

Mexico

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

- A new national infrastructure plan agreed between the federal government and the private sector will be launched in order to reactivate the economy, bringing new opportunities for different sectors including transportation, telecommunications, tourism, energy, and healthcare.
- No invitation was published for the R&D cash grant program for 2021 R&D projects.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Incentives for job creation and capex investment	Discretionary grants and incentives (e.g., cash grants, exemptions/reductions in local taxes, workforce training programs) may be negotiated with the local governments for projects involving job creation and capex investment	Provided by the local governments on a discretionary basis	Not applicable	Certain requirements must be met
R&D tax credit	Tax credit for technological R&D carried out in Mexico	The R&D tax credit is equal to 30% of expenses and investments for technological R&D carried out in Mexico that represent scientific or technological breakthroughs. The credit is computed on the incremental amount in qualifying expenses over the average amount of qualifying expenses in the prior three fiscal years (FYs)	<ul style="list-style-type: none"> • Fees paid to researchers hired for the R&D project • Experimental testing • Field work • Tools for experimental testing • Technical training that is essential to the R&D project • Specialized equipment (and leases thereof), lab equipment, and machinery essential to the R&D project • Animals or plants that are essential to the R&D project for experimental testing • Prototypes and experimental pilot plants • Materials for experimental designs • External services provided by Mexican third parties • Collaboration costs paid to Mexican private or public higher education institutions and/or public research centers 	<p>Only applicable for true innovations (i.e., worldwide patent search must be performed)</p> <p>It is expected that IP derived from the R&D activities will be protected (i.e., patents)</p> <p>Collaboration with higher education institutions and research centers is recommended</p>
Diesel tax credit	Tax credit on the acquisition of diesel and biodiesel	Calculated based on the excise tax paid on the acquisition of diesel	Diesel and biodiesel as fuel for machinery; diesel used as fuel for public and private transportation of goods or persons; and certain fossil fuels used in productive processes to produce other goods (not used for combustion)	<p>Taxpayers with taxable income in excess of MXN 60 million</p> <p>Diesel and biodiesel as fuel for other purposes</p>

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Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
● Consumer Products	● Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	Health & Social Care
● Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	● Transport



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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	●	●	●	National: Advance Local: Not Applicable	Income tax credit equal to 30% of eligible expenses and investments for technological R&D projects carried out in Mexico, aimed at the development of products, materials, or production processes that represent scientific or technological breakthroughs. The credit is computed on the incremental amount in qualifying expenses over the average amount of qualifying expenses in the prior three FYs	The total tax credit budget per FY is MXN 1.5 billion and the maximum credit that can be applied by a taxpayer in a particular FY is MXN 50 million	The total tax credit budget per FY is MXN 1.5 billion and the maximum credit that can be applied by a taxpayer in a particular FY is MXN 50 million
R&D grant (national or EU)	●		●	Advance	Cash grants applicable to qualifying expenses and investments for carrying out R&D projects in Mexico	Large enterprises were excluded from the last invitation (2019)	Budget established in the annual invitation
PROSOFT	●	●	●	National: Advance Local: Not Applicable	Cash grants aimed at supporting companies from strategic sectors to set up industrial innovation centers for the development of IT-specialized human resources and to offer specialized services	Budget established in the annual Invitation	Budget established in the annual Invitation

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

- Notes:
- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
 - If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.



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Investment							
Capex	●	●	●	National: Not Applicable Local: Advance	Discretionary incentives are available at the local level for investment projects involving job creation and capex investment. The incentives may include cash grants, temporary tax abatements (e.g., payroll tax, real estate tax), and specifically tailored workforce training programs, among others.	No cap	No cap
Employment	●	●	●	National: Not Applicable Local: Advance			
Training	●	●	●	National: Not Applicable Local: Advance			
Environmental sustainability							
Sustainability	●	●	●	National: Arrears Local: Advance	<p>National: Investments in machinery and equipment for energy generation from renewable sources and in cogeneration systems of efficient electricity can qualify for 100% depreciation in the year of acquisition</p> <p>Local: Green incentives in the form of reduction of local taxes are available in certain Mexican states</p>	National: No cap Local: Varies	National: No cap Local: Varies

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Other							
Excise Tax Credit	●	●	● ●	National: Advance Local: Not Applicable	Tax credit against the corporate income tax, calculated based on the excise tax paid on the acquisition of diesel and biodiesel as fuel for machinery; diesel used as fuel for public and private transportation of goods or persons; and certain fossil fuels used in productive processes to produce other goods (not used for combustion)	No cap	No cap
Incentive for supporting high performance athletes	●	●	● ●	National: Advance Local: Not Applicable	Tax credit that reduces corporate income tax liability for contributions made by taxpayers to highly specialized infrastructure and sports facilities, and to programs designed for the development, training, and competition of Mexican high performance athletes	The tax credit cannot exceed 10% of the taxpayer's corporate income tax liability for the previous FY and MXN 20 million in a particular FY	The tax credit cannot exceed 10% of the taxpayer's corporate income tax liability for the previous FY and MXN 20 million in a particular FY
Film Tax Credit	●	●	● ●	National: Advance Local: Not Applicable	Tax credit that reduces corporate income tax liability for contributions made by taxpayers to the production or distribution of Mexican films	The tax credit cannot exceed 10% of the taxpayer's corporate income tax liability for the previous FY and MXN 20 million in a particular FY for production (MXN 2 million for distribution)	The tax credit cannot exceed 10% of the taxpayer's corporate income tax liability for the previous FY and MXN 20 million in a particular FY for production (MXN 2 million for distribution)

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Country background

The corporate tax rate in Mexico is 30%.
 In general, R&D projects may benefit from:

- R&D tax credits, and
- R&D cash grants.

