

Project of Individual to Corporate Tax Regime Transition for the Company Galeria in Mexico

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- Develop a comprehensive strategy plan for the tax regime transition.
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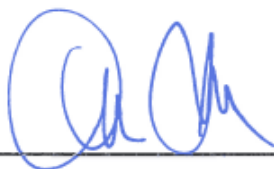
GONZALEZ RODRIGUEZ, Antonio. *Reestructura de Sociedades. Manual de los Aspectos Fiscales y Legales*. Mexico: Instituto Mexicano de Contadores Publicos, 2015. ISBN 9786078384549.

WATSON, Florence. *Tax Planning Strategies*. Independently published, 2023. ISBN 979-8394906169.

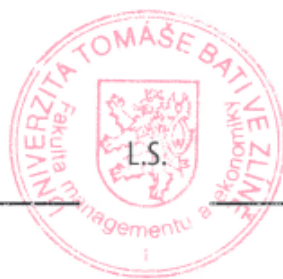
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ABSTRAKT

Tato magisterská práce představuje komplexní strategický plán přechodu z režimu zdanění fyzických osob na režim zdanění právnických osob mexické společnosti Galeria, která podniká v odvětví grafického designu.

Na základě teoretických rámců z oblasti daňových systémů, daňové politiky a strategického řízení zkoumá tato práce dopady spojené s takovou změnou.

K realizaci strategie přechodu mezi daňový režim přikládá přesná a cenná doporučení pro majitele podniku, která vycházejí z důkladných analýz politických, ekonomických a právních rozměrů, jakož i finančních výsledků podniku, daňového zatížení a omezení podnikání. K vytvoření střednědobých prognóz byly použity statistické metody. Tyto projekce byly následně použity k výpočtu daňového zatížení pomocí specifických metod pro každou možnou alternativu na základě zákonů, předpisů a dalších dokumentů souvisejících s daněmi. Účelem tohoto výpočtu bylo ověřit možné daňové úspory.

Klíčová slova: zdanění, zdanění fyzických a právnických osob, přechod mezi daňovými režimy, strategický plán.

ABSTRACT

This Master's thesis presents a comprehensive strategy plan for transitioning Galeria, a Mexican business in the graphic sector, from an individual to corporate taxation regime. Drawing on theoretical frameworks from tax systems, taxation policies and strategic management, this thesis investigates the impacts connected with such change.

To implement the transition strategy, the thesis encases precise and valuable recommendations for the business owner, based on thorough analyses of political, economic, and legal dimensions, as well as the company's financial results, tax burden and business limitations. Statistical methods were used to create medium-term projections. These projections were then used to calculate the tax burden using specific methods for each possible alternative, based on laws, regulations, and other tax-related documents. The purpose of this calculation was to verify potential tax savings.

Keywords: taxation, individual and corporate taxation, taxation regime transition, strategy plan.

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I hereby declare that the print version of my Bachelor's/Master's thesis and the electronic version of my thesis deposited in the IS/STAG system are identical.

Mariae Giselle Alvarado Torres

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INTRODUCTION

In recent years, policymakers and tax experts have shown an increasing interest in transitioning from individual to corporate taxation regimes. This shift aims to improve revenue stability, encourage economic growth, and ensure a fair distribution of tax costs. The transition reflects an understanding of the changing dynamics of global economies, technological breakthroughs, and developing corporate structures. However, transforming such a complex system presents significant challenges and potential consequences. It requires careful planning and a strategic vision.

The Mexican Association of Entrepreneurs (2023a, p. 21) reports that the Mexican business environment is comprised of 49.9% legal entities, 38.4% natural persons and 11.7% unregistered entities. To address the issue of informal economy and activities, the Mexican government has been actively encouraging small taxpayers, companies with less than MXN 35 million in revenues and informal companies to regularize and pay income tax. This has been achieved through the creation of a simplified regimes for natural persons and legal entities which came in effect in January 2022. The tax regime has reduced the income tax for natural persons from a range of 1.92%-35% to a range of 1% - 2.5% range. For legal entities, the income tax remains at 30% but benefits have been increased, such as higher deduction rates, automatic tax calculation based on preloaded tax information, and programmed provisional returns.

