning the Mexican ethos and adopt". Then introduce best reliable systems to run the business.

In Mexico, Labor laws mostly favor's employees and all employees are aware about their rights. Compliance is the buzz word to run the company and not to pray fall for short cuts from the long term perspective.

***Please share with us the best memories you have about doing business in Mexico.***

Lot of good memories, best part is Mexican warm attitude towards any foreigners will make me feel good.

***Please share with us one must-do and one don't about doing business in Mexico.***

**Must do:** Majority of Mexican love soft and gentle behavior's in office. We must practice this irrespective of the situation.

**Don't Do:** Any shortcuts to meet the local regulations.

***What do you think are the similarities and differences between the Mexican and Indian business cultures?***

**From the Similarity perspective,** you get lot of skilled work force.

**From the difference perspective,** Indian work culture is more of expressiveness in nature, while Mexican work culture is more of gentle, respect and rights.

***What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?***

In today's context most of the corporate runs based on Global best practice standards and regulations. Irrespective of the origin compliance is the buzz word to run the company.

***What advice would you give to companies or persons looking to invest in Mexico?***

From my perspective Mexico is a great land of opportunity for pharmaceutical business. Set the aspiration based on your strength and market need.

***Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.***

In next five years we want to be one among top five CNS company in Mexico.

***Finally, how would complete this sentence: Mexico for me is ... ?***

Land of opportunity.

## KEC International Ltd

### Mr. Guillermo Luna Hornelas

Vice President, Business Head

SAE Towers Mexico S. de R.L. de C.V.

#### General Information

<b>Mexican Entity Name:</b>	<b>SAE Towers Mexico S. de R.L. de C.V.</b>
Years of experience with Mexican Entity	2.5
Industry	Electric Utility
Mexican Entity Revenue	USD 70 Million
Group Revenue	USD 1.2 Billion

#### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	9
Support from the government, regulators and government bodies, and ease business?	10
Ease in finding labor force?	9
Knowledge and education of your employees in your industry?	9
Ease of understanding and compliance of tax and taxation systems?	5
Ease of applying for, understanding of and rewarding of incentives from the government?	5

#### Business Review

**Please tell us more about your company's history in Mexico.**

SAE Towers was bought out of a U.S. investment firm in September 2010. SAE has been supplying towers for more than 20 years for the NA markets.

**What were the top three reasons you decided to invest in Mexico?**

Location, availability of qualified labor, availability of raw materials.

**What do you think are the current industry trends in your sector, and how do you see these affecting business over the next few years?**

Currently, there is a contraction as a result of NAFTA renegotiations, as well as the political transition in Mexico. There should be healthy growth once these hurdles are cleared.

**What do you think about Mexico's transport system and infrastructure facilities?**

There is a total lack of railroads. Truck transport is reliable, but way too expensive.

**How do you perceive the banking system and credit access in Mexico?**

Very traditional, in a bad way. They don't like to take any risks.

**How do you perceive security issues in Mexico?**

There are some red spots for sure, but in Monterrey, we are very lucky not to have any reported incidents within our employees.



***Does your company import/export your products? If so, then what is your experience with the Mexican customs department?***

We do both. Exporting is a lot easier than importing, since the rules are changed without any notice for certain “sensitive” imports. We only deal with steel, so the barriers we face do not make much sense.

***Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?***

The tax structure is complex and getting the IVA back from the government is challenging. We became INMEX-certified and became members of Caintra (the Nuevo León Manufacturing Chamber). This helped expedite getting our money back and eased our cash flow.

***Please share with us the best memories you have about doing business in Mexico.***

Supplying emergency towers for the estate of Chiapas and getting electricity back to communities in record time.

***Please share with us one must-do and one don't about doing business in Mexico.***

You must get everything on paper. Document your agreements and deals. Don't lose your temper while dealing with bureaucracy. It will kick you back.

***What do you think are the similarities and differences between the Mexican and Indian business cultures?***

Family values are top priorities for both cultures, so flex time and family time are important benefits.

***What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?***

From India, long-term commitment and thinking; from Mexico, an urgency to get things done.

***What advice would you give to companies or persons looking to invest in Mexico?***

Act local. Hire local people with local knowledge, Think global...

***Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.***

Profitable growth, but also a very challenging situation.

***Finally, how would complete this sentence: Mexico for me is ... ?***

Home.

# Lupin Limited

## Mr. Paulo Tadeau de Resende

### Director General

Laboratorios Grin S.A. de C.V.

### General Information

<b>Mexican Entity Name:</b>	<b>Laboratorios Grin S.A. de C.V.</b>
Years of experience with Mexican Entity	1
Industry	Pharmaceuticals
Mexican Entity Revenue	Approx. USD 35 Million
Group Revenue	Approx. USD 2.5 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	N/A Acquisition
Support from the government, regulators and government bodies, and ease business?	N/A Acquisition
Ease in finding labor force?	7
Knowledge and education of your employees in your industry?	6
Ease of understanding and compliance of tax and taxation systems?	7
Ease of applying for, understanding of and rewarding of incentives from the government?	6

### Business Review

#### **Please tell us more about your company's history in Mexico.**

Lab Grin is one of the most respected ophthalmic companies in Mexico, with over 70 years of overall experience. It ranks Number Two among all ophthalmic companies in Mexico by volume and is one of the fastest-growing companies in this sector.

#### **How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

It is not applicable to us, as we entered through acquisition

#### **What were the top three reasons you decided to invest in Mexico?**

A large pharmaceutical market, an existing company with established goodwill in the market and the possibility to enter in newer therapy areas.

#### **What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

A larger focus on generics, leading to price competition and margin erosion. High FX fluctuations, leading to higher costs of raw materials. Changing Cofepris (the Federal Commission for the Protection against Sanitary Risks) guidelines, leading to regulatory impact.

#### **What do you think about Mexico's transport system and infrastructure facilities?**

The system is well equipped for transport of goods. However, some sectors are reportedly not safe and require improvement.

***How do you perceive the banking system and credit access in Mexico?***

The banking system is at a par with most of the nations, with the presence of some world-class banks, such as Citibank, HSBC and Santander. This enables access to corporate level negotiations and privileges,

***How do you perceive security issues in Mexico?***

Security issues are restricted to certain pockets of the country. The rest of the places are as safe as any other place in the world. However, improvements can always be made.

