

# Payroll Mexican Taxation Framework General Overview

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MOORE STEPHENS  
CONSULTORES FISCALES Y AUDITORES

DE ANDA, TORRES, GALLARDO Y CÍA.

# General Framework

## Tax annual period

Equal to calendar year (January 1<sup>st</sup> to December 31<sup>st</sup>).

## Minimum Daily Legal Salary (MDLS)

- Published by authorities, is the minimum salary amount payable to employees in Mexico.
- Is determined for every tax period and published during January.
- Is a main reference for multiple tax limits.
- The MDLS is established per geographical areas. For 2014 two different country geographical areas.
- For 2014 is \$70.10 Mexican pesos per day for the geographical area "A" applicable to Mexico City.

## Withholding Income Tax (“ISR” per its acronym in Spanish) on Payroll

- Must be determined:
  - On a monthly basis (1<sup>st</sup> to last day of natural month).
  - For every single employee.
  - Every payroll paid through the month.
  - Every taxable salary, wage, compensation or benefit.
- Withholding must be performed by the Company through the payroll process.
- Withholding tax must be reported through a tax return and paid to tax authorities on a monthly basis on the 17<sup>th</sup> day of the following month at least.

## Reporting and payment of federal taxes

- An informative tax return is submitted through the tax authorities web page ([www.sat.gob.mx](http://www.sat.gob.mx)). A reference code is provided.
- Subsequently, through the web page of the bank, the payment of taxes payable is performed, using the reference code described in previous paragraph. This only in the case of amounts subject to payment. This includes withholding income tax on payrolls.

## Penalties on delayed tax payments

Delay on payments are subject to restatement with inflation and monthly surcharges (1.13% per month) calculated from the payment due date to the effective payment date.

If payment is requested by tax authorities, a penalty is added to restated amounts and surcharges.

## Tax authorities

Ministry of Finance and Public Credit (SHCP) through the Tax Administration Service (SAT) is the responsible for assuring federal tax compliance. Offices in major cities and cooperation agreements with local authorities. These offices deal with the interpretation of the law, consultation, authorizations and direct tax audits.



## Tax dynamic

Each year, Mexican Congress updates and modifies existing tax laws, including annual rules to clarify current tax legislation.

## Tax environment

Mexican entities are exposed to be reviewed by Tax Authorities, to a wide regulating tax framework and to a high level of discretion regarding interpretation of the Mexican Tax Laws. As a result thereof, entities are exposed to the possibility of being subject to a direct review or inquires by the tax authorities in connection with the compliance of the tax obligations of the last five to ten years.



## Withholding Income Tax on Payroll

- Monthly income tax table for 2015:

Withholding Income Tax Table (Monthly)			
Lower limit	Upper limit	Fixed tax amount	Percentage of tax applicable to excess over the lower limit
\$	\$	\$	%
0.01	496.07	0.00	1.92%
496.08	4,210.41	9.52	6.40%
4,210.42	7,399.42	247.24	10.88%
7,399.43	8,601.50	594.21	16.00%
8,601.51	10,298.35	786.54	17.92%
10,298.36	20,770.29	1,090.61	21.36%
20,770.30	32,736.83	3,327.42	23.52%
32,736.84	62,500.00	6,141.95	30.00%
62,500.01	83,333.33	15,070.90	32.00%
83,333.34	250,000.00	21,737.57	34.00%
250,000.01	Higher than	78,404.23	35.00%

(A) Added  
beginning  
2014

(A)



## Withholding Income Tax on Payroll

- Withholding calculation example 1:

	Taxable Monthly income to employee	15,000.00
(-)	Lower limit	10,298.36
(=)	Excess over lower limit	4,701.64
(x)	Percentage of tax applicable to excess	21.36%
(=)	Previous tax	1,004.27
(+)	Fixed tax amount	1,090.61
(=)	Total withholding income tax	2,094.88
	Effective tax rate	13.97%

Withholding Income Tax Table (Monthly)			
Lower limit	Upper limit	Fixed tax amount	Percentage of tax applicable to excess over the lower limit
\$	\$	\$	%
0.01	496.07	0.00	1.92%
496.08	4,210.41	9.52	6.40%
4,210.42	7,399.42	247.24	10.88%
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32,736.84	62,500.00	6,141.95	30.00%
62,500.01	83,333.33	15,070.90	32.00%
83,333.34	250,000.00	21,737.57	34.00%
250,000.01	Higher than	78,404.23	35.00%

