

Short-term business travelers to Mexico

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Short-term business travelers (STBTs), who are foreign nationals coming to Mexico are generally subject to a tax filing and the payment of income tax on their Mexico-sourced income.

For tax purposes, any payment that benefits the STBT or is received in cash, goods, services, and/or credit, from sources located in Mexico, would be considered as taxable income. Exceptions to this rule include interest income, capital gain, and income from the granting of temporary use or enjoyment of land or buildings attached to the land located in Mexico, derived from investments related to pension and retirement funds.

Foreign income tax resident

Wages are generally taxed if they relate to services rendered in Mexico. Taxpayers may need to guarantee the payment of income tax from carrying out their activities in Mexico, through money deposit, letter of credit or other forms of equivalent financial guarantee established by the Ministry of Finance and Public Credit.

STBTs are not subject to Mexican income tax on earnings attributable to workdays in Mexico if their stay in Mexico is less than 183 calendar days, consecutive or not, in a rolling 12-month period, as long as the services are paid by a non-Mexican company and the services do not relate to a permanent establishment in Mexico, or the STBT does not receive supplementary payments from residents abroad for the services provided.

If the short-term business traveler's presence exceeds 183 calendar days, consecutive or not, in a rolling 12-month period, the STBT would be considered a foreign income tax resident in Mexico and would be subject to tax on his or her Mexican source income. In such case, an employer who is either (a) a Mexican resident or (b) a non-Mexican resident with a permanent establishment in Mexico is responsible to withhold and remit taxes on the employment income. If the employer does not meet the above conditions, one of the following three options should be considered in order to remit the taxes to the tax authorities:

1. A foreign entity can register with the Mexican tax authorities in order to submit the taxes to the tax authorities
2. STBTs can register with the tax authorities and would also be required to file a tax return with the tax authorities within 15 days after receiving the income
3. A related party in Mexico or a Mexican subsidiary could act as a representative to file and pay the monthly income tax due (recommended)

If an individual becomes taxable, the tax will be calculated by applying the following rates (applicable for the calendar year 2022) to the income effective with the beginning of the short-term assignment:

- The first 125,900.00 Mexican pesos earned in the calendar year is exempt from income tax
- A 15% rate applies to income received in the calendar year that exceeds 125,900 up to 1,000,000 pesos
- A 30% rate applies to the income received in the calendar year that exceeds 1,000,000 pesos

Taxpayers will be required to continue paying individual income tax unless they can establish they have been outside of Mexico for more than 183 consecutive days.

Mexican tax residents

Mexico resident individuals are generally subject to income tax on both their Mexico-source and non-Mexico-source income, while nonresident individuals are subject to income tax on their Mexico-source income only.

In accordance with the Mexican income tax law, natural persons will be regarded as Mexico residents if their center of vital interest is located in Mexico and considering the following scenarios:

- If they have established their address in Mexico: in the event an individual has an address in another country as well as Mexico, they'll be considered resident of Mexico when:
 - More than 50% of the total income obtained by the individual in the calendar year has a source of wealth in Mexico
 - They have the main center of their professional activities in Mexico
- If they are Mexican citizens who are public officials, even if their center of vital interest is located abroad

How can RSM help?

It is important for both the employer and the STBTs to have an understanding of Mexican tax legislation, in order to fully comply with the tax obligations that may be generated. Noncompliance with local requirements may create reputational and financial risks and exposures that could jeopardize business goals and projects if international jurisdictions refuse entry to an employee. Failing to comply with local requirements may hinder expansion into new markets, generate monetary penalties, and expose the organization to legal challenges from employees and authorities.

The reporting obligations described above must be carefully managed in order to guarantee all requirements are met, and tax liabilities are minimized. Organizations may want to establish a compliance checklist in relation to their STBTs.

RSM offers a senior professional-led service that can advise on the data collation, recordkeeping and risk management surrounding your STBTs to Mexico.

Other jurisdictions

While this document focuses on travelers to Mexico, RSM has the international presence and knowledge to provide clarity on the complex tax requirements involved with business travelers around the world.

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