***Does your company import/export your products? If so, then what is your experience with the Mexican customs department?***

Yes. Customs rules are complicated and require frequent clarifications with the agencies.

***Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?***

Market domination by major customers, and difficult negotiations.

***Please share with us the best memories you have about doing business in Mexico.***

Aggressive organic business growth, indicated in audited market data,

***Please share with us one must-do and one don't about doing business in Mexico.***

One should speak Spanish and try to mix in with the culture. Impatience should be avoided, as this does not help in anything.

***What do you think are the similarities and differences between the Mexican and Indian business cultures?***

Mexican business culture, similar to that of India, is focused on delivering results. The difference between the two would be the turnaround times.

***What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?***

Indian companies can learn to be flexible and allow a good-work life balance. Mexican companies can learn how to inculcate the culture of belongingness and accountability.

***What advice would you give to companies or persons looking to invest in Mexico?***

Safeguard the FX exposure, carry out rigorous due diligence on work culture to identify and address differences.

***Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.***

Growing in the existing therapy areas, and expanding to new therapy areas.

***Finally, how would complete this sentence: Mexico for me is ... ?***

An excellent country to live in and to do business in.

## Tech Mahindra

**Mr. Jenny Jacob,**  
Vice President, CALA  
Tech Mahindra de Mexico

### General Information

Mexican Entity Name:	Tech Mahindra de México
Years of experience with Mexican Entity	3
Industry	Multiple
Mexican Entity Revenue	More than USD 40 Million
Group Revenue	Approx. USD 4.5 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	8
Support from the government, regulators and government bodies, and ease business?	8
Ease in finding labor force?	8
Knowledge and education of your employees in your industry?	7
Ease of understanding and compliance of tax and taxation systems?	7
Ease of applying for, understanding of and rewarding of incentives from the government?	8

### Business Review

***Please tell us more about your company's history in Mexico.***

We started in 2015 and have rapidly expanded, serving some of the large telecoms and enterprises in Mexico. Our goal is to bring global best practices to Mexico and yet be local in Mexico. As a testimony of that, we are around 95 percent local employees, with a few expats from other countries.

***How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?***

It took the normal time one would expect, and in the initial days, we were definitely challenged in establishing our brand and attracting talent to the company. Over the years, we have established ourselves, but we still have a long way to go compared to our more-established peers who have spent a lot more years in the region.

***What were the top three reasons you decided to invest in Mexico?***

Proximity to the United States, same time zone, some large MNCs setting up shop in Mexico, telcoms entering the market here, augmenting our large footprint in the rest of Latin America were some of the reasons.

***What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?***

I think the Mexican market is undergoing a huge transformation in terms of smart phone penetration, better regulatory reforms and startup culture with a big focus on innovation, skill upgrade, etc. All these present opportunities for companies like us to bridge the digital divide and bring in transformation to the business and make a positive impact on the lives of the people of Mexico.

**What do you think about Mexico's transport system and infrastructure facilities?**

It certainly has improved in the last few years, but a lot still needs to be done to improve traffic congestion in a lot of portions of the city.

**How do you perceive the banking system and credit access in Mexico?**

I think it has worked for us, and ease of investing by our corporate into Mexico was not cumbersome at all.

**How do you perceive security issues in Mexico?**

I feel Mexico City is relatively safe. Of course, you do hear of crime, but then when you compare it to that of other world cities, you hear similar stories. All in all, we feel safe.

**Does your company import/export your products? If so, then what is your experience with the Mexican customs department?**

We sometimes do import hardware for specific projects and it does take a lot of effort for it to clear customs.

**Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?**

Branding has been a challenge since the common perception is that we are an Indian company which doesn't understand the local culture. We have worked hard to move locals into leadership positions to better connect with employees and that is helping to change the perception.

**Please share with us the best memories you have about doing business in Mexico.**

Clearly, winning large deals which shows the confidence the customers have in us, Our annual Christmas fair, where we bring in all our employees and have a great time, and, lastly, the experience of building a business from scratch has been a great memory.

**Please share with us one must-do and one don't about doing business in Mexico.**

I don't try to boil the ocean in terms of what your company can do, but do start small and remain focused on making that a success. One must-do: Build relationships constantly. Our Indian Embassy is probably the most supportive organization that I have seen and it supports us throughout.

**What do you think are the similarities and differences between the Mexican and Indian business cultures?**

Both cultures are extremely hardworking, focusing on family values, traditions and culture. Differences are certainly that, given English is not so prevalent in Mexico, it restricts the country as a whole from reaching greater heights.

**What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?**

I think there are more similarities than differences when it comes to learning from each other. I do think via government-enabled trade programs there is going to be greater collaboration between Indian and Mexican companies.

**What advice would you give to companies or persons looking to invest in Mexico?**

The perception of Mexico outside the country is sometimes seen through a lens of crime and poverty. Mexico has come a long way and it is a great destination to do business. Language can be an issue, but if you are able to overcome that, it is a great place to expand.

**Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.**

We want to double our headcount in the next couple of years and be counted among the top three IT services company in Mexico and Latin America.

**Finally, how would complete this sentence: Mexico for me is ... ?**

Home.



# Indorama Ventures Public Company Limited

## Mr. Anand Agarwal

CFO and General Admin Director

Indorama Ventures Servicios Corporativos, S. de R.L. de C.V.

### General Information

<b>Mexican Entity Name:</b>	<b>Indorama Ventures Servicios Corporativos, S. de R.L. de C.V</b>
Years of experience with Mexican Entity	7
Industry	Chemical
Mexican Entity Revenue	Approx. USD 520 Million
Group Revenue	USD 8.41 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	10
Support from the government, regulators and government bodies, and ease business?	8
Ease in finding labor force?	10
Knowledge and education of your employees in your industry?	10
Ease of understanding and compliance of tax and taxation systems?	10
Ease of applying for, understanding of and rewarding of incentives from the government?	5

### Business Review

**Please tell us more about your company's history in Mexico.**

An existing facility in Queretaro was acquired in March 2011.

**How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

Since this was an acquisition, registration was not required. We did face teething hurdles initially, however, now we don't have any unfavorable experience.

**What were the top three reasons you decided to invest in Mexico?**

Indorama is a global company, therefore, to have a global footprint to better serve customers, Mexico was part of doing business.

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

It is a very stable industry. Consumption is static, with very marginal growth. Imports may disturb the industry and affect business in coming years.