In addition, IT innovation projects may benefit from cash grants through a program called PROSOFT.

Discretionary incentives are available at the local level for investment projects involving job creation and capex investment. The incentives may include cash grants, temporary tax abatements (e.g., payroll tax, real estate tax), and specifically tailored workforce training programs, among others.

Innovation Incentives

Research & Development (R&D)

Mexico offers an R&D tax credit that may be taken against the 30% corporate income tax in the fiscal year (FY) in which the credit is computed.

Nature of the incentives

The R&D tax credit is equal to 30% of expenses and investments for technological R&D carried out in Mexico. The expenses and investments must be directly and exclusively applied to the taxpayer’s own projects aimed at the development of products, materials, or production processes that represent scientific or technological breakthroughs.

The credit is computed on the incremental amount in qualifying expenses over the average amount of qualifying expenses in the prior three FYs, as shown in the following example:

R&D expenses and investments of three previous FYs				Current R&D expenses and investment		R&D tax credit
FY 1	FY2	FY3	Average	Current FY	Incremental	
40	20	60	40	100	60	18

If the R&D tax credit cannot be utilized in the current year, it may be carried forward for 10 years.

For a project to qualify for the credit, it must be approved by an Inter-agency Committee comprised of:

- National Council of Science of Technology (CONACYT);
- Ministry of Economy;
- Executive Branch;
- Tax Administration Service (SAT); and
- Ministry of Finance.

By the last day of February of each FY, the Inter-agency Committee publishes a list of projects and amounts that were authorized during the previous FY, including the names of taxpayers selected as beneficiaries.

Taxpayers selected by the committee must:

- Comply with the general rules published by the committee and the technical provisions in the operating guidelines published by CONACYT;
- Submit a report outlining the impact and benefits resulting from the approved R&D projects in January of the FY following the R&D tax credit year;
- Submit an information return each February disclosing the expenses incurred and investments made in connection with the authorized technological R&D project, which must be certified by a registered CPA;



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- Maintain a computer system that tracks expenses and investment items that have been authorized and is made available on a permanent basis to the Mexican tax authorities (SAT);
- Accept technical visits from CONACYT and comply with any additional requests for information, etc.;
- Retain as part of the accounting records the documentation submitted to the committee for the authorization and follow-up of the R&D tax credit, along with any other relevant documents;
- Register in Mexico the patentable breakthroughs resulting from the authorized projects; and
- Comply with commitments relating to deliverables of the authorized projects.

Taxpayers must submit requests for the R&D tax credit electronically and attach certain documents in PDF format (e.g., opinion of good standing related to compliance with tax obligations; annual tax returns from the previous three FYs; a breakdown of the R&D expenses incurred during the previous three FYs; a document specifying the commitments for the development of prototypes, patent registration, and IP registration in Mexico). The request must be submitted between 1 March and 30 April of the relevant FY.

The total tax credit budget per FY is MXN 1.5 billion and the maximum credit that can be applied by a taxpayer in a particular FY is MXN 50 million.

Qualifying industries

The R&D tax credit is not limited to specific industries.

Eligible expenditure

Eligible expenditure include:

- Fees paid to external researchers;
- Experimental testing;
- Field work;
- Tools for experimental testing;

- Technical training that is essential to the R&D project;
- Specialized equipment (and leases thereof), lab equipment, and machinery essential to the R&D project;
- Animals or plants that are essential to the R&D project for experimental testing;
- Prototypes and experimental pilot plants;
- Materials for experimental designs;
- External services provided by Mexican third parties;
- Collaboration costs paid to Mexican private or public higher education institutions and/or public research centers registered with the National Registry of Scientific and Technological Institutions and Companies (RENIECYT); and
- Payments for services provided by national CONACYT labs.

Ineligible expenditure

Expenditure that likely will not qualify for the tax credit include:

- Civil engineering works (except for pilot plants);
- Acquisition of and/or leased immovable property;
- Administrative expenses (e.g., utilities, administrative employees);
- Manufacturing expenses;
- Equipment maintenance;
- Salaries and wages related to the R&D project paid to the taxpayer's employees;
- Marketing expenses;
- Expenses for studies or permits related to federal, state, or municipal regulations;
- Freight expenses;
- Loss reserves;
- Interest;
- Purchase/sale of currency;



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- Financing expenses;
- Taxes;
- Fines, surcharges, and penalties;
- Expenses financed by other CONACYT or federal government incentive programs; and
- Payments made to third parties to prepare the project and/or carry out the relevant follow-up.