The Mexican taxpayers' acceptance of the tax reform has yielded positive results. Tax collection doubled in the first quarter of its implementation, and after one year of operation, tax return filings increased by 30.2%, and total collection increased by 45.8%, benefiting thousands of Mexicans in their entrepreneurial endeavors (Orozco Camacho, Corral Linares, 2023, s. 11).

Galeria is a startup in the graphic design sector that specializes in manufacturing advertisements for public and private institutions in the northeastern region of Mexico. The company was founded in April 2023 and is currently subject to a taxation regime of natural person and due to rapid growth and increased sales, the company is now subject to a 34% income tax rate. To address this continuous tax liability increase, the owner would like to transition to the corporate tax regime, where a 30% flat rate is set. Additionally,

incorporation is intended to create a corporate image that could build trust and attract potential customers, in addition to potential tax reduction benefits.

This thesis presents a strategic plan for transitioning from personal to corporate taxation offering practical recommendations to optimize financial management practices and ensure regulatory compliance. The plan is tailored to the specific needs of the business.

The thesis begins with a literature review that covers theoretical underpinnings, empirical evidence and practical experiences related to corporate taxation transitions. The review includes topics such as Mexican Income Law framework, political economy, strategic management, and tax planning strategies. The analysis of Galeria's current tax position examines key tax liabilities, deductions, and credits under the personal taxation regime.

The strategic plan development section outlines a tailored approach, incorporating tax analysis, regulatory compliance, and implementation considerations. Recommendations and implementation strategies derived from the strategic plan are then presented, detailed timeline and resource allocations for the transition process. The maintenance phase discusses methods for assessing the effectiveness of the strategic plan and ensuring compliance with regulatory requirements post-implementation. The thesis concludes with a summary of the main findings and their implications, reaffirming the importance of the strategic plan for Galeria's tax transition journey.

I. THEORY

1 INTRODUCTION TO A TAXATION SYSTEM

A tax system represents the framework through which a government collects revenue for diverse utilization formerly determined by a combination of factors such as economic considerations, social objectives, political dynamics and administrative capacities that are particular of the nation as well as serving as the mechanism through which the government exercise its authority to levy charges on various economic activities performed by individuals and legal entities.

The content that comprises a tax system vary widely across countries however, these systems aim to sooth issues of fairness, efficiency, and accountability, as well as considerations of how tax policies impact economic growth, income distribution, minimizing economic distortion and overall societal well-being.

Nowadays, taxes are one of the main revenue sources of almost all governments around the world. According to the Organization for Economic Co-operation and Development (OECD), in 2022, the average of the tax-to-GDP ratio of the OECD countries (38 countries as of 2024) is 34%, ranging from 16.9% to 46.1% (OECD, 2023b).

Taxes are “*a portion of the produce of the land and labor of a country, placed at the disposal of the government; and are always ultimately paid, either from the capital, or from the revenue of the country*” as defined by David Ricardo (2001, p. 104).

These mandatory payments are done without expectation of receiving anything in return (OECD, c2024a) and they are levied on persons, property, income, commodities, transactions, etc. (Oxford University Press, 2023c).

Hernandez Trillo (Procuraduría de la Defensa del Contribuyente, 2015) defines a tax system as a collection of current taxes existing within a country, arranged and harmonized based on general principles and intended to achieve specific objectives.

A tax system is the set of measures that a government defines as its income source in order to finance the public spending which the employment of the latter is differently defined with various purposes and priorities by each nation.

1.1 Tax–Legal Relationship

The state of how two things are connected is the definition of a *relationship* (OED Oxford English Dictionary, c2023a).

As explained previously, the government of each nation defines its tax system composed with several laws and regulations and beyond them, there are other essential elements that intervenes in the structure of a tax system supporting to the creation, execution, and follow-up of such obligations.

A *legal relationship* is a societal connection governed by a law. Lawmakers have the authority to designate which human interactions are significant in legal terms, enshrining them in legal statutes. Therefore, the societal ties among individuals or communities, regulated by legal frameworks delineating their obligation and responsibilities, constitute a legal relationship (Mitu, Duta, 2012, p. 99-100).

