



Soluciones en Recursos Humanos



DOING BUSINESS MEXICO




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01

WHY DO BUSINESS IN MEXICO?

Thanks to its geographic position and a population of almost 130 million inhabitants, Mexico is an ideal place to create and expand distribution chains in the Americas.

It is among the **16 largest economies in the world and the second largest in Latin America.** This position has gained importance with the approval of the Mexico-United States-Canada Trade Agreement (T-MEC).

Mexico's strategic location, with coastline to the east and west, is ideal for renewable energy, as it has one of the highest levels of solar radiation in the world.

Mexico has 34 agreements for the promotion and reciprocal protection of investments (APRPIS), 32 of which are in force, and 17 trade agreements with investment protection provisions. Both the APRPIS and the trade agreements grant foreign investors a set of guarantees, such as fair and equitable treatment, non-discrimination, compensation under expropriation (direct and indirect), and access to arbitration.



02

LABOR RELATIONS

In Mexico, labor relations are mainly regulated by the **Federal Labor Law (FLL)** and the **Social Security Law (SSL)**.

- The FLL establishes the **rules, terms, and conditions governing labor relations**, as well as the causes for termination of the labor relationship, the right to join a trade union or to collective bargaining and the labour process.
- The SSL establishes the **rules and provisions on social security schemes**, contributions, fees, and the conditions for the granting of social security benefits and services by the MSSI.






Types of employment contracts

Employment relationships can be:

- For an indefinite period of time,
- For a specific service or work,
- Temporary or “fixed-term”,
- For a seasonal job, or
- Indefinitely with a probationary or “initial training” period.

Workday

Mexican law establishes three types of working hours:

		
The daytime shift Between 6:00 a.m. and 8:00 p.m. , with a total of 8 hours per day	The night shift Between 8:00 p.m. and 6:00 a.m. , with a maximum total of 7 hours	The mixed workday With a total of approximately 7 and a half hours

Overtime (“overtime work”) **will be paid at 100% more than the salary** corresponding to the hours of the day worked.

Remuneration and minimum wage

Under the FLL, all workers are entitled to receive at least the minimum wage published annually by the National Minimum Wage Commission.

The general minimum wage is \$248.93 MXN per day and the minimum wage in the Northern Border Free Zone is \$374.89 MXN per day.



Three types of wages are calculated in all employment relationships:

- The base salary is the agreed amount for the labor benefit.
- The full salary or SDI is used to calculate severance pay, and includes the benefits and allowances granted to employees, prorated on a daily basis (in the event of termination of the employment relationship).
- The base salary of contribution is used to calculate the employer’s contribution and the worker’s contribution that must be paid to the MSSI.

What are the withholdings from gross salary?

- **Income Tax.**
- **Mexican Social Security Institute (MSSI).**
- **Payment to third parties.** These are the deductions that are made from the gross salary to pay, for example, a loan from the “Fondo Nacional de Vivienda / National Housing Fund Institute” (Infonavit). It also applies when the worker must make payments to the “Fondo Nacional para el Consumo de los Trabajadores / National Fund for Workers’ Consumption” (Fonacot).
- **Collective bargaining agreements.** These withholdings correspond to the worker’s contributions to savings banks or the payment of union dues.
- **Voluntary.** In this case, we are talking about deductions that benefit the employee for various reasons. For example, salary advances or personal loans provided by the company to the employee.

Income Taxes

It is a tax that must be paid by individuals and legal entities that have income; it is a **tax on profits**. Article 1 of the Income Tax Law states that **all residents in Mexico must pay this tax on all their income**, regardless of the source of wealth from which it comes.

This law states that the income to which taxes must be applied are: **salaries**; the rental of real estate, as well as its construction and sale; artistic, sports, or public entertainment activities; income from marketing and/or manufacturing; and, even, the prizes obtained.



Mandatory Social Security Regime / Mexican Social Security Institute (MSSI)

The compulsory regime of the social security system in Mexico includes the following insurances:

- Occupational hazards and accidents
- Occupational disease, common illness, and maternity leave
- Disability and life

- Retirement and pensions
- Childcare and social benefits

All workers registered with Social Security are entitled to the above benefits.