**What do you think about Mexico's transport system and infrastructure facilities?**

Considering our industry, the transport system and infrastructure are supportive. However, augmentation of a robust rail transportation and solid infrastructure supporting rail transportation would help the country grow.

**How do you perceive the banking system and credit access in Mexico?**

The banking system is interactive, open, systematized and controlled. Credit accessibility is not an issue.

***How do you perceive security issues in Mexico?***

Off, late - security is an issue.

***Does your company import/export your products? If so, then what is your experience with the Mexican customs department?***

We have both imports and exports with sizable volume and value. We still observe bureaucracy and a lack of transparency dealing with the department.

***Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?***

As a part of normal business operation, we face and solve day-to-day challenges interacting various external agencies through our internal employees.

***Please share with us the best memories you have about doing business in Mexico.***

Mexico is a country where there are lots of opportunities to do business, provided you follow the laws of land.

***Please share with us one must-do and one don't about doing business in Mexico.***

Have patience when dealing with external stakeholders. Never bypass any legal process.

***What do you think are the similarities and differences between the Mexican and Indian business cultures?***

There are lots of similarities, mainly culture and adaptability. The difference, according to me, is a lack of proactiveness and foresightfulness.

***What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?***

To give Mexican companies a proper and timely response and a fair business relationship.

***What advice would you give to companies or persons looking to invest in Mexico?***

This is a country with ample of opportunities to business of any nature.

***Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.***

To be a world-class chemical company making great products for society.

***Finally, how would complete this sentence: Mexico for me is ... ?***

A great place to do business, live and enjoy life.

# Hetero Drugs Limited

## Mr. Gurulinga Konanur

### Director Manager Mexico

Amarox Pharma S.A. de C.V. (Previously Name – Hetlabs Mexico S.A. de C.V.)

#### General Information

<b>Mexican Entity Name:</b>	<b>Amarox Pharma S.A. de C.V.</b>
Years of experience with Mexican Entity	2+
Industry	Pharmaceuticals
Mexican Entity Revenue	USD 20 Million
Group Revenue	USD 1.8 Billion

#### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	10
Support from the government, regulators and government bodies, and ease business?	9
Ease in finding labor force?	9
Knowledge and education of your employees in your industry?	7
Ease of understanding and compliance of tax and taxation systems?	8
Ease of applying for, understanding of and rewarding of incentives from the government?	7

#### Business Review

##### **Please tell us more about your company's history in Mexico.**

Considering the pharma market size and fact that it is the 10th-most populated country in the world, Mexico became one of the important geographic areas that we wanted to enter. With this foresight, we decided to start operations in 2011. We have recently acquired a manufacturing plant in Cuernavaca, which should be fully operational by the fourth quarter of 2018.

##### **How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

It is important to find the right person and company to help you with the registration process. And, luckily, because of that, we registered our company in two months, and were supported by Mexican government authorities throughout the process.

##### **What were the top three reasons you decided to invest in Mexico?**

We felt that the current population demographics, market size and Mexico's position among the top 10 to 12 markets in the world made up a strong case for us to enter the market.

##### **What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

Looking back a decade, the trends looked extremely positive in the beginning. Currently, they don't seem the same. Prices are taking a tailspin and volumes are not increasing as we would have expected. And though the market may seem flat for some time, especially compared to the market in Brazil, Mexico can prove its strategic geographical advantage to help us enter into new marketplaces.

**What do you think about Mexico's transport system and infrastructure facilities?**

The current and growing transport and infrastructure investments in Mexico show great promise for businesses willing to enter the Mexican market.

**How do you perceive the banking system and credit access in Mexico?**

The banking system is very easy to manage, with great credit access, but in many ways, it is expensive too.

**How do you perceive security issues in Mexico?**

Like in any other country, we recommend taking precautions. If taken, business and life are easy, smooth and enjoyable.

**Does your company import/export your products? If so, then what is your experience with the Mexican customs department?**

Yes, we are one of the biggest players in the API segment and, in a few cases, we are unique providers in this country. We also import many finished products regularly from India in the area of cardio, CNS, oncology and others and we recommend companies to understand the customs system for tax purposes in order to avail benefits, if possible. The system itself is smooth.

**Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?**

The regulatory system in Mexico's pharma industry is very stringent and it has been changing constantly over last five-plus years. It is important for companies to stay in touch of the latest updates and anticipate certain uncertainties.

**Please share with us the best memories you have about doing business in Mexico.**

The majority of the people in Mexico are kind and helpful. I share great personal and professional relations with many professionals and business owners.

**Please share with us one must-do and one don't about doing business in Mexico.**

**Must Do:** The language barrier is a problem, so it is important to look for Indian professionals with a knowledge of the Spanish language.

**Don't:** Do not enter into business relations without doing a strong background check.

**What do you think are the similarities and differences between the Mexican and Indian business cultures?**

**Similarities:** Business starts with a relation at a personal level and by building trust

**Dissimilarities:** It would be difficult to pinpoint one, as all of us, as business people, have similar goals.

**What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?**

Indian companies can learn to build strong relations personally over price competitiveness. Mexicans can learn how to make strategic decisions, how magnitude scale-up can help them to be competitive and how important it is to diversify their business (this could be in the same sector expanding the business over other geographies, cities, line expansions, etc.).

**What advice would you give to companies or persons looking to invest in Mexico?**

It's very important to understand your interest and safeguard it right from the initial days. Pay attention to market dynamics and regulatory obligations. Once you kick start your business, monitor it closely by placing down proper SPOs, processes, procedures, etc. The key is to try to find the right and qualified professionals, people and partners to help you with everything. Treat delay casually.

**Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.**

We have embarked on an aggressive journey to create a strong base for Hetero in Spanish Latin America by investing 50 Million USD to set up a manufacturing plant, which will enable us to produce a high quality and affordable medicines, creating more than 500 direct or indirect jobs in Mexico.

**Finally, how would complete this sentence: Mexico for me is ... ?**

For me, it is my second home.

## Mahindra Mexico

### Mr. Steven Smith

Senior Development Manager - Mexico

Mahindra Mexico S. de R.L. de C.V.