From a perspective of taxation, the legal relationship creates a connection between the State and the taxpayers. Mitu and Duta (2012, p. 100) clarified that in this connection, the State possesses the authority to establish duties and taxes that they are entitled to levy and the taxpayers as the ones obliged to who fulfill these obligations.

Carrasco Iriarte (2017, p. 188) defined the tax-legal relationship as the tax debt, rights and obligations that are granted to the treasury and the rights and obligations of the taxpayers including other supplementary activities necessary to determine its tax burden.

1.2 Essential elements of a tax system

The authors García Bueno (c2020, p. 93-113) and Ortega Maldonado (c2021, p. 113-175) share the vision that the elements that compose a tax system can be categorized by their qualitative and quantitative characteristics. In the qualitative elements include subject, object, and an event of taxation while in the quantitative elements, include a tax base, tax rate and its payment.

1.2.1 Tax subject

The origin of a tax serves as the guideline to identify the tax legal relationship, where there are two subjects involved: an *active subject* (tax authority) acquiring a credit right over the wealth or income of a *passive subject* (García Bueno, Rios Granados, c2020, p. 96).

- **Active subject** is the State and its territorial departments. Garcia Bueno classifies the active subject based on the jurisdiction and participation in the government:
 - a) Normative subject: It is the one which has the power to create or establish contributions. The creator of the right is the legislator, who acts in accordance

with the Constitution, which specifies the sovereignty and constraints to which the legislator is subject to fulfill its tax purpose.

b) Administrative subject: It is the one that specifically applies the norm that creates the tax. It is the holder of a tax credit right. In contrast, the application of the tax and its enforceability arise from ordinary law and are exercised through administrative acts.

- **Passive subject** is the taxpayer, whether as natural person or legal entity, who has the obligation of payments to the State budget. Carrasco Iriarte (2017, p. 118-119) provides a further classification of passive subjects from its responsibilities arisen:
 - a) Legal subject: According to the law, it is who has the obligation to pay taxes.
 - b) Economic subject: It is the person who pays the taxes, the one to whom the tax burden is transferred.
 - c) Third parties: There are those who are responsible for another's debt but do not have a direct tax obligation.

1.2.2 Tax object

The tax object refers to the monetary payment that the passive subject (taxpayer) must give to the active subject (tax authority) (Carrasco Iriarte, Gachuz Chávez, Arvizu Bonnells et al., 2017, p. 187).

According to Ortega Maldonado (c2021, p. 54-55), it is an object of taxation the wealth position of passive subjects (taxpayers) manifested through:

- *Income* which was obtained in cash, securities or credits that modifies the assets of individual.
- *Ownership* or possession of assets or capital.
- *Consumption* in order to acquire goods and services that are essential for sustenance and human advancement of the individuals. Additionally, the individual possessing the wealth and bearing the tax burden is not the taxpayer.
- *Expenditure* as a general usage manner of an economic good in order to acquire or to produce goods or services, where the taxpayer is the owner of the taxable event and its taxable capacity is not an object; therefore, there is no legal repercussion afterwards.

1.2.3 Taxable event

A taxable event is a hypothetical fact stipulated by the legislative policy and its realization gives rise to the tax obligation (Carrasco Iriarte, Gachuz Chávez, Arvizu Bonnells et al., 2017, p. 189).

When a tax law mandates something, it becomes taxable; therefore, classifies wealth as taxable and obligates individuals to contribute, resulting in a manifestation of wealth and overall contributory capacity. Rios Granados (c2020, p. 102) explains that a taxable event binds the subject to grant a benefit in favor of the tax administration office seen as the creditor of such obligation; on the other hand, its nature, whether civil, commercial, administrative or any other, has no tax significance and the main requirement of taxable event consists of its support by a capacity index contributory, which invests it with constitutional legitimacy.

Likewise, the taxable event is decomposed for study into two elements: the objective and the subjective.

- The **objective element** refers to the part of reality that the legislator deems suitable for taxation, based on legal facts or transactions.
- The **subjective element** is closely related to the taxpayer, as it requires the possession of an economic wealth suitable for contributing to the tax.

The taxable event should not be confused with the tax object. The tax object refers to the economic manifestation subject to taxation, such as income, wealth, or expenