A guide to doing business in Mexico

Deloitte Legal compiled this guide for Legal 500, providing an overview of the laws and regulations on doing business in a variety of jurisdictions. The following country chapter contains the relevant information on the systems of law, the legal forms through which people carry out business, capital requirements, how entities are operated and managed, expansion possibilities, corporate governance, employment law and more.
A. Legal system and landscape

1. **Is the system of law in your jurisdiction based on civil law, common law or something else?**

   **Civil Law Based – Roman law tradition**

   The Mexican Constitution establishes that matters not expressly reserved to the Federal State will be the competence of the States of the Federation, such as civil law (which includes family and real state law).

   The hierarchy of norms is as follows:
   - Constitution
   - International Treaties that are according to the Constitution and celebrated by the President of the Republic, with the approval of the Senate.
   - Federal and State Legislation (according to its application area).

B. Entity establishment

2. **What are the different types of vehicle / legal forms through which people carry on business in your jurisdiction?**

   Even though the Mexican General Law of Commercial Companies («Ley General de Sociedades Mercantiles» – also referred by its acronym in Spanish “LGSM”), regulates various types of commercial entities, there are basically two types widely utilized, i.e., the Limited Liability Company («Sociedad de Responsabilidad Limitada») and the Stock Corporation («Sociedad Anónima»). Both these entities require at least two partners/shareholders for the continued existence.

   **Limited Liability Company (or S. de R.L.)**
   Article 58 of the LGSM defines a Limited Liability Company as one that is incorporated by partners who are only obligated to pay their contributions, without the corporate contributions being represented by negotiable instruments (i.e., shares), as the member quotas will only be assignable in those instances and with the requirements established by the Law.

   **Stock Corporations (or S.A.)**
   Pursuant to Article 87 of the LGSM, a Stock Corporation is a company that exists under one name and is composed exclusively by shareholders whose obligation is limited to the payment of their shares.

   **Simplified Stock Company («Sociedad por Acciones Simplificadas» recently created unipersonal corporation)**
   Pursuant to Article 260 of the LGSM, a Simplified Stock Company is a corporation formed by one or more Mexican individuals who are only obligated to pay their contributions documented by shares. In no case may its shareholders be simultaneously shareholders or partners of another type of corporation referred to in Sections I to VII of Article 1 of this Law, if their participation in such
corporations allows them to have control of the corporation or its management, in terms of the Mexican Securities Market Law («Ley del Mercado de Valores»).

**Variable Capital Modality («Capital Variable» or by its acronym “C.V.”).**
The LGSM also contains the possibility for Stock or Limited Liability Companies to incorporate the modality of “variable capital”, which implies that the share/equity capital would be divided in two sections: fixed —the general rule and being the amount stated into the bylaws of each company—, and adding a second portion of variable capital—which has less requirements and formalities for its increase or decrease, unless otherwise provided into the bylaws—.

**Other modalities of the Stock Company.**
The Mexican Securities Market Law, also regulates some modalities applicable to the Stock Corporations, whose main objective is to eventually become public companies in the Mexican market:

a) Stock Investment Promotion Company («Sociedad Anónima Promotora de Inversión» or by its acronym “S.A.P.I.”)

b) Listed Stock Investment Promotion Company («Sociedad Anónima Promotora de Inversión Bursátil» or by its acronym “S.A.P.I.B.”)

c) Public Stock Company («Sociedad Anónima Bursátil» or by its acronym “S.A.B.”, public companies listed into the Mexican exchange market).

In addition to corporations, there are civil companies (which may have different names and regulations according to the State in question and regulated by the respective local Civil Code) as follows:

- Civil Company (“S.C.”)
- Non-profit Association (“A.C.”)

In this regard, business corporations are those established to attain a primarily economic objective, whereas civil companies look to provide enough resources for the subsistence of its partners and non-profit associations seek to contribute to society or specific causes, without there being any profit involved.

### 3 Can non-domestic entities carry on business directly in your jurisdiction, i.e., without having to incorporate or register an entity?

Yes. For these purposes, a non-domestic entity can participate in Mexico by opening a permanent establishment or branch to the extent the relevant commercial activity is not limited or reserved by the Mexican Foreign Investment Law («Ley de Inversión Extranjera»), i.e., where a certain minimum Mexican participation percentage would be required.

To establish a branch, the following steps must be taken:

1. Submit a notice before the Ministry of Economy —or request authorization from the Mexican Foreign Investment National Commission, according to the country of origin of the entity—, to carry out certain non-reserved or limited commercial activities in national territory, appointing a legal representative in Mexico and submitting the incorporation documents of the foreign entity.

2. Formalize before a Notary Public or Commercial Notary Public the incorporation documents and the authorization or notice, as the case may be, with the power of attorney granted to the individual in Mexico.