### General Information

<b>Mexican Entity Name:</b>	<b>Mahindra Mexico S. de R.L. de C.V.</b>
Years of experience with Mexican Entity	2
Industry	Agricultural Vehicles
Mexican Entity Revenue	Not Disclosed
Group Revenue	Approx. USD 12 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	7
Support from the government, regulators and government bodies, and ease business?	7
Ease in finding labor force?	9
Knowledge and education of your employees in your industry?	8
Ease of understanding and compliance of tax and taxation systems?	6
Ease of applying for, understanding of and rewarding of incentives from the government?	7

### Business Review

**Please tell us more about your company's history in Mexico.**

We recently began operations in Mexico, July 2017, and have spent most time and effort in developing local assembly operation and opening and expanding our dealer network

**How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

3 – 4 months. Fairly simple process as we used a local law firm to guide incorporation.

**What were the top three reasons you decided to invest in Mexico?**

India and Mexico Agricultural markets are similar in types of crops, size of farms and tractor requirements.

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

Industry size is stable with slow but steady growth. Business will grow on market demands and government stimulus/subsidy packages to Mexican Farmers.

**What do you think about Mexico's transport system and infrastructure facilities?**

Ports of entry and custom services are slow and sufficient tie needs to be allowed to import raw materials, but interior infrastructure and transportation support are adequate, but somewhat costly.



***How do you perceive the banking system and credit access in Mexico?***

Mexico's banking system is somewhat laborious due to many controls in place to protect from money laundering and illicit assets. Credit in farm sector needs improvement in availability of funds and ease of acquiring funds.

***How do you perceive the security issues in Mexico?***

For the most part good, but there are some areas that continue to be more dangerous and an amount of common sense needs to be used in these locations.

***Does your company import/export your products? If so, then what is your experience with the Mexican customs department?***

We import semi-finished tractors from India and completed assembly at our Aguascalientes plant. Customs regulations and duties are straight forward. The process of releasing goods through customs can be slower than need be until experience and a good relationship is developed with your broker.

***Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?***

Building a dealer network for sales of our tractors. We went outside the traditional existing competitive dealers and offered our products to companies related to the agricultural industry such as implement dealers, agro-chemical and services dealers and irrigation equipment dealers. People that know the farm sector and that tractors would complement their current businesses.

***Please share with us the best memories you have about doing business in Mexico.***

Personal relationships forged with supplier partners and dealers. Business in Mexico is driven by first developing a personal relationship and then the business follows.

***Please share with us one must-do and one don't about doing business in Mexico.***

Allow enough time in your business plan to complete your major objectives. Don't underestimate the abilities of potential partners. We found that many of our suppliers outperformed our requirements on most requests, in time of delivery, quality and quantity.

***What do you think are the similarities and differences between the Mexican and Indian business cultures?***

**Similarity:** Everything is negotiable

***What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?***

Indian companies can learn the value of driving to meet highest quality product possible for your market needs. Mexico companies can learn the drive to adhere to deadlines. Meet the goal no matter how difficult.

***What advice would you give to companies or persons looking to invest in Mexico?***

Research, research, and research before you commit.

***Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.***

Build product line and offer best tractors in Mexico. Build market share position to be one of top 3 tractor company in Mexico

***Finally, how would complete this sentence: Mexico for me is ... ?***

Our opportunity to build a stronger agricultural industry with our partners and dealers.

## Tata Consultancy Services

### Mr. Rajeew Gupta Regional Vice President

Tata Consultancy Services de Mexico S.A de C.V.

#### General Information

<b>Mexican Entity Name:</b>	<b>Tata Consultancy Services de Mexico S.A de C.V.</b>
Years of experience with Mexican Entity	Not disclosed
Industry	Information Technology
Mexican Entity Revenue	Revenues are not disclosed
Group Revenue	USD 100.39 Billion

#### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	8
Support from the government, regulators and government bodies, and ease business?	9
Ease in finding labor force?	8
Knowledge and education of your employees in your industry?	8
Ease of understanding and compliance of tax and taxation systems?	8
Ease of applying for, understanding of and rewarding of incentives from the government?	7

#### Business Review

##### **Please tell us more about your company's history in Mexico.**

TCS Mexico started operations in 2003. Since that year, TCS operations have expanded to three cities in the country: Mexico City, Guadalajara and Queretaro operating through 6 Global Delivery Centers and a Corporate Office.

As a huge milestone in the year 2007, Mexican President formally opened the Global Delivery Center in Guadalajara, representing the company's first major investment in the country. TCS Guadalajara represents our largest GDC facility outside India.

We currently serve more than 100 Local, Regional and Global clients from Guadalajara, Queretaro and Mexico City.

##### **How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

The registration process was overall smooth and the various authorities involved in the process were very helpful.

##### **What were the top three reasons you decided to invest in Mexico?**

Mexico has a large, diverse and growing economy. Apart from world-class Mexican companies, there is a big presence of global companies tapping the local market in Mexico.

Apart from this local market, Mexico acts as a strategic location to serve the US clients too.

Its close geographical and cultural proximity to US, NAFTA related benefit and time zone advantage are a huge value addition for serving US companies. Finally the talent, Mexico is an important market with top class IT professionals. This ecosystem of companies has made Mexico a strategic location for TCS.

***What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?***

The convergence of digital, physical and biological technologies is transforming the world around us. This new world will be shaped by the companies that can best harness 'Business 4.0'.

Digital to its core, Business 4.0 encompasses technologies such as automation and artificial intelligence. It is fundamentally redefining how organizations interact and transact with their customers.

The organizations that will thrive in the future will be those that align their business models with technological innovation. It is the responsibility of all companies – regardless of size or structure – to respond to this digital challenge now.

Business 4.0 enables, namely the ability to:

- Achieve mass customization (availability of data to target every interaction within a segment of one)
- Create exponential (business) value
- Leverage ecosystems (an increasing differentiator)
- Embrace risk.

***What do you think about Mexico's transport system and infrastructure facilities?***

There is a modernized feel to Mexico, which is important to provide facilities for many companies, and in many ways the country is easily accessible.

The Mexican transportation offers significant opportunities and ways for export to the United States and Canada. Additionally, the system offers variety of airports, roads, rail, ports and local system in different cities inside the country that supports Mexico's competitiveness in a global economy.

***How do you perceive the banking system and credit access in Mexico?***

Mexico has an extensive and matured network of Global Banks. Banking in Mexico provides many ways and facilities for credit access. Mexico has been working to improve its economy by increasing credit access to its citizens. The Mexican government understands that it needs to make improvements in this area. Through the country's National Financial Inclusion Strategy, Mexico shows that it understands the importance of credit access in helping its citizens, as well as its national economy.