The Social Security Law **obliges employers to:**



- Register all your workers in the MSSI.
- Determine workers' and employers' dues.
- Pay the amount of the fees corresponding to the MSSI.
- Withholding workers' salaries from the part corresponding to social security contributions.
- Pay the withheld social contributions to the MSSI, on behalf of the worker.

Legal Benefits

The legal benefits are the benefits that every employer must grant to its employees without distinction. These are the rights to which each worker who is part of a subordinate employment relationship has access. **This right cannot be suspended or modified.**

The aim of these benefits is to **ensure the well-being and social protection of workers**, as well as to promote a fair and equitable work environment.



Christmas bonus

Articles 86 and 87 of the FLL: it's a payment that a worker receives every year. It **must be paid before December 20**, and the **minimum payment must be 15 days** of salary.

If the employee has been working for the company for less than a year, he or she must receive a proportional amount.



Vacations

Articles 76 to 79 and 81 of the FLL: all employees, with **more than one year in the company**, can enjoy **12 days off**.

The amount of paid vacation increases with the number of years worked within the same organization.

Years worked	Vacation days	Years worked	Vacation days
1	12	6-10	22
2	14	11-15	24
3	16	16-20	26
4	18	21-25	28
5	20		



Vacation bonus

Article 80 of the FLL: employees of a company will be entitled to a bonus of **no less than 25% of the salary** that corresponds to them **for their vacation period.**



Rest days

Articles 69 and 71 of the FLL: workers will be entitled to **1 day of rest for every 6 days worked.** The day of rest is intended to be on Sunday.



Sunday premium

Article 71 of the FLL: any worker who provides **his services on Sunday** is entitled to claim **a payment of his normal daily wage plus 25%.** It is important to mention that this only applies on Sundays, since working on a rest day corresponds to 2 days of salary.



Maternity leave

Article 170 of the FLL: pregnant women in Mexico have the right to request maternity leave at work, which consists in **not attending their work with pay.** In total, **12 weeks of paid leave are granted** (usually 6 before and 6 after childbirth).



Paternity leave

Article 132 of the FLL: in the case of fathers, they have up to a **maximum of 5 working days** to participate in paternity activities, which consists of not attending their work with pay.



Social Security

Article 12 of the SSL: provides that every worker has the right to **enjoy health services** to prevent or attack any eventuality, **free of charge.** Additionally, the worker is affiliated with the National Housing Fund and the Retirement Savings System. In this way, the employer is obliged to make the corresponding contributions to these entities.



Employee Profit Sharing (EPS)

Articles 122 to 131 of the FLL: this is a right that consists of **employees receiving a proportional part of the profits obtained by the company** for which they work.

It is received once a year, the deadline for submission is May 31st.

Currently, all employers must pay their workers 10% of their taxable income in accordance with the payment methods established in the FLL and the Income Tax Law.

Superior benefits

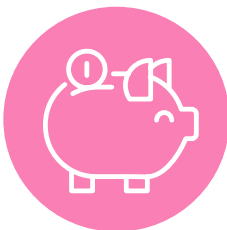
These labor benefits are **additional remuneration focused on improving the quality of life of employees**. These incentives are not mandatory for companies, so it depends on the company's possibilities to offer them.

Companies with superior benefits use them to **retain their current workers**, or to **attract the best talent**. Simply put, it often serves as a differentiator for a job offer.



Pantry vouchers

This benefit allows workers to have an exclusive resource to acquire basic necessities, such as food, clothing, cleaning, among others. This benefit is not part of the payroll tax burden. They are **deductible from income tax for the company by up to 53%**, as long as they are **given to all workers**.



Savings fund

The savings fund consists of economic contributions made throughout the year; a monthly percentage is withheld from the worker and, at the same time, the company contributes an equal percentage. **For the employer's contribution to be deductible must not exceed 13%** of the worker's salary, but in any case such contribution exceeding an amount equivalent to **1.3 times the annual value of the UMA** ("Unidad de Medida y Actualización" / Unit of Measurement and Update).



Gasoline vouchers

This is a labor benefit that is used as a means of payment at gas stations, giving employees the opportunity to avoid spending money out of their pocket on their cars to carry out activities related to their jobs.



Food or restaurant vouchers

This is a benefit with which employees can purchase food or consume in restaurants during their working day. They are an alternative for companies that do not have their own canteen service and wish to provide food assistance to their workers.



Transportation assistance

Its purpose is to offer the employee the option of covering the total or partial cost of the expenses incurred in traveling to and from the office or work site. Another modality is to transport workers in special units.



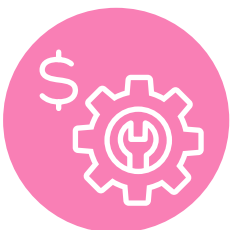
Flexible schedules

It is about achieving a balance between work and personal life. Thus, offering flexible work schedules that allow them to organize their workday with their daily life, helps to establish a relationship of trust that increases commitment and decreases staff turnover.



Major medical expenses insurance

Workers are insured to be treated in hospitals and private clinics, and the contracted insurance company will cover the cost of any medical intervention, medications, hospitalizations, diagnoses, diseases, medical consultations, and treatments.



Productivity bonus

This is an additional income based on the employee's performance during the work month. It is paid when the employee reaches or exceeds the objectives established by the company.



Punctuality and attendance awards

The aim is to reduce absenteeism and encourage punctuality among employees. This is a benefit taxable for income tax purposes; **it is exempt for the MSSI**, as long as the amount of each of these concepts **does not exceed 10% of the base salary** of contribution.

What are the causes for terminating an employment relationship?

According to the **article 57 of the FLL**, an employment relationship may be terminated for various reasons:

- Decision by mutual agreement between both sides
- Death or disability of the worker
- Voluntary resignation
- Term of the temporary contract
- Justified dismissal

Severance pay

An employee who resigns or ceases to be part of an organization on his or her own account is entitled to receive proportional pay from: **christmas bonus, holidays not taken** and **vacation bonus**, and **seniority bonus**. **Articles 76, 80, 87, and 162 of the FLL** establish these benefits and their technical specifications.

Seniority bonus

This is **12 days of salary per year worked continuously** in the company. The seniority bonus entitlement is given if a person leaves a company on their own **after 15 years of having worked in the same company**.

Article 162 of the FLL.

Settlement

This applies when a company tells a worker that they will no longer be with them, the person is entitled to receive the proportional payment of **severance pay, 90 day of salary paid, and 20 more days of salary per year worked** (this section contains legal considerations).

Article 50 of the FLL.

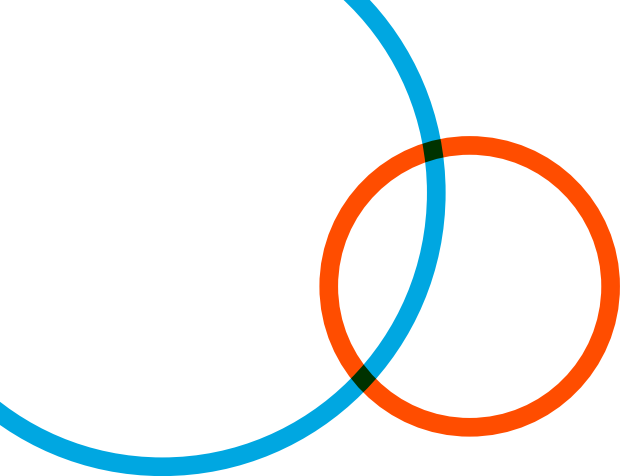
Outsourcing of workers

On April 23, 2021, the Official Journal of the Federation published a reform of the FLL and other related regulations in relation to the subcontracting of workers.

The Reform prohibits the subcontracting of personnel, which is defined as a work regime in which “a natural or legal person executes works or provides services with its workers under its dependency in favor of a contractor”.

The prohibition on subcontracting workers does not cover the subcontracting of specialized works and services that fall outside the scope of the contracting party's main activity. Specialized works and services may be subcontracted within the group of companies itself (insourcing).





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