3. Register such public instrument before the Public Registry of Commerce.

4. To obtain the inscription in the Mexican Federal Taxpayers Registry.

5. Submit the applicable notice before the National Foreign Investment Registry.
4 Are there any capital requirements to consider when establishing different entity types?

No – Mexican law does not require a minimum initial capital investment to incorporate a non-regulated commercial company (however for practical reasons the minimum would be $1 Mexican peso per shareholder/partner).

Such minimum capital would be required if the business activity to be engaged in, is subject to specific regulations (e.g., financial services institutions, telecommunications, etc.)

5 How are the different types of vehicle established in your jurisdiction? And which is the most common entity / branch for investors to utilize?

Most Common Entities are:

- Stock Company (“S.A.”);
- Limited Liability Company (“S. de R.L.”) and
- Stock Investment Promotion Company (“S.A.P.I.”)

The three types of companies allow the issuance of variable capital (“C.V.”), which grants significant flexibility for its capital increase or decrease.

6 How is the entity operated and managed, i.e., directors, officers or others? And how do they make decisions?

Stock Company (S.A)
Management may be entrusted to a Sole Administrator or a Board of Directors.

Limited Liability Company (S. de R.L.)
Management may be entrusted to a Sole Manager or a Board of Managers.

Stock Investment Promotion Company (S.A.P.I.)
Management is exclusively entrusted to a Board of Directors.

All decisions are by a vote in the meetings and must be included in the meeting agenda.

7 Are there general requirements or restrictions relating to the appointment of (a) authorized representatives / directors or (b) shareholders, such as a requirement for a certain number, or local residency or nationality?

Stock Company (S.A.)

- Minimum 2 shareholders but without a maximum.
- Minimum 2 and no maximum of board members or Sole Director, however it can be defined in the company’s bylaws.
- No limitation on the number of legal representatives or proxies, agents, etc.
- Board members may be foreigners and under certain circumstances specific immigration status would be required if located in Mexico.
- At least one member of the Board or a legal representative must have Mexican electronic signature, to carry out any tax procedure.
Limited Liability Company (S. de R.L.)
- Minimum of 2 and a maximum of 50 partners.
- No limitation on the number of legal representatives.
- Minimum 2 and no maximum of board members or Sole Manager, however it can be defined in the company's bylaws.
- Board managers may be foreigners and under certain circumstances specific immigration status would be required if located in Mexico.
- At least one member of the Board or a legal representative must have Mexican electronic signature, to carry out any tax procedure.

Stock Investment Promotion Company (S.A.P.I.)
- Boards should have a minimum of 5 and a maximum of 21 directors, all of whom are appointed by the shareholders.
- Of the total number of directors, at least 25% must be independent, i.e., they must be persons whose only relationship with the company is only to be on these bodies, without owning shares or any other position or relationship from inside or outside the company or any kinship to its directors.

Apart from the creation of an entity or establishment, what other possibilities are there for expanding business operations in your jurisdiction? Can one work with trade/commercial agents, resellers and are there any specific rules to be observed?

There is an ample array of possibilities to conduct business in Mexico through third parties, i.e., agents, distributors, brokers, etc. Mexican law recognizes the principle of "contractual freedom", where except for certain minimum stipulations which must be stated into the relevant agreement, the parties are free to negotiate the terms and conditions of their commercial arrangement.

C. Entity operation

Please answer the following questions only for the most common entity/ies within your jurisdiction

C1. Governance

Are there any corporate governance codes or equivalent for privately owned companies or groups of companies? If so, please provide a summary of the main provisions and how they apply.

There are no mandatory codes, however some associations (such as the Business Coordinating Council «Consejo Coordinador Empresarial») usually issue some codes of best business practices and corporate governance, advising on how to choose the independent directors/managers, the minimum or maximum of directors or legal representatives, among others.
C2. Capital

**What are the options available when looking to provide the entity with working capital? i.e., capital injection, loans etc.**

Capital increase by acquisition of shares or equity parts is the principal option to provide working capital, nevertheless, the laws in Mexico provide different mechanisms and ways of making investments, for example:

- Cash contributions;
- Contributions for future capital increases;
- Capital financing;
- Financial loans;
- Intercompany loans.

C3. Return of proceeds

**What are the processes for returning proceeds from entities? i.e., dividends, returns of capital, loans etc.**

The most common paths are: i) through reimbursement of the contributions and decrease of the capital (Article 135 of the LGSM); and, ii) via the decree and payment of dividends (Article 136 LGSM):

**Reimbursement of contributions.**

In the first case, the shareholders or partners who are reimbursed are refunded the amount corresponding to their participation in the capital of the company, which necessarily implies capital decrease proportionally to its participation in the capital.

Such reimbursement may not result in the Company having less than the minimum required shareholders (e.g., in the case of a S.A. or S. de R.L., less than two).

**Dividends**

In accordance with Article 136 of the LGSM, in order to be entitled to the payment of dividends, the following basic rules must be observed:

1. Prior approval by the shareholders/partners, of the financial statements reflecting the existence of distributable profits;
2. Separation of five percent, at least, to form the reserve fund (this amount must be set aside from the distributable profits of each year, if applicable, until the fund arises to one fifth of the share capital);
3. Decree of the dividends and approval via shareholders’ meeting or unanimous resolutions of the shareholders.

Under Mexican Corporate Law, directors are not authorized to approve the distribution of dividends. Any profit distribution must be approved by the Shareholders/Partners through a Meeting or unanimous resolutions adopted outside of a meeting.

Carried forward losses must be repaid/absorbed prior to any dividend distribution, either by allocating profits from the latest fiscal year or through a capital reduction where the amount otherwise payable to the shareholders/partners, is allocated towards absorbing such losses in full.
As a general rule, the distribution of profits to the shareholders/partners will be made proportionally to their contributions, though, a different set of rules may be provided for in the bylaws.

Companies are not allowed to distribute dividends to common shares, without paying first at least 5% of the preferred dividend corresponding to limited-vote shares, if any.

The limited voting shares are those deprived of the right to vote in matters of ordinary general meetings and in certain matters of extraordinary general meetings, meaning that such type of shares only have the right to vote in matters relating to the extension of the duration of the company, early dissolution and liquidation, change of its corporate purpose, change of nationality, transformation and spin-off. This preferential dividend is fixed, annual, cumulative and can be higher to the dividend assigned to the non-limited or common shares.

C4. Shareholder rights

12 Are specific voting requirements / percentages required for specific decisions?

**Stock Company (S.A.)**

As stated previously, in S.A.’s, each share will only have the right to one vote in the shareholders meetings; however, the bylaws may provide that a portion of the shares will have the right to vote only in some of the matters that must be resolved by means of an extraordinary meetings, in exchange of a preferred dividend.

Shareholders meeting are divided, depending on the matter to be discussed and resolved thereby, in ordinary and extraordinary, each requiring specific attendance and voting quorums. Also, a meeting can be catalogued as general or special, being the latter the one that correspond to the meetings held by the shareholders that own a specific class or series of shares.

**Limited Liability Company (S. de R.L.)**

Every partner will have the right to participate in the decisions of the Partners General Meetings, having one vote for each thousand pesos of its contribution or the multiple of this amount that has been determined, except for what is established in its bylaws regarding privileged equity interest.

**Stock Investment Promotion Company (S.A.P.I.)**

The Law permits the issuance of a class or series of shares that do not confer voting rights, or that restrict voting to specific matters; grant corporate rights other than voting, or exclusively voting; limit or increase the distribution of profits; confer the right to veto or require a casting vote by any of the members of the company.

However, the Securities Exchange Law also establishes regulations in this sense, thus guaranteeing that all shareholders can protect their interests, even if their shareholding does not grant them the right to vote.

13 Are shareholders authorized to issue binding instructions to the management? Are these rules the same for all entities? What are the consequences and limitations?

Yes, it must be done through the adoption of such resolutions at shareholders’ meetings or unanimous resolutions of the shareholders, provided that their proposals have most votes for approval, since the shareholders’ meeting is the supreme body of the Company.
C5. Employment

What are the core employment law protection rules in your country (e.g., discrimination, minimum wage, dismissal etc.)?

<table>
<thead>
<tr>
<th>Right / Protection</th>
<th>Details</th>
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<tbody>
<tr>
<td>National Minimum Wage</td>
<td>$312.41 Mexican pesos per day for the north border zone.</td>
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<tr>
<td></td>
<td>$207.44 Mexican pesos per day for the rest of the country.</td>
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<tr>
<td>Holiday</td>
<td>According to Article 78 of the Federal Labor Law, workers with more than one year of service shall enjoy an annual period of paid vacation, which in no case may be less than 12 working days, and which shall increase by 2 working days, until reaching 20, for each subsequent year of service.</td>
</tr>
<tr>
<td>Working Hours</td>
<td>The maximum duration of the workday will be: eight hours during the day, seven hours at night and seven and a half hours in the mixed workday.</td>
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<tr>
<td>Rest Periods</td>
<td>The worker shall be granted at least a half hour break outside of the working place (at discretion of the worker).</td>
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<td>For every six days of work, the worker shall enjoy at least one day of rest with full salary.</td>
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<td></td>
<td>In jobs that require continuous work, the workers and the employer shall establish by mutual agreement the days on which the workers shall enjoy the weekly rest days.</td>
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<tr>
<td>Pension rights</td>
<td>The employer has the obligation to register the employee before Mexican Social Security Institute which implies the payment of social security fees which must be paid by the employer and employee according with the employee’s salary.</td>
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<tr>
<td>Discrimination</td>
<td>No worker in Mexico may be the object of discrimination in the workplace, not based on ethnic or national origin, gender, age, disability, social status, health conditions, religion, immigration status, opinions, sexual preferences, marital status or any other cause that violates human dignity.</td>
</tr>
<tr>
<td>Maternity Leave / Pay</td>
<td>Pregnant women shall not perform work involving lifting, pulling or pushing heavy weights, causing trepidation or standing for long periods of time. They will have a six-week break before and six weeks after childbirth, during which they will receive their full salary. The rest will be extended in cases in which they are unable to work because of pregnancy or childbirth. During this period, they are entitled to 50% of their salary for a period of no more than 60 days.</td>
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<td></td>
<td>They have the right to return to their former position, provided that no more than one year has elapsed since the date of delivery.</td>
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</table>
Pre- and post-natal periods must be considered in seniority, in accordance with the provisions of Articles 166, 167 and 170 of the LFT.