***How do you perceive security issues in Mexico?***

TCS has presence in Guadalajara, Queretaro and Mexico City. The cities have been very safe for our associates and our facilities. We also provide continuous workshops and trainings to our associates on general security guidelines and do's and don'ts to be followed.

***Does your company import/export your products? If so, then what is your experience with the Mexican customs department?***

Our primary export is IT services to global companies.

***Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?***

Local knowledge of the investment environment and good information on the legal, accounting and taxation framework can therefore be an asset for any company. These are some of the most important challenges of doing business in Mexico: registering property, protecting investors, getting credit, paying taxes, trading across borders, visas for associates, enforcing contracts etc. Partnership with local trusted companies in the above areas can be of big help.

Apart from above compliance related areas, we continuously work on proper branding of Mexico to our clients as well as internal stakeholders so that a lot of perceptions on security, cultural differences and talent availability are addressed.

***Please share with us the best memories you have about doing business in Mexico.***

I have innumerable counts of nice memories that have made my decade long stay in Mexico a memorable stay. The affection, friendship and sincerity shown by my stakeholders including my colleagues, business partners, and friends are second to none.

I am proud of many important business milestones like inauguration of our Guadalajara facility by respected Mexican President, visit of respected Indian President to our facility and TCS Mexico winning multiple global awards and recognitions in last decade.

***Please share with us one must-do and one don't about doing business in Mexico.***

It is important to understand the business and work culture of a country you plan to do business in. Many of the reasons companies fail doing business in Mexico are due to making assumptions about the market based on current paradigm, not embracing that the new market uses a different language, not accepting that the new market operates under a different business and social culture, not understanding that the new market operates under different business rules, etc.

The understanding of the local culture and a perfect amalgamation of country and company culture is a sure recipe for success.

***What do you think are the similarities and differences between the Mexican and Indian business cultures?***

India and Mexico have a lot of similarities with respect to people, cultural and family values. Among common Mexicans, there is wide general awareness, high interest and regard for Indian culture, social values and her pluralistic democracy. Comparing the business culture of Mexico vs. India's, business appointments should be made in advance and confirmed. In both cultures hierarchy and structure are important albeit less rigid in Mexico. The working relationships are similar in both countries: Trust and respect are major components. Mutual trust is a very important part for doing business in either one of the countries. Also in both countries negotiations can take a long time.

***What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?***

Investments from India in Mexico are estimated significantly into several hundred million US dollars. Most of the leading Indian companies in IT/software, pharmaceutical and automotive companies have invested in facilities and plants in Mexico taking advantage of its strategic location, large market and investment friendly policies. Mexican companies have also begun to invest in India in the automotive, chemicals and entertainment sectors.

Mexican companies put great emphasis on mutual trust and fostering long-term relationships with their stakeholders.

***What advice would you give to companies or persons looking to invest in Mexico?***

Please make your company strategy for long-term presence in Mexico and invest accordingly. Please do not look for any short cuts and always adhere to legal and labor compliance. Learn the local language and embrace local culture.

***Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.***

Mexico is an integral part of TCS global and continues to provide world class services to our clients. We envision continuing our sustained growths with profits, investing on training and skilling our people on Digital technologies. Our vision is to be among the top 3 IT companies in Mexico.

***Finally, how would complete this sentence: Mexico for me is ... ?***

My second home. I feel extremely lucky and privileged to have got an opportunity to work in Mexico and make numerous friends.

## Infosys Limited

### Mr. Ravi Arcot

#### Country Head & AVP

Infosys Technologies S. de R.L. de C.V.

### General Information

Mexican Entity Name:	Infosys Technologies S. de R.L. de C.V.
Years of experience with Mexican Entity	Refused to be disclosed
Industry	Information Technology
Mexican Entity Revenue	Revenues are not broken by geographies.
Group Revenue	USD 10.2 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	8
Support from the government, regulators and government bodies, and ease business?	8
Ease in finding labor force?	7
Knowledge and education of your employees in your industry?	7
Ease of understanding and compliance of tax and taxation systems?	8
Ease of applying for, understanding of and rewarding of incentives from the government?	7

### Business Review

#### **Please share more about your company's history in Mexico.**

We started out in the mid-2000s after evaluating five different countries in Latin America. We decided upon Mexico and evaluated the three major cities in the country - Mexico City, Guadalajara, and Monterrey. Ultimately, we decided on Monterrey in the State of Nuevo Leon, after evaluating multiple factors. We opened our first office in 2007, and started operations in Mexico City in 2012.

#### **How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?**

Our company was registered in June 2017, we hired our first local employees in August of that year, and our first office was operational two months later. The support we received from the local government of Nuevo Leon was very helpful in getting us started. They connected us with a top legal firm, which helped us expedite incorporation and other formalities, and with Tec de Monterrey, the leading private university in Mexico, which provided office space in one of their facilities that served us well for the first four years.



**What were the top three reasons you decided to invest in Mexico?**

We initially invested in Mexico for the combination of talent pool and English proficiency. Mexico is also the second largest economy in Latin America and among the top 15 economies in the world. Finally, since Mexico is the most populous of 19 Spanish-speaking countries in the region, we considered it to be a good entry point into the larger Latin America, a hub from which we could provide services to clients across Latin America.

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

Mainstream offerings such as application maintenance and support, are becoming commoditized. We are developing more value-added solutions to differentiate ourselves but also as clients are looking for solutions to specific business problems that now incorporates talent from multiple lines of service, which earlier used to go to market separately. IT is becoming a more strategic part of business with different business areas needing our services, not just traditional IT or Procurement.

**What do you think about Mexico's transport system and infrastructure facilities?**

The highway infrastructure in Mexico compares very favorably to that of India and is especially impressive in Monterrey, which I would say is second to none among cities of similar size in the developing world, though public transportation there is limited and relatively expensive. In Mexico City public transport is much better and affordable but traffic is certainly a concern, which we have to take into account when commuting to meet with clients and people do take into account when evaluating job offers. Monterrey is very well connected by air to major cities in the US while Mexico City also has daily flights to South America and Europe. Telecommunication infrastructure is critical to our business and in the cities where we operate is comparable to what we find in developed markets. We have redundant network links to our global backbone, 4G mobile connectivity is widespread, and nearly all of our employees have broadband Internet access at home.