IP and jurisdictional restrictions

The R&D activities must take place in Mexico and the patents and IP rights must be registered in Mexico.

Other concerns

Failure to comply with all applicable requirements and to complete the project will result in the recipient being liable for the tax credit and will impede the ability of the applicant to obtain the R&D tax credit in the future.

R&D cash grants

In addition to the R&D tax credit, R&D cash grants are provided by CONACYT for R&D and innovation projects. For the 2019 invitation, only micro, small, and medium-sized companies were eligible to participate (i.e., large companies were excluded).

No invitation was published for the R&D cash grant program for 2021 R&D projects.

Nature of incentives

Cash grants are provided in an amount equal to a percentage of qualifying expenses.

Only the following entities were eligible to participate in the 2019 invitation:

INNOVAPYME: Micro, small, and medium-sized enterprises (MIPYMES) were allowed to participate through individual projects or through projects in collaboration with at least one higher education institution or research center.

PROINNOVA: MIPYMES were allowed to participate only through projects in collaboration with at least two higher education institutions, two research centers, or one of each.

Project applications are due around September of a given FY, for projects to be carried out during the following FY. Qualifying expenditure must be supported by invoices dated in such FY.

The cash grants range from 30% to 70% of qualifying R&D expenses paid by the Mexican company with caps ranging from MXD 15 to MXD 19 million, depending on the program and whether the proposal is individual or collaborative. The largest grants usually are awarded to collaborative research conducted with higher education institutions and research centers.

Qualifying industries

This program is not limited to specific industries.

Eligible expenditure

Qualifying expenses are similar to those applicable for the R&D tax credit. One of the main differences is that salaries and wages (except outsourcing) are qualifying expenses under the R&D cash grant program.

Ineligible expenditure

Ineligible expenses are similar to those under the R&D tax credit.

IP and jurisdictional restrictions

The R&D activities must take place in Mexico and the patents and IP rights must be registered in Mexico.

Other concerns

Increased importance has been given to demonstrating that the project would result in something significantly above the current state-of-the-art (i.e., patent searches are required), and how the IP resulting from the projects will be protected.

PROSOFT

The program managed by the Ministry of Economy is aimed at supporting companies from strategic sectors to set up industrial



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innovation centers for the development of IT-specialized human resources and to offer specialized services.

PROSOFT provides cash grants for qualifying expenses in five categories: (1) acquisition of specialized technical equipment; (2) development of specialized human resources; (3) strengthening of the 4.0 strategy; (4) acquisition of specialized software; and (5) support for innovation and 4.0 public policies.

To qualify for a PROSOFT grant, the beneficiary must cover the remaining part of the project's total investment not funded by the program, be current on its tax obligations, and not receive duplicate benefits from other federal programs that provide funding or other incentives.

Any benefit obtained by an applicant through the R&D tax credit or PROSOFT is subject to special control measures and potential audits. In addition, tax reports issued by an authorized CPA, covering 100% of the expenses and investments, must be filed as part of the project's closing process.

Investment Incentives

Employment incentives

Investment projects may benefit from discretionary local grants and incentives that are negotiated with local governments. The grants and incentives may vary depending on the particular state, but may include the following: cash grants for job creation in the state (fixed amount per new employee); free training programs for employees in public universities; temporary reduction in or exemption from local taxes (e.g., payroll tax, real estate tax); free land (or at a reduced price); grants for required infrastructure; soft landing costs for employees; and free participation in state events (or at a reduced price).

Federal incentives are provided for employers hiring handicapped individuals (i.e., a deduction of 100% of the income tax withheld on the salary of such employees) and the elderly (i.e., an additional deduction equal to 25% of paid salary).

Environmental Sustainability Incentives

Green incentives

Investments in machinery and equipment for energy generation from renewable sources and in cogeneration systems of efficient electricity can qualify for 100% depreciation in the year of acquisition.

Green incentives in the form of reduction of local taxes are available in certain Mexican states.

Other Incentives

Excise tax incentive

A diesel tax credit against the corporate income tax is available. The credit is calculated based on the excise tax paid on the acquisition of diesel and biodiesel as fuel for machinery; diesel used as fuel for public and private transportation of goods or persons; and certain fossil fuels used in productive processes to produce other goods (not used for combustion).

Incentive for supporting high performance athletes

This tax credit reduces the corporate income tax liability for contributions made by taxpayers to highly specialized infrastructure and sports facilities, and to programs designed for the development, training, and competition of Mexican high performance athletes. The tax credit cannot exceed 10% of the taxpayer's corporate income tax liability for the previous FY and MXN 20 million in a particular FY, with the possibility of a 10-year carryforward. The investments must be made in Mexico. An Inter-agency Committee is responsible for evaluating and awarding the projects.

Film tax credit

This tax credit reduces the corporate income tax liability for contributions made by taxpayers to the production or distribution of Mexican films. The tax credit cannot exceed 10% of the taxpayer's corporate income tax liability for the previous FY and MXN 20 million in a particular FY for production (MXN 2 million for distribution), with the possibility of a 10-year carryforward. An Inter-agency Committee is responsible for evaluating and awarding the projects.