**Paternity Leave**  
For paternity leave, whether for birth or adoption, men will be granted five working days with pay. The days off will be counted from the day of birth of the child or, if applicable, when the adopted child is received.

The Mexican Labour Ministry («Secretaría de Trabajo y Previsión Social») has the «Empresa Familiarmente Responsables» (Family-Responsible Company) model Distinction, which distinguishes practices to reconcile work and family life.

**Shared Parental Leave**  
Not Applicable in Mexico.

**Statutory sick pay**  
In Mexico are defined as follows:

- **Temporary disability**: loss of faculties or aptitudes that makes it partially or totally impossible for a person to perform his/her job for some time.
- **Partial permanent disability**: the reduction of a person’s faculties or aptitudes to work.
- **Total permanent disability**: the loss of faculties or aptitudes of a person that makes it impossible for him/her to perform any work for the rest of his/her life.

If the risk causes the worker a temporary disability, the employer is obliged to pay an indemnity consisting of the full payment of the salary that the worker loses while he/she is unable to work. This payment will be made from the first day of the incapacity.

**Statutory Notice Periods**  
There is no minimum notice period that employees must give when resigning, which means that an employee can resign with immediate effect without penalty.

**Unfair dismissal**  
Unjustified dismissal is the termination of the labor relationship by the unilateral will of the employer, without verifying any of the causes for termination provided for in the Federal Labor Law. The employee who has been unjustifiably dismissed will be entitled to:

- Indemnification/severance consisting of the amount of three months’ salary, plus
  - 20-day salary per year worked
  - 12-day salary per year worked limited to two times the minimum wage
  - The proportional part of the annual statutory bonus.
  - The proportional part of vacation.
  - The proportional part of the vacation bonus.
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<tr>
<th>Benefit/Statement</th>
<th>Details</th>
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<tr>
<td>Other current benefits included in the employment agreement or in the conditions that regulate the relationship with the company or employer, such as bonuses, commissions, savings fund, utilities, among others.</td>
<td></td>
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</tbody>
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<tr>
<th>Statutory Redundancy Payment</th>
<th>Not Applicable in Mexico</th>
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<tr>
<th>Statement of particulars</th>
<th>Mexican law requires employers to provide their employees with a copy of their Employment Agreement.</th>
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15

On what basis can an employee be dismissed in your country, what process must be followed and what are the associated costs? Does this differ for collective dismissals and if so, how?

The causes for dismissal are the following:

- Use of false documentation to obtain employment;
- Dishonest or violent behavior at work or against co-workers;
- Threatening or abusing the employer or his/her family, except in self-defense; Intentionally damaging property;
- Causing serious damage to the employer's property through negligence;
- Threatening safety in the workplace;
- Failure to comply with safety instructions in the workplace;
- Behaving immorally in the workplace or harassing any person in the workplace;
- More than three unexcused absences in a 30-day period;

The process to be followed is:

- A letter of termination, stating the reasons for termination. This letter is essential, since in the event of a legal challenge, the employer will only be able to argue the reasons stated in the letter.
- A settlement document, known as the “finiquito”. It will contain the amounts owed to the employee for different concepts (salary due, overtime, allowances, etc.). It must be signed by the worker in the presence of a legal representative, although the employee may sign it as “non-conforming”

For just cause for individual dismissal, no severance pay is provided. If the employer is not able to provide the causes of dismissal, he/she/it has to pay the worker full severance plus back pay. For terms of indefinite term agreements, the severance payment is three full months’ salary plus 20 days of integrated salary for each year of service;

Collective dismissal processes are carried differently. The company must initiate a consultation period with the workers’ representatives with a term not exceeding thirty calendar days, or in the event that the company has less than fifty employees the period will be fifteen days. The parties must negotiate in good faith and bring it to the attention of the Labor Authority. The latter is in charge of transferring the matter to the entity managing the unemployment benefits and will request, as mandatory, a report from the Labor and Social Security Inspectorate on the development of the consultation period and the ends of the communication.
Unfair dismissal
The constitutional indemnity for unjustified dismissal is provided for in Article 123, Section A, paragraph XXII of the Mexican Constitution, which states that the employer who dismisses an employee without just cause must indemnify him/her with three months’ salary.