**How do you perceive security issues in Mexico?**

It is unfortunate that Mexico has been singled out in the international news media as a particularly unsafe country to live in and do business, which couldn't be farther from our day-to-day experience. The negative perception is actually worse among many of our colleagues based in India than it is for our clients in the US and elsewhere, many of whom have long had presence in Mexico and thus have a more realistic view of the situation.

**Does your company import/export your products? If so, then what is your experience with the Mexican customs department?**

We do not export any physical products and we import a limited amount of electronic equipment from the US. We have found the process to be fairly straightforward but we do need to factor in the lead times involved.

**Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?**

The global financial crisis of 2008

The Swine Flu scare of 2009

The security situation in Monterrey from 2010 to 2012,

We overcame these situations through our internal culture and adapting our processes and operation to the local environment, which we were able to do by developing and empowering our local leadership, investing in their training and spending time in India developing relationships with their counterparts, while also bringing people from India to spend time in Mexico getting to know the local client and team.

**Please share with us the best memories you have about doing business in Mexico.**

The inauguration of our first facility. The President of Mexico came along with the governor of Nuevo Leon and other local authorities, and our founder and then Chairman of the Board, Mr. Narayana Murthy, came all the way from India and gave a moving speech. We were just starting out and had a long way to go, but we knew we were destined for greatness.

**Please share with us one must-do and one don't about doing business in Mexico.**

Take your time to make connections and cultivate relationships before attempting to sell, especially when your brand or your firm is not well known. Trust is key to doing business in Mexico.

Do not assume that you can sell your services here the same way you do in the US or Europe, and attempt to manage your operations and talent the same way you do in India.

**What do you think are the similarities and differences between the Mexican and Indian business cultures?**

**India:** personnel willing to play multiple roles. More oriented to playbook than creativity.

**Mexico:** personnel prefer a predefined role and stable business scenarios. Excellent creativity if it can be harnessed.

**What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?**

Companies from both countries need to mutually understand and respect the local culture. The resulting enterprise ecosystem will be more sustainable and mutually amenable. This is key for any company that is going beyond its borders.

**What advice would you give to companies or persons looking to invest in Mexico?**

For any business access to consumers and availability of talent are critical factors. For our type of business, which in most cases does not require physical proximity to clients but does demand specific skills, the latter is more important, and in that sense we made the right decision to establish our operation in cities with wide availability of talent and the ability to attract it from other places.

You need to be clear on what are your critical factors, the ones that will make your business sustainable over the long term, and base your decisions on them.

While government incentives are nice, and we appreciate the support we received in our first years, you should not base your decision entirely on incentives.

**Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.**

No comment.

**Finally, how would complete this sentence: Mexico for me is ... ?**

A land of great opportunity, but you have to show up.

# Symphony Limited

## Mr. Bhadresh Mehta

### Group CFO

Symphony Ltd., India

### General Information

Mexican Entity Name:	IMPCO S de R.L. de C.V.
Years of experience with Mexican Entity	8+
Industry	Air Coolers
Mexican Entity Revenue	USD 125 Million
Group Revenue	USD 8.41 Billion

### Qualitative Review

1 being the lowest and 10 being the highest

Your experience in registered your company?	7
Support from the government, regulators and government bodies, and ease business?	8
Ease in finding labor force?	8
Knowledge and education of your employees in your industry?	8
Ease of understanding and compliance of tax and taxation systems?	7
Ease of applying for, understanding of and rewarding of incentives from the government?	7

### Business Review

#### ***Please tell us more about your company's history in Mexico.***

Symphony Limited acquired a Mexican company, named IMPCO S de R.L. de C.V., located at Monterrey.

IMPCO was established in 1939 in Arizona, USA by a person who invented air cooler and later, started manufacturing facility in Mexico.

It is a reputed air cooler company and produces premium branded air coolers with local brands "Master Cooler" and "Artic Circle".

When Symphony acquired IMPCO, IMPCO was a loss making company with net worth completely eroded. Symphony successfully turnaround the company and made it profitable.

#### ***How long did it take for your company to get registered, and could you briefly explain your experience in the initial stages of your operations in Mexico?***

Since we acquired an existing company there was no fresh registration process. However, the equity transfer and other formalities were required, which were smoothly done.

#### ***What were the top three reasons you decided to invest in Mexico?***

Prior to IMPCO acquisition, Symphony Ltd. was dealing with only plastic residential air coolers and selling across India and many other countries.

IMPCO provided an access to North American markets for plastic air coolers of Symphony. Another advantage of the acquisition was to get entry into industrial and commercial metal air coolers, thereby expanding the product basket.

Symphony has successfully and gradually developed industrial cooler markets in India by importing the metal coolers from Mexico. The acquisition was mutually beneficial for Symphony and for IMPCO.

**What do you think are the current industry trends in your sector and how do you see these affecting business over the next few years?**

The size of the industry is growing at a steady pace, both domestically and internationally, and this helps the company to grow with its focus.

We are focused to grow in both the markets, and with it the company's growth in the coming years.

**What do you think about Mexico's transport system and infrastructure facilities?**

Mexico has quite good infrastructure and better transport system than in India.

**How do you perceive the banking system and credit access in Mexico?**

Initially, being a loss making company, IMPCO was always facing cash crunch situations and there were pressing creditors too. It was hard to get trade credit as well as bank finance. Symphony pumped in necessary working capital and restored the trade confidence and revival of vendor and customer relations. Symphony in India is a debt free company and IMPCO was supported through internal funds. IMPCO has completely turned around and repaid the entire loan with interest to Symphony. IMPCO has smooth banking operations and have now started generating some treasury.

**How do you perceive security issues in Mexico?**

We have not yet faced any security issues in Monterrey, and Mexico generally.

**Does your company import/export your products? If so, then what is your experience with the Mexican customs department?**

Yes, Symphony exports plastic air coolers to IMPCO, Mexico and imports industrial metal coolers from IMPCO. The experience with Mexican customs department is good, and we have smooth transactions, both intercompany as well as for imports/exports to other parties.

**Please tell us what was the biggest challenge you faced while setting up or running your business in Mexico. How did you overcome that challenge?**

IMPCO being a loss making entity, after acquisition, the biggest challenge was to bring the operational efficiencies and profitability, and then focus on growth.

Symphony could overcome the challenges by continuous efforts on all aspects of the business including production efficiency improvement, cost control, team building, moving gradually towards lean business and asset light model, revitalizing sales channels and customer relations, strengthening product quality and performance, financial and techno commercial business prudence and achieving economies of scale.

