

# DOING BUSINESS IN “MEXICO”

## Economy

Thanks to its proximity to the United States, Mexico has become an attractive investment hub (Nearshoring). This election presents a new opportunity to reassess, strategize, and institutionalize nearshoring as a growth driver for the Mexican economy.

México is part of the “USMCA” United States-Mexico-Canada Agreement.

Mexico has a Foreign Investment Law (“FIL”) since 1993. As a general rule, the FIL allows foreign investors and Mexican companies controlled by foreign investors, without prior approval, to (i) own up to 100% of the equity of Mexican companies; (ii) purchase fixed assets from Mexican individuals or entities; (iii) engage in new activities or produce new products; (iv) open and operate establishments; and (v) expand or relocate existing establishments.

**Nearshoring** is a phenomenon that has emerged as a result of the reconfiguration of production chains at a global level. Mexico, due to its geographical position and its role as a trading partner, has become one of the main beneficiaries of this trend. However, it also faces challenges and obstacles that could be affecting its ability to take full advantage of this opportunity. (USMCA).

Data	Details
Region	Latam / North America
Population	126,705,138
Main Cities (Industry)	CDMX, Monterrey, Querétaro, Jalisco, Quintana Roo, Campeche.
GNI per capita (US\$)	9,180
Total GNI per capita (US\$)	\$1.8 billions USD
Borders	North USA / South Guatemala & Belize.
Main trading partners	1 <sup>st</sup> trading USA <b>78.1%</b> / Canada / China / Spain. 2 <sup>nd</sup> trading Latam / Japan / Germany / Europe / Asia.
Trading International agreements	14 direct Agreements with <b>50 countries</b> and 30 Agreements for the Promotion and Reciprocal Protection of Investments (APPRI) with <b>31 countries</b> or administrative regions.
OCDE	Member since 1994.
Business organization	Variable capital trading companies / Non-profit associations ONG / Civil companies (Professional services and education).
Most important projects	Maya train, Itsmo trading train, Tulum Airport, Olmeca Refinery in Dos Bocas, Mexico-Toluca Intercity Train / CDMX Felipe Angeles Airport.

## Economy

According to recent data from the Bank of Mexico, most companies benefiting from nearshoring are not exporting directly to international markets. Instead, they are related to exporters, suggesting that the channel of benefits is longer.

In the real estate sector, Mexico has a direct impact on real estate, especially in the northern part of the country, where there is a growing demand for industrial properties. However, challenges remain. In this election year, uncertainty about the economic model to follow is evident. In addition, we face limitations in terms of taxes, security, and low business productivity. The high rate of informality and the large number of small businesses that have not managed to take off due to their low productivity are areas of concern.



In the first quarter of 2024, the sectors that contributed the most to Mexico's Gross Domestic Product (GDP) were:

- Manufacturing industry, with a contribution of around 20.7%
- Wholesale trade, with a contribution of around 10%
- Retail trade, with a contribution of around 10%

Other important sectors of the Mexican economy are:

- Real estate services,
- Transportation and storage,
- Construction.

Regarding the income of those employed, the sectors with the highest income are:

- Extractive,
- Government,
- Transformation,

On the other hand, the sectors with the lowest average income are:

- Commerce,
- Tourism,
- Agriculture,

## Legal & Corporate

- **COST AND NUMBER OF DAYS FOR OPENING A COMPANY-**
  - Notary Cost: approx. 1,500 – 2,000 USD.
  - Time: approx. 2– 5 weeks depends on the documentation needed for the establishment of the company / Constitution, RFC, Bank Account, Social Security, Local Taxes.
- **COST AND NUMBER OF DAYS FOR CLOSING A COMPANY-**
  - Notary Cost: EUR 50 – 250 (unless there is court proceeding)
  - Number of days: approx. 3-6 months, depends on the approval of Company Registry and legal proceeding (if any). Cannot be shorter than 3 months.
- **COST AND NUMBER OF DAYS FOR REGISTERING PROPERTY-**
  - Government fees : 150 USD (1 - 3 months)
- **COUNTRY RISK LEVEL CLASIFICACION:** Moody's, with a Baa1 rating, also places Mexico within the investment grade range, indicating acceptable credit quality and moderate risk.
- **COUNTRY LEVEL OF SECURITY OF INVESTMENT:** Stable outlook
- **SPECIAL ZONES IN THE COUNTRY:**
  - Free Trade Zone in the North (Baja California, Sonora, Chihuahua, Coahuila de Zaragoza, Nuevo León, Tamaulipas)
  - Free Trade Zone in the South (Tabasco, Chiapas, Campeche, Quintana Roo)
- **RECOMMENDATION FOR INVESTMENT:** Automotive industry, tourism and real state (Cancun, Tulum, Los Cabos, Vallarta, Monterrey), logistics & services.
- **BUSINESS CLIMATE:** Medium / Mexico is the most important country in Latam because its economy is the biggest / Corruption and political instability have created uncertainty in the business environment / insecurity in certain areas of the country.

## Taxes

**Income tax (ISR by its acronym in Spanish)** Companies tax rate of 30%.

**ISR Natural Person** Tax rates range from 1.92% to 35%.

**RESICO (Individuals Simplified Trust Regime) ISR.** from 1 to 2.5% (taxable Income less than 270,000 USD).

**VAT (Rates).** 16% General rate / 8% applied in border areas (USA) / 0% tax rate applicable to exports, food, medicines / Exempt, of which a VAT rate is not applied (Household, land, education).

**Special taxes (IEPS).** Alcoholic beverages at a rate of 25.6%, 30% and 53% / Non-basic foods at 8% / Cigars and cigars at 160% / Gasoline ranges from 33.63 to 40.52 cents per liter.

**Agreements to avoid double taxation.** More than 60 countries.

**Social Security.** A rate of 27 to 30%.

**Housing (INFONAVIT)** A rate of 5% is paid.

**Severance** A rate of 3.150 % is paid.

**Local Taxes.** Payroll Tax (CDMX/EDOMEX).The rate is 3%.

**Green Taxes.** Activities subject to environmental taxes, such as: New motor vehicles, emission of pollutants, extraction and use of materials and discharge of wastewater, fine of 30 to 150 thousand days of UMA.

**Real State taxes Property.** the tax is paid according to the cadastral value, which involves factors such as: type of property, surface size, age, location, construction value and characteristics that range from 1.6% to 2.25% rate (+ Notary costs 4%).

**Dividends.** 10% if is paid from “After earnings tax account” (CUFIN) / 42.85% + 10% if not.

## Prevention of money laundering

### **Actividades vulnerables (Federal Law for the Prevention and Identification of Operations with Illicit Proceeds)**

- Section I The practice of gambling, contests or raffles carried out by decentralized organizations.
- Section II The regular or professional issuance or marketing of service cards, credit cards, prepaid cards and all those that constitute instruments for storing monetary value, which are not issued or marketed by financial entities.
- Section III The regular or professional issuance and marketing of traveler's checks.
- Section IV The regular or professional offering of mutual or guarantee operations or the granting of loans or credits, with or without guarantee, by subjects other than financial entities.
- Section V The regular or professional provision of construction or development services for real estate or intermediation in the transfer of ownership or constitution of rights over said assets.
- Section VI The regular or professional marketing or intermediation of precious metals, precious stones, jewelry or watches.
- Section VII to the regular or professional auction or marketing of works of art.
- Section VIII to the regular or professional marketing or distribution of vehicles.
- Section IX The regular or professional provision of armoring services for land vehicles and real estate.
- Section X The regular or professional provision of services for the transfer or custody of money or securities.
- Section XI The provision of professional services independently, without any employment relationship with the client.
- Section XII The provision of public faith services (Notaries and public brokers).
- Section XIII The receipt of donations by associations and non-profit companies.
- Section XIV The provision of foreign trade services as a customs agent or representative.
- Section XV The establishment of personal rights to use or enjoy real estate.
- Section XVI The regular and professional offering of exchange of virtual assets by subjects other than financial entities.