Does your jurisdiction have a system of employee representation / participation (e.g., works councils, co-determined supervisory boards, trade unions etc.)? Are there entities which are exempt from the corresponding regulations?

The model of employee representation in the company, although it may have certain similarities with political representation (normative origin and not voluntary for the represented party, democratic legitimacy), presents a specificity both from a subjective perspective, as it is limited to the workers who make up the electoral constituency, and material, as it arises for the representation of professional interests shared by a group of subjects united by an identical legal relationship.

C6. Anti-corruption / bribery / money laundering / supply chain

Is there a system governing anti-bribery or anti-corruption or similar? Does this system extend to nondomestic constellations, i.e., have extraterritorial reach?

1. General Law on the National Anticorruption System
Defines how the institutions in charge of fighting corruption will coordinate and collaborate and how they will function as a system. Establishes a Coordinating Committee that determines the and evaluation of anti-corruption policies as well as the mechanisms for citizen participation. participation mechanisms.

2. General Law of Administrative Responsibilities (“Ley 3 de 3”)
Establishes the obligations that all public servants must comply with, the types of corruption, as well as the procedures for detection, investigation and sanction. It must be clear to avoid interpretations and facilitate the work of judges. Since it is a General Law, all states must base their laws on it.

3. Organic Law of the Federal Court of Administrative Justice
Determines the integration, organization, attributions and operation of the Tribunal in charge of judging possible acts of corruption investigated by the authorities. Guarantees that an autonomous body will oversee judging serious administrative misconduct.

Reverses the disappearance of the Ministry of Public Administration ("SFP") and maintains it as the governing body in charge of the internal control of the Federal Public Administration. It will also be one of the bodies in charge of the investigation of serious administrative liabilities. It will be responsible for resolving non-serious administrative misconduct (serious misconduct will be judged by the Federal Court of Administrative Justice). In this way, it is guaranteed that those who decide on acts of corruption will not be subordinates of the accused.

5. Amendments to the Federal Auditing and Accountability Law.
They provide the Federal Superior Audit Office (“ASF”) with greater powers and investigation tools that allow for a real time audit of federal resources. For the first time, it allows state participations to be audited.

In order to criminally prosecute acts of corruption, it is necessary to create a Specialized Prosecutor’s Office for Corruption Crimes with technical and budgetary autonomy, and with all the necessary
investigative powers and tools. This is the only way to guarantee an autonomous investigation of corruption crimes.


This Law regulates some activities considered as “vulnerable” for money laundering purposes in Mexico, such as: fintech companies, financial system, donations, some provision of services, loans (even intercompany loans), among others.

This law, per se, doesn't have extraterritoriality, however, due to the matter, a joint investigation/sanction with other jurisdictions may apply.

18 What, if any, are the laws relating to economic crime? If such laws exist, is there an obligation to report economic crimes to the relevant authorities?

The Federal Criminal Code establishes the different crimes that may be committed by legal entities, i.e. influence peddling, obstruction of justice, fraud, tax fraud, money laundering, securities violations and bribery.

The penalties may be imposed considering the daily earnings of the company, as a proportional measure to the prison sentence that a natural person would have been sentenced to for the same offense.

19 How is money laundering and terrorist financing regulated in your jurisdiction?

At the Constitutional level, it is a power of the Congress of the Union to issue laws on the matter through section XXI of article 73, which provides for the regulation of organized crime and whose law provides the bases through which the Public Prosecutor's Office will coordinate with the Mexican Treasury («Secretaría de Hacienda y Crédito Público» or by its acronym “SHCP”) to carry out the investigation.

The crimes of operations with resources of illicit origin and terrorism and its financing are typified in the Federal Criminal Code in the following articles:

- Operations with resources of illicit origin - Money laundering - Articles 400 Bis and 400 Bis 1.
- Terrorism - Articles 139, 139 Bis and 139 Ter.
- Financing of Terrorism - Articles 139 Quater and 139 Quinqui
- International Terrorism - Articles 148 Bis, 148 Ter and 148 Quater

However, there is the “Federal Law for the Prevention and Identification of Operations with Resources of Illicit Origin” (“Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita”).

The purpose of this Law is to protect the financial system and the national economy, establishing measures and procedures to prevent and detect acts or operations involving resources of illicit origin, through inter-institutional coordination, with the purpose of gathering useful elements to investigate and prosecute the crimes of operations with resources of illicit origin, those related to the latter, the financial structures of criminal organizations and to avoid the use of resources for their financing, in addition to the existence of different secondary provisions in this regard.
Are there rules regulating compliance in the supply chain (for example comparable to the UK Modern Slavery Act, the Dutch wet kinderarbeid, the French loi de vigilance)?