**Please share with us the best memories you have about doing business in Mexico.**

Post the acquisition, we enjoyed the challenge of the turnaround, especially during our numerous visits to set things in order.

The IT Systems being used in the company was obsolete, and we changed both the hardware and software and made everything right within one to one and a half years time.

**Please share with us one must-do and one don't about doing business in Mexico.**

**Must Do:** Study the local environment, market survey, and business potential assessment, applicable legislations, 6M Study (manpower, machinery, materials, methods, money, and market)

To learn Spanish (which is not very difficult) (99% of the local employees speak only Spanish). We have not deputed anyone from India, only the local empowered teams run the show.

**Don't:** Never impose Indian culture or religious beliefs on locals (empower them to make their decisions, but of course, retain necessary control)

**What do you think are the similarities and differences between the Mexican and Indian business cultures?**

**Similarities:**

- Most tax and labor laws are similar, but one must do an in-depth study
- Professionalism
- Pleasant, joyful and lovable people

**Differences:**

- Different cultural and food habits
- Different language and religious beliefs
- Savings and investment habits

**What do you consider to be the things Indian companies could learn from Mexican companies? And Mexican companies from Indian companies?**

**Learnings for India:**

- Better usage of systems including IT systems.
- Cleanliness
- Transparency
- Clarity of thoughts
- Establishing standards

**Learnings for Mexico:**

- Cost and quality consciousness
- Being competitive
- Savings and investment habits
- Hard work, sincerity, and loyalty

**What advice would you give to companies or persons looking to invest in Mexico?**

To carry out proper due diligence (internally or externally) and field survey to understand ground realities as well as the potential.

To understand local legislation, banking systems, and market competition scenario, to find out business prospects and likely caution points.

**Please tell us what you are expecting to be the results or vision of your company in Mexico over the next three to five years.**

To further improve the operational efficiencies and take the business to the next level with focus and dedication.

**Finally, how would complete this sentence: Mexico for me is ... ?**

A lovely country with nice people to collaborate, and from company view point, one more business growth driver.

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*Embassy of India  
in Mexico*



## Embassy of India in Mexico

The Embassy of India in Mexico has been an instrumental body for promoting and facilitating trade and commerce between India and Mexico. In the absence of an established trade chamber between India and Mexico, the Embassy's commercial department has been working closely with important stakeholders to help Indian investors in their business activities.



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***PwC Inbound Team:  
Desk India***

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## ***PwC Inbound Team: Desk India***



Desk India comprises of Indian professionals who work exclusively with Indian companies in Mexico and Latin America. Since its establishment in 2013, Desk India has helped a majority of Indian companies do business in Mexico and Latin America, across various industry sectors. Desk India acts as a point of reference in the ecosystem through cooperation with the Embassy of India in Mexico, PwC India, ProMéxico, various chambers of trade and commerce in India and Mexico, and the Indian community. It acts as the catalyst, bringing the expertise of PwC in the areas of tax and legal, advisory, strategy and assurance, along with the support of the Embassy of India to help create Indian business success stories.

Desk India has been the main point of contact for Indian businesses in Mexico, and it hopes to continue to serve with the same rigor.

Desk India also helps and supports Mexican companies interested in investing in India. Utilizing the same support system and highlighting various opportunities in India, we also promote India as a destination for investment.

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<b>Mr.</b> Paulo Tadeau de Resende	<b>Mr.</b> Bhadresh Mehta

... for their insights and experience through the important interviews.

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<b>Mr.</b> Juan Luis Garcia Martinez	<b>Mr.</b> Luca Torosani
<b>Mr.</b> Allan Souza	<b>Mr.</b> Miguel Segovia

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Finally, **Ms.** Therese Margolis, for reviewing and editing the publication.

We would also like to thank the entire *Embassy of India in Mexico, and the Indian Community in Mexico* for their extended support for this publication.

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## *Conclusion*



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## Conclusion

Doing business in a foreign country is not an easy task. It is an amalgamation of comprehensive research, strategic vision and grasping of a fundamental understanding of the business environment. At any stage of your investment – from a random thought of scouting the country to establishing your entity in Mexico – this publication, we hope, will prove to be a vital and useful tool.

Through this publication, the India-Mexico Economic System, comprised of the Indian Embassy in Mexico, ProMéxico and Desk India, along with PwC Mexico, hopes to have provided a coherent road map as to how to do business in the country. Not only does this guide provide Indian entrepreneurs with a broader understanding of Mexico's current systems, regulations and governmental bodies, but it also offers a strategic blueprint to review when facing difficult situations while doing business in Mexico. While this guide covers a generic overview of various particularities in Mexico, it should be kept in mind that PwC experts are available anytime to discuss and advice on specific issues and circumstances that may arise while doing business in Mexico.

Mexico has opened its economy for FDI in new sectors, such as energy and telecommunications, following structural reforms in 2013, and it is making its economy more transparent, process-oriented and powerful through new regulations. An investor can consider multiple sectors to enter the market, along with the ones mentioned above.

Among the investments that Indian companies have established in Mexico, the majority are in the automotive, pharmaceuticals and information technology sectors. Whether you want to invest, manufacture or export to Mexico, this document can lay down the generics for you to understand multiple variables that affect the way you will do business.

We would like to take this opportunity to thank all the Indian companies which heavily contributed to the development of this publication, without which many of the insights we shared might not have been possible.

The Embassy of India in Mexico, CII, ProMéxico and PwC India have cooperated with Desk India in this journey, constantly collaborating with us to offer their expertise and to support the development of Indian companies in Mexico.

Our aim is for your company to be another success story of Indian Investment in Mexico!