## Withholding Income Tax on Payroll

- Withholding calculation example 2:

	Taxable Monthly income to employee	65,000.00
(-)	Lower limit	62,500.01
(=)	Excess over lower limit	2,499.99
(x)	Percentage of tax applicable to excess	32.00%
(=)	Previous tax	800.00
(+)	Fixed tax amount	15,079.90
(=)	Total withholding income tax	15,870.90
	Effective tax rate	24.42%

Withholding Income Tax Table (Monthly)			
Lower limit	Upper limit	Fixed tax amount	Percentage of tax applicable to excess over the lower limit
\$	\$	\$	%
0.01	496.07	0.00	1.92%
496.08	4,210.41	9.52	6.40%
4,210.42	7,399.42	247.24	10.88%
7,399.43	8,601.50	594.21	16.00%
8,601.51	10,298.35	786.54	17.92%
10,298.36	20,770.29	1,090.61	21.36%
20,770.30	32,736.83	3,327.42	23.52%
32,736.84	62,500.00	6,141.95	30.00%
62,500.01	83,333.33	15,070.90	32.00%
83,333.34	250,000.00	21,737.57	34.00%
250,000.01	Higher than	78,404.23	35.00%

## Withholding Income Tax on Payroll

- Withholding calculation example 3:

	Taxable Monthly income to employee	300,000.00
(-)	Lower limit	250,000.01
(=)	Excess over lower limit	49,999.99
(x)	Percentage of tax applicable to excess	35.00%
(=)	Previous tax	17,500.00
(+)	Fixed tax amount	78,404.23
(=)	Total withholding income tax	95,904.23
	Effective tax rate	31.97%

Withholding Income Tax Table (Monthly)			
Lower limit	Upper limit	Fixed tax amount	Percentage of tax applicable to excess over the lower limit
\$	\$	\$	%
0.01	496.07	0.00	1.92%
496.08	4,210.41	9.52	6.40%
4,210.42	7,399.42	247.24	10.88%
7,399.43	8,601.50	594.21	16.00%
8,601.51	10,298.35	786.54	17.92%
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20,770.30	32,736.83	3,327.42	23.52%
32,736.84	62,500.00	6,141.95	30.00%
62,500.01	83,333.33	15,070.90	32.00%
83,333.34	250,000.00	21,737.57	34.00%
250,000.01	Higher than	78,404.23	35.00%

## Daily Integrated Salary (DIS)

- Must be determined for every single employee.
- Is the basis for the legal social security contributions paid to Social Security Authorities.
- Must be determined and reported to Social Security Authorities on any of the following dates for every single employee:
  - On the beginning of labor service.
  - When a modification of salary is performed.
  - For variable compensations paid on a two-month basis.
  - Employees dismissal must be also reported.

## Daily Integrated Salary (DIS)

- Is determined considering amounts subject to be integrated, different exemptions according to the benefit or compensation granted to employees.
- Example of DIS calculation:

## Example of Daily Integrated Salary calculation

Wage and benefits total cgranted	Wage and benefits total amounts	Not subject to integration	Subject to integration	Divided by	DIS
Salary or wage (nominal monthly salary)	15,000.00	-	15,000.00	30 days	500.0
Christmas bonus for a full worked year	7,500.00	-	7,500.00	365 days	20.5
Holiday bonus for a full worked year	3,750.00	-	3,750.00	365 days	10.3
Extraordinary bonus granted in the previous two months	3,500.00	-	3,500.00	61 days	57.4
Grocery Coupons (monthly amount)	1,300.00	840.00	460.00	30 days	15.3
<b>DIS determined</b>					<b>603.5</b>

**SDI is limited up to 25 MDLS (\$70.10 X 25 = \$1,75282.50) for social security contributions calculation**

- Social Security Contributions are determined based on calculated DIS applicable to every month.
- Some contributions are paid on a monthly basis and other on a two-month basis.
- Contributions must be calculated using an official free downloading software know as “SUA” per its acronym in Spanish.
- An file is generated an filed through bank web page, which is paid trough electronic bank transfers.
- Examples of SUA:



# General Framework

## Monthly payment SUA report

Período de Proceso: Diciembre-2013															15/ene/2014							
RFC:															Area Geográfica: A							
Razón Social:															SubDelegación IMSS: POLANCO 18							
Entidad: DISTRITO FEDERAL															Prima de R.T. 0.54355 %							
Entidad Social																						
NOMBRE															RFC/CURP				CLAVE DE UBICACION			
Enfermedades y Maternidad																			S U M A S			
Fecha	Días	SDI	Inc.	Aus.	C.F.	Exc.Pat.	Exc. Obr.	P.D. Pat.	P.D. Obr.	G.M.P. Pat.	G.M.P. Obr.	R.T.	I.V. Pat.	I.V. Obr.	G.P.S.	Patronal	Obrera	SubTotal				
DISTRITO FEDERAL																						
31	185.95	0	0	409.54	0.00	0.00	40.35	14.41	60.53	21.62	31.33	100.88	36.03	57.64	700.27	72.06	772.33					
DISTRITO FEDERAL																						
31	441.97	0	0	409.54	84.46	30.71	95.91	34.25	143.86	51.38	74.47	239.77	85.63	137.01	1,185.02	201.97	1,386.99					
DISTRITO FEDERAL																						
31	384.98	0	0	409.54	65.03	23.65	83.54	29.84	125.31	44.75	64.87	208.85	74.59	119.34	1,076.48	172.83	1,249.31					
DISTRITO FEDERAL																						
31	210.36	0	0	409.54	5.48	1.99	45.65	16.30	68.47	24.45	35.45	114.12	40.76	65.21	743.92	83.50	827.42					
124				1,638.16		56.35		94.80		142.20		663.62		379.20		530.36						
Cotizados para el calculo de promedio expuestos al riesgo					154.97		265.45		398.17		206.12		237.01		3,705.69		4,236.05	0.00				
Total de Cotizantes:															4							
S.M.G.D.F.:															64.76	01/01/2013						

days

DIS

Paid by employer

Paid by worker through payroll

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days

DIS

Paid by employer

Paid by worker through payroll

## Full electronic payroll receipts

Beginning 2014, all taxpayers paying payroll, benefits or other remunerations to employees must issue full electronic payroll receipts (CDFI) by every single employee and every single payment.



CDFI are issued and certified by a receipts supplier authorized by tax authorities and are sent by email to tax authorities. Tax authorities can therefore, to identify every payroll payment (employee, amount, period, etc).

CDFI are issued in electronic version (xml format) and a PDF® version can be also issued for representation purposes.

Issued CDFI are encrypted with the Company´s Electronic Signature (FIEL).



## Mininum Legal benefits

Christmas Bonus – Payable on December, minimum days: 15.

Vacation Bonus – 25% of the value of vacation granted days according to the following table:

Year	Days
1	6
2	8
3	10
4	12
from 5 to 9	14
from 10 to 14	16
from 15 to 19	18
from 20 to 24	20
from 25 to 29	22

## Mininum Legal benefits on personnel

### Voluntary resignation

- Proportional benefits incurred at the date of the event.

### Firing

- 3 months plus - integrated salary.
- 20 days per worked year – integrated salary.
- Seniority premium – 12 days per worked year – limited to 2 MDLS.





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# Employee Profit Sharing (PTU)

## Employees Profit Sharing (PTU):

- According to Law (Constitution), employees working for any Mexican Legal Entity must be shared with the 10% of profits ("PTU" per its acronym in Spanish).
- PTU is determined on an annual basis considering the tax annual period.
- PTU must be paid during May of the following year through a special PTU payroll.
- Beginning 2014, PTU is determined on the same basis than Corporate Income Tax., except for:
  - All payments to employees are deductible even if they are exempt for income tax. (for ISR purposes, payments to employees exempt for ISR are deductible up to a limit of 53%).



- PTU must be paid to employees that worked during the previous year (even they do not work in the Company any longer) during May of the subsequent year considering the following distribution parameters:
  - 50% considering salary amount for every employee earned in the previous year.
  - 50% considering working days incurred by every employee during the previous year.
  - Higher executive of the Company is not subject to PTU.
  - Only employees that worked 60 days or more days during the previous year subject to PTU calculation, are granted with PTU.