No, Mexico does not have a specific local regulation for these matters, however, it has signed international treaties such as the C029 - Forced Labor Convention, 1930 (No. 29), different provisions signed with the United Nations such as ILO C. 138, Minimum Age, ILO C. 182, Worst Forms of Child Labor, UN CRC, UN CRC Optional Protocol on Armed Conflict, UN CRC Optional Protocol on the Sale of Children, Child Prostitution and Child Pornography, Palermo Protocol on Trafficking in Persons.

It also has several institutions that support the agreements signed, such as the Attorney General’s Office, the Ministry of Labor and Social Security, the National Human Rights Commission, among others.

C7. Compliance

Please describe the requirements to prepare, audit, approve and disclose annual accounts / annual financial statements in your jurisdiction.

In accordance with the article 182 of LGSM corporations are obliged to prepare financial statements on an annual basis and they must be approved no later than the first quarter of the following year.

Mexican Federal Tax Code establishes the obligation to submit their audited financial statements made by an authorized public accountant, as long as the taxpayers have an accumulated tax revenue for income tax purposes in the immediately preceding fiscal year of $1,650,490,600 MXN or if it’s a public company listed in the Mexican exchange market, no later than the 30th of May of the following year.

The audit of the financial statements is optional for individuals or companies that had, in the immediately preceding fiscal year, accumulated revenues superior to $140,315,940 Mexican pesos.

Please detail any corporate / company secretarial annual compliance requirements?

**Annual General shareholders/partners Meeting**
Within the first four months of each year a company must hold an annual shareholders’/partners’ meeting to approve the financial statements and the reports of the directors, ratify, revoke or appoint its directors and statutory auditor.

**Foreign Investment**
Mexican legal entities with foreign investment and foreign entities with permanent establishments in Mexico are required to comply within certain reporting obligations to the Foreign Investment National Registry: (i) registration; (ii) annual economic report; (iii) quarterly notices and/or (iv) cancellation of registration.

Is there a requirement for annual meetings of shareholders, or other stakeholders, to be held? If so, what matters need to be considered and approved at the annual shareholder meeting?

There must be a prior call of shareholders by the sole Administrator/Sole Manager or Board of Directors/Managers, or the Statutory Auditors, which must be published by means of a notice in the electronic system of the Ministry of Economy with the anticipation established in the bylaws, or otherwise, 15 days prior to the date of such Meeting (in accordance with Article 186 of the LGSM).
Notwithstanding the fact that the LGSM refers that the notice must be made in the electronic system of the Ministry of Economy, it is important to review the bylaws of the company in order to verify if there is any additional obligation that must be respected, since some bylaws regulate the means in which the notices to the partners or shareholders must be made, so in such case, it is advisable to comply with both the bylaws and the provisions of Article 186.

If the notice does not comply with the requirements, the meeting will be null.

However, it is important to mention that prior notice will not be necessary if the meeting is attended and resolved by the vote of those who represent all the shares or equity interest.

**Matters to be considered**
Discuss, approve or modify the report of the administrators, considering the report of the Statutory Auditors, and take such measures as it deems appropriate.

Where appropriate, to appoint the Manager or Board of Directors and the Statutory Auditors.

Determine the compensation corresponding to the Administrators and Statutory Auditors, when they have not been fixed in the bylaws.

Regarding the report of the administrators (sole administrator or board of directors, as the case may be), it corresponds at least to the following points:

- A report by the administrators on the company's progress during the fiscal year, as well as on the policies followed by the administrators and, if applicable, on the main existing projects.
- A report stating and explaining the main accounting and reporting policies and criteria followed in the preparation of the financial information.
- A statement showing the financial position of the entity as of the closing date of the fiscal year.
- A statement showing, duly explained and classified, the results of the entity during the fiscal year.
- A statement showing the changes in the financial position during the fiscal year.
- A statement showing the changes in the items comprising the company's equity during the fiscal year.
- Such notes as may be necessary to complete or clarify the information provided in the preceding statements.
- The report of the Statutory Auditors referred to in Section IV of Article 166 of the LGSM shall be added to the foregoing information.

And regarding the report that of the Statutory Auditor of the Company, it consists at least of the Statutory Auditor's opinion on (i) whether the accounting and information policies and criteria followed by the company are adequate and sufficient taking into consideration the particular circumstances of the company; (ii) whether such policies and criteria have been consistently applied in the information presented by the administrators; and (iii) the information presented by the administrators truthfully and sufficiently reflects the financial situation and results of the company.

