

Mexico VAT

A tax professional's essential guide to calculating, reporting and paying indirect taxes in Mexico

Introducing VAT in Mexico...

VAT was introduced in Mexico in 1980; initially at a standard rate of 10%. Since then, VAT - known locally as Impuesto al Valor Agregado (IVA) - has grown to become the country's primary indirect tax and a major source of government revenue.

It is complemented by a small number of additional indirect taxes, such as the special excise tax on production and services.

The majority of goods and services sold in Mexico are subject to VAT, whether they are made as supplies, imports or provided to third parties.

All individuals and businesses that trade in Mexico and engage in the transfer of goods, the rendering of independent services, the importation of goods/services and the temporary use or engagement of goods must register for VAT.

In 2020, Mexico applied VAT to digital services for the first time, adding further complexity to the issue of calculating taxes in the country.

This infographic aims to guide you through everything you need to know about VAT in Mexico. We hope you enjoy it!

Tax revenues in Mexico

Tax revenue in Mexico is remarkably low compared with most other countries across central and South America. But it is rising!

From making up just 13.7% of GDP in 2014 to 16.5% in 2019, there are signs the Mexican government has identified tax as a key contributing factor to its economic prospects. And with the country's GDP shrinking by 8.4% in 2020 due to the Covid-19 pandemic, it could increase efforts to raise tax income to drive the country's recovery.

Check the graphic below to see just how far Mexico currently lags many of its neighbours in terms of tax revenue as a percentage of GDP:



What VAT rates apply?

Mexico has only one standard rate alongside other 0% options. Since VAT was introduced in 1980 with a standard rate of 10%, the standard rate has never fallen below this level or been set any higher than the 16% it stands at today.

16% **Standard**
e.g. most goods and services

0% **Zero-rated supplies**
e.g. retail, hotels and restaurants

0% **VAT-exempt goods**
e.g. financial services, technology and construction

Exemptions

A number of goods and services are exempt from VAT in Mexico, including:

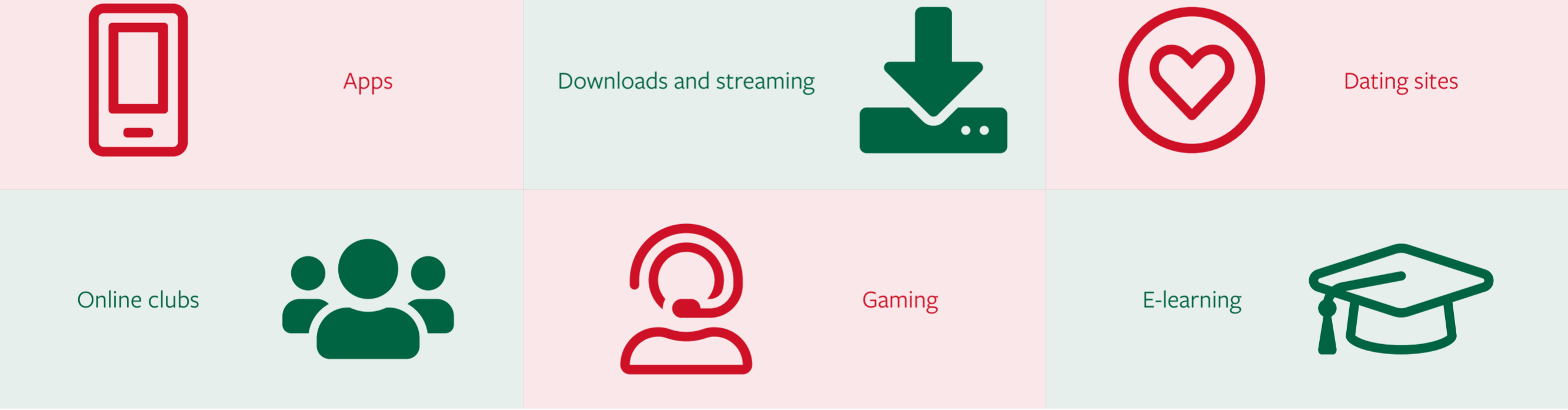


How about digital services?

In June 2020, Mexico implemented VAT on non-resident providers of digital services to consumers.

VAT is now applied on both B2B and B2C transactions, with the underlying supplier or marketplace responsible for registering for VAT, as well as charging and remitting the tax.

Taxable digital services in Mexico include:



Why is VAT in Mexico unique?

The main factor that differentiates VAT in Mexico from most VAT regimes around the world is the use of deferred taxes within Accounts Receivable (AR).

As a result of the requirement for deferred taxes, businesses need to split rates and tax accounts between Accounts Payable (AP) and AR. For example, this could mean using a standard rate for AP and another for AR - something that is not usually required in other nations.

AR invoices must be sent to Mexico's Secretaría de Hacienda y Crédito Público for validation (or a company authorised by the Tax Administration Service) to issue a digital seal before they are sent to the end customer.

For many businesses, the automation of deferred taxes and completion of necessary online reporting has proven to be a real struggle.

1 Split rates and tax accounts between AP and AR.

2 Send AR invoices to Secretaría de Hacienda y Crédito Público.

3 Once a digital seal is applied, send to the end customer.

VAT returns

Businesses must submit their VAT returns to the Mexican tax authority on a monthly basis.

Details of all sales and purchases must be included within the returns, which can only be filed electronically.

The deadline for VAT returns to be submitted is the 17th of each month, with the data relating to the previous month's trading.

Additionally, any tax due should also be paid by the same date.

If VAT credits are applicable, these may be rolled over to future months or credited back.

As well as the monthly submission, an annual VAT return must also be declared.

The expert's view...

Mexico's VAT regime shares a number of similarities with some of Europe's most established systems, so it may look relatively familiar to tax professionals tasked with determining and calculating taxes in the country.

But that's not to say it is a regime you can take lightly. In fact, Mexico boasts a variety of nuances and bespoke challenges that your business is likely to come across.

Firstly, you must consider the 2020 ruling that VAT will now apply on digital services for non-resident suppliers. Foreign entities are subject to a 50% withholding tax - so any mistakes in this area can be costly!

Secondly, Mexico's use of deferred taxes adds an additional layer of complexity to dealing with its VAT system. Indeed, some aspects of Mexico's regulations are not seen in any other country in the world.

In recent years, we have spoken to many businesses that have struggled with issues such as triggering deferred taxes and online reporting - and I'd certainly say it's the number one cause of difficulties when working with Mexico VAT.

At Innovate Tax, we have a fully automated solution for Mexico that ensures users will always comply with its many rules, rates and regulations. What's more, it provides extensive reporting capabilities, taking the stress away from you and your team.

If you would like any more information or advice relating to VAT in Mexico, do not hesitate to get in touch!

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