# Employees Profit Sharing (PTU)

## Data:

PTU total amount

PTU on worked days (50%)

PTU on paid salaries (50%)

50,000.00
25,000.00
25,000.00

Employee	Date of employment	Annual Nominal Salary 2013	Worked days during 2013	Employee qualify to PTU?
Employee 1	February 1, 2013	330,000	334	SI
Employee 2	2012	840,000	365	SI
Employee 3	2011	2,040,000	365	NO (higher executive)
Employee 4	October 27, 2013	408,000	36	NO (less than 60 days)

# Employees Profit Sharing (PTU)

## PTU distribution calculation

Emp No.	Annual Nominal Salary	%	Worked Days	%	Amount to be distributed by employee according to annual nominal salary	Amount to be distributed by employee according to worked days	PTU to be distributed by employee (before withholding income tax)
1	330,000.00	28.21%	334	47.78%	7,051.28	11,945.64	18,996.92
2	840,000.00	71.79%	365	52.22%	17,948.72	13,054.36	31,003.08
3							
4							
	1,170,000.00	100.00%	699	100.00%	25,000.00	25,000.00	50,000.00

## Limit when Labor Union

For no Labor Union employees, annual nominal salary to be considered is limited up to the highest annual Salary of Labor Union employees plus 20%.



An aerial photograph of a combine harvester working in a field. The harvester is positioned in the lower-left quadrant, moving towards the upper-right. It has a large, rectangular harvesting head at the front. The field is divided into long, straight rows of crops, creating a strong sense of perspective. The lighting is bright, casting shadows from the harvester and the rows of crops.

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Other



## Main obligations for employer

- To be registered in front of the IMSS (Mexican Social Security Institute), Infonavit (House Funding Institute) and in the local state tax payroll register. (TPR).
- To register any new employee into the IMSS communicating any change related to the Company or employees.
- To perform the following withholdings on payrolls paid to employees:
  - Income tax on salaries and wages.
  - Employee social security contribution.
  - Any other legal withhold.

## Main obligations for employer

- Submission of the Annual Informative Tax Return related to benefits paid during previous fiscal year, including related withholding on payments to employees and transferred (paid) to tax authorities. This informative tax return:
  - Is detailed prepared by every single employee whom received any benefit payment.
  - Must tie against Income Tax Return.
  - Must tie with accounting records.
- Entities with more than 300 employees, are mandatory subject to a special audit review regarding compliance on social security contributions (dictamen del IMSS), which must be performed and issued by a certified public accountant authorized by the IMSS to issue such the related compliance report.

## Contributions and taxes related to employees and payrolls:

- Employer and employee (withhold) social security contributions. – Federal contribution payable to IMSS and INFONAVIT.
- Withholding tax on salaries and wages. – Federal income tax payable to Tax authorities (Tax Administration Service).
- Local state on payrolls- State tax payable to Government of the Mexico City (3.0% over total gross amount of salaries on a monthly basis).



## Expatriates:

- Expatriates are also subject to withholding tax on salaries earned from source in Mexico.
- Expatriates that are considered residents in Mexico (specific rules apply for this consideration) must be registered as taxpayer in front of the Mexican tax authorities. (a)
- Expatriates considered as taxpayers, must also be registered in the IMSS and Infonavit for social security contributions and in the local state payroll tax for such tax purposes.

(a) A foreigner would be considered Mexican resident when:

He or she, obtains more than 50% of its salary from a Mexican source.  
Its main professional activities are performed in Mexico.

## Rules for deducting payroll expense:

- Must be granted to all employees.
- Must be recorded on accounting records.
- Must be payable using electronic transfer funds.
- Electronic payroll receipts are mandatory to be issued.
- Compensation and other benefits that are not taxable for employee are deductible up to a limit of 53% and 47% if such non taxable benefits are increased from one year to other.
- Specific rules for certain benefits and compensation.

The background of the slide is a photograph of several industrial embroidery machines in a factory setting. The machines are arranged in a row, and each has a large spool of thread mounted on top. The machines are dark in color, and the thread spools are various colors. The machines are working on a piece of fabric, and the embroidery is visible. The overall lighting is dim, with a blue tint.

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# Contact Info



# Contact info

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