**Are there any reporting / notification / disclosure requirements on beneficial ownership / ultimate beneficial owners (“UBO”) of entities? If yes, please briefly describe these requirements.**

Mexican Federal Fiscal Code (“Código Fiscal de la Federación”) was amended in order to introduce several provisions to establish several “Controlling Beneficiary” obligations. Therefore, Articles 32-B-TER, 32-B-QUATER and 32-B-Quintus of the Federal Fiscal Code (which became into force since January 1, 2022) impose new obligations for those legal entities, fiduciaries (among others) to obtain
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...and keep as part of their accounting the reliable, complete and updated information of their controlling beneficiaries, as well as notaries public whom protocolize any capital modification and establishment of new entities are subject to comply these new obligations.

This information may be required by the authority at any given moment, without prior notification.

C8. Tax

25. **What main taxes are businesses subject to in your jurisdiction, and on what are they levied (usually profits), and at what rate?**

When a business distributes profits, there are two options: a) if the company has enough CUFIN\(^1\) balance, there is no need to pay any additional tax. b) if the company does not have enough CUFIN balance the 30% must be paid, applying a gross-up ratio of 1.4286 prior to the 30%.

On the other hand, for the receiver of the profits, we have the following scenarios: a) if the receiver is a corporation Mexican resident, there is no withholding tax b) if the receiver of the profit is an individual residing for tax purposes in Mexico, a 10% of WHT must be applied C) if the receiver is a foreign resident for tax purposes, a 10% WHT must be applied or it must be analyzed the possibility to claim the benefits of a Double Tax Treaty to avoid double taxation in order to decrease the WHT to a 5% or should the participation exemption regime applies.

26. **Are there any particular incentive regimes that make your jurisdiction attractive to businesses from a tax perspective (e.g. tax holidays, incentive regimes, employee schemes, or other?)**

We have several incentives, the most common are the following:

- **Maquiladora regime.** It grants the possibility to compute the income tax taking into account assets and inventory. Furthermore, this regime allows taxpayers to make deductible the 100% of the payroll exempt expense, different to the general regime, which only allows the 47%/53% deduction.
- **IMMEX certification.** It entitles taxpayers to delay the payment of the VAT for imports.
- **Business performing renewable energy activities** could deduct assets in one shot, instead of applying deductibility percentages on a yearly basis. As a result of such complete deduction, most of the time this type of enterprises generates tax losses, they would not be in a position to distribute dividends; however, another benefit if that for CUFIN purposes they are allowed to apply the deduction of assets in a normal way, it means, using the percentages in order to generate profits.
- **Consolidation regime.** It grants the possibility to delay the payment of the CIT up to three years, paying the inflation jointly.

27. **Are there any impediments / tax charges that typically apply to the inflow or outflow of capital to and from your jurisdiction (e.g., withholding taxes, exchange controls, capital controls, etc.)?**

When a company distributes a capital redemption it is needed to perform two computations: i) the first one needs to make a comparison between the contributions made and the amount of the capital redemption, if the contribution is higher, there is not additional implication but if the capital

\(^1\) CUFIN is the Net Tax Profit Account, it means, profits that have paid the tax before.
redemption is greater than contribution, a tax profit must be raised and an corporate tax must be computed provided the company does not have CUFIN balance. In terms of WHT same comments on the question 25 are applicable.  

ii) It is necessary to make a comparison between the equity and contributions, if the first one is higher, a tax profit must be raised and same comments on i) are applicable as well as the ones on question 25.

28  
Are there any significant transfer taxes, stamp duties, etc. to be taken into consideration?

We have a state tax that is triggered by means of the transfer of immovable property, the acquirer is the liable subject and the tax rate depends on the State of place in which is located the property but generally speaking, the tax rate ranges between the 4% and 6%.

This tax must be withheld by the Public Notary and he will be in charge of remittance before Mexican tax authorities, such tax is deductible for CIT purposes.

C9. M&A

29  
Are there any public takeover rules?

The Securities Market Law and the Securities and Banking National Commission circular contain a series of rules and principles which must be observed when anticipating the takeover of a publicly traded company.

30  
Is there a merger control regime and is it mandatory / how does it broadly work?

Depending on the size of the transaction (monetary value as regards either equity value, sales or assets value), clearance from the Federal Competition Commission would be required. To this end, the Commission needs to evaluate the potential adverse effects to market competition as a result of the merger.

31  
Is there an obligation to negotiate in good faith?

In all legal acts performed in Mexico, the good faith of the parties is presumed, and whoever considers that someone is not acting in good faith must prove it.

32  
What protections do employees benefit from when their employer is being acquired, for example, are there employee and / or employee representatives’ information and consultation or co-determination obligations, and what process must be followed? Do these obligations differ depending on whether an asset or share deal is undertaken?

There are no such rules applicable as of yet in Mexico. However, under certain circumstances, prior negotiations would be advisable with the union representative if in place.
C10. Foreign direct investment

33 Please detail any foreign direct investment restrictions, controls or requirements? For example, please detail any limitations, notifications and / or approvals required for corporate acquisitions.