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# *Acronyms*

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## Acronyms

**NAFTA:** North America Free Trade Agreement

**OECD:** The Organization for Economic Cooperation and Development

**UNGA:** United Nations General Assembly

**NIESBUD:** Indian National Institute for Entrepreneurship and Small Business Development

**INADEM:** The National Institute of Entrepreneurs

**DIPP:** Department of Industrial Policy and Promotion (India)

**INEGI:** The National Institute of Statistics and Geography

**NASSCOM:** The National Association of Software and Services Companies (Indian)

**CII:** Confederation of Indian Industry (Indian)

**CONCAMIN:** Confederation of Industrial Chambers

**CONCANACO:** Confederation of National Chambers of Commerce

**COMCE:** Mexican Business Council for Foreign Trade, Investment and Technology

**PEMEX:** Mexican Petroleum (Literal Translation) – Mexican oil and gas PSU

**CFE:** The Federal Electricity Commission

**CNH:** National Hydrocarbons Commission

**IFT:** Federal Institute of Telecommunications

**COFECE:** Federal Competition Commission

**UNCTAD:** United Nations Conference on Trade and Development

**IMF:** International Monetary Fund

**ALADI:** Latin-American Integration Association

**WTO:** World Trade Organization

**APEC:** Asia Pacific Economic Cooperation

**SE:** Ministry of Economy

**SHCP:** Ministry of Finance

**STPS:** The Mexican Ministry of Labor and Social Security

**CONASAMI:** The National Commission for Minimum Salaries

**AFORE:** The Pension Fund Administrator

**SIEFORE:** Registration Body for AFORE

**IMSS:** Mexican Social Security Institute

**INFONAVIT:** National Workers' Housing Fund Institute

**SCT:** Ministry of Transport and Communications

**SRP:** Sectoral Relief Programs

**C-TPAT:** The Customs-Trade Association Against Terrorism

**NEEC:** New Company Certification Scheme

**INAI:** The National Institute of Transparency, Access to Information and Protection of Personal Data

**SAT:** Mexican Tax Authority – Revenue Administration Service

**CNBV:** The National Banking and Securities Commission

**CONSAR:** The National Commission for Retirement Savings Systems

**CNSF:** The National Insurance and Bonding Commission

**CONDUSEF:** The National Commission for the Protection and Defense of Users of the Financial System

**IPAB:** The Institute for the Protection of Savings

**SOFOM:** The Multi-Purpose Financial Companies

**APA:** Advanced Pricing Agreements

**CUFIN:** After-tax earnings account

**WHT:** Withholding Tax

**REIT:** Real Estate Investment Trusts

**IEPS:** Special Tax on Production and Services

**PE:** Permanent Establishments

**M&E:** Machinery and Equipment

**CbC:** Country-by-Country reporting

**BEPS:** Base Erosion and Profit Shifting

**UMA:** Measures Actualizations Unit

**DTA:** Double Taxation Agreements

**CONACYT:** The National Council of Science and Technology

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# *Appendix*

## Appendix

### Checklist - Structuring an Investment<sup>55</sup>

#### Corporation

##### • Investor Considerations

- \_\_\_ Limitations on foreign ownership, depending on activities
- \_\_\_ Advantages/disadvantages of incorporating
- \_\_\_ Limited liability
- \_\_\_ Pro rata expenses are nondeductible on subsidiaries
- \_\_\_ Hybrid entities/instruments
- \_\_\_ Incorporation and maintenance costs
- \_\_\_ Taxed as entity
- \_\_\_ Taxation of amounts to be distributed to shareholders
- \_\_\_ Statutory audit option
- \_\_\_ Financing through capital or debt
- \_\_\_ Minimum capital requirements
- \_\_\_ Leverage – Financing with dollar or peso loan
- \_\_\_ Advantages/disadvantages of liquidation
- \_\_\_ Repatriation of capital and profits

##### • Legal counsel considerations

- \_\_\_ Type of entity
- \_\_\_ At least two shareholders required
- \_\_\_ Applicable authorizations
- \_\_\_ Articles of incorporation
- \_\_\_ Bylaws
- \_\_\_ Corporate name options
- \_\_\_ Registration requirements (National Registry of Foreign Investments, Ministry of Finance and Public Credit, Public Registry of Commerce)
- \_\_\_ Taxpayer identification number
- \_\_\_ Social security affiliation
- \_\_\_ Share certificates
- \_\_\_ Book of Shareholders
- \_\_\_ Book of Shareholders' Meetings Minutes
- \_\_\_ Book of Board of Directors' Meetings Minutes
- \_\_\_ Book of Capital Variations' Registry
- \_\_\_ Annual Shareholders' Meeting
- \_\_\_ Other formalities
- \_\_\_ Financial statements filing requirements
- \_\_\_ Tax advantages/disadvantages of incorporating
- \_\_\_ Tax regime
- \_\_\_ Tax planning opportunities

#### Branch

##### • Investor considerations

- \_\_\_ Advantages/disadvantages of operating as a branch
- \_\_\_ Foreign companies can set up branch operation
- \_\_\_ Limitations of foreign participation depending on their activities
- \_\_\_ Losses can be offset against income of nonresident parent
- \_\_\_ Reasonable pro rata expenses deductible
- \_\_\_ Parent company is liable
- \_\_\_ Remittances to the home office are nondeductible
- \_\_\_ Capital provided by parent
- \_\_\_ Repatriation of capital and profits
- \_\_\_ No exchange controls
- \_\_\_ Advantages/disadvantages of closing a branch office

##### • Legal counsel considerations

- \_\_\_ Requirements to establish branch
- \_\_\_ Authorization from the Ministry of Economy
- \_\_\_ Registration requirements (National Registry of Foreign Investments, Ministry of Finance and Public Credit, Public Registry of Commerce)
- \_\_\_ Documentation accountant's considerations
- \_\_\_ Separate financial statements
- \_\_\_ Taxation of a branch
- \_\_\_ Branch profits tax considerations
- \_\_\_ Payment of remittances
- \_\_\_ Tax planning opportunities

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## **Partnership**

### **• Investor consideration**

- ☐ Limitations of foreign investment participation, depending on their activities
- ☐ Requirements for partners
- ☐ Advantages/disadvantages of operating as a partnership
- ☐ Legal counsel considerations
- ☐ Incorporation requirements
- ☐ Authorization from the Ministry of Economy
- ☐ Registration requirements (Public Registry of Commerce, National Registry of Foreign Investments)
- ☐ Documentation accountant's considerations
- ☐ Taxed as conduit or entity
- ☐ Tax planning opportunities Joint Venture (Asociación en Participación)
- ☐ Investor considerations
- ☐ It is an agreement, not a legal entity
- ☐ Administration of a joint venture
- ☐ Obligations in a joint venture (between parties, vis-à-vis third parties)
- ☐ Term of a joint venture
- ☐ Advantages/disadvantages of participating in a joint venture
- ☐ Active partner and silent partner needed

### **• Legal counsel considerations**

- ☐ Requirements
- ☐ Drafting the agreement accountant's considerations
- ☐ Separate financial statements
- ☐ Taxed as a corporation for tax purposes



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