There are activities that are reserved exclusively to be carried out by the Mexican State according to the Article 5 of the Foreign Investment Law: (i) Exploration and extraction of petroleum and other hydrocarbons; (ii) Planning and control of the national electric system, as well as the public service of transmission and distribution of electric power; (iii) Nuclear power generation; (iv) Radioactive minerals; (v) Telegraphs; (vi) Radiotelegraphy; (vii) Postal services; (viii) Issuance of banknotes; (ix) Coinage; (x) Control, supervision and surveillance of ports, airports and heliports; and (xi) Any others expressly indicated in the applicable legal provisions.

There are other activities that are reserved to be performed only by Mexicans or Mexican entities (with foreign investment exclusion clause into its bylaws), such as: (i) Domestic land transportation of passengers, tourism and cargo, not including courier and parcel services; (ii) Development banking institutions, under the terms of the applicable law; and (iii) The rendering of professional and technical services expressly indicated by the applicable legal provisions.

Also according to Article 7 of the Foreign Investment Law, there are certain activities where foreign investment may participate up to a certain percentage, such as (i) Up to 10% in: Production cooperative societies and (ii) up to 49% in activities of Manufacture and commercialization of explosives, firearms, firearms, cartridges, ammunition and fireworks, not including the acquisition and use of explosives for industrial and extractive activities, nor the elaboration of explosive mixtures for the consumption of such activities, Printing and publication of newspapers for exclusive circulation in national territory; Series “T” shares of companies that own agricultural, livestock and forestry land; Fishing in fresh water, coastal and in the exclusive economic zone, not including aquaculture; Integral port administration; Port services of pilotage to vessels to carry out inland navigation operations under the terms of the Law of the matter; Shipping companies engaged in the commercial exploitation of vessels for inland navigation and cabotage, with the exception of tourist cruises and the exploitation of dredges and naval artifacts for the construction, conservation and operation of ports; Supply of fuel and lubricants for vessels and aircraft and railway equipment; Broadcasting, Regular and non-scheduled domestic and international air transportation service; air cab transportation service; and, specialized air transportation service.

For foreign investments in excess of 49%, a favorable resolution of the Commission will be required for foreign investment for those who carry out the following activities in accordance with Article 8: (i) Port services to vessels for their inland navigation operations, such as towing, mooring of lines and launching; (ii) Shipping companies dedicated to the exploitation of vessels exclusively in deep-sea traffic; (iii) Companies holding concessions or permits for aerodromes for public service; (iv) Private pre-school, primary, secondary, high school, higher and combined education services; (v) Legal services; and (vi) Construction, operation and exploitation of railroads that are general means of communication, and provision of public railroad transportation services.

34 Does your jurisdiction have any exchange control requirements?

No
D. Entity closure

What are the most common ways to wind up / liquidate / dissolve an entity in your jurisdiction? Please provide a brief explanation of the process.

Article 229 of the LGSM establishes the grounds for dissolution of a corporation, which are as follows: (i) For expiration of the term established in the corporate agreement; (ii) Due to the impossibility of continuing to carry out the main purpose of the corporation or because it has been consummated; (iii) By agreement of the partners taken in accordance with the articles of incorporation and the Law; (iv) Because the number of shareholders becomes less than the minimum number established by this Law, or because the parties of interest are united in a single person; (v) By the loss of two thirds of the capital stock; (vi) By the loss of two thirds of the capital stock.

Additionally, a company may be put in liquidation by a judicial or administrative resolution issued by the administrative resolution issued by the competent courts in accordance with the grounds set forth in the applicable laws.

The process for the liquidation of the company is established in Article 240 of the LGSM, as well as in the bylaws of the company, the general procedure is as follows:

1. Agreement to dissolve the company.
   The General Meeting must be called to adopt the necessary resolutions for the dissolution of the company. Said resolutions must be recorded in the corresponding Extraordinary Meeting Minutes, which must be notarized and registered in the Public Registry of Commerce as indicated in Article 232 of the LGSM.

2. Appointment of liquidators
   The liquidators must have been previously assigned in the resolution of dissolution of the Company. They will have a series of powers, including the following:
   - To conclude the corporate operations that have remained pending at the time of the dissolution.
   - To collect what is owed and to pay what is owed by the corporation.
   - To sell the assets of the company.
   - To make the final balance sheet of the liquidation, which will have to be submitted for discussion and approval by the partners.
   - To obtain from the Public Registry of Commerce the cancellation of the registration of the corporate contract, once the liquidation has been concluded.
   - All the books and papers of the company will be kept for 10 years once the liquidation process of the mercantile company has been concluded.
   - Preparation and publication of the Financial Statements
   - The Financial Statements must be published through the electronic system of the Ministry of Economy.

3. Holding of the Final Shareholders Liquidation meeting of the company.
   In this final meeting, the liquidator will have to present a detailed report of the legal, fiscal and civil actions taken. It will also include the cancellation of registry accounting entries, besides being able to include the project of reimbursement of shares of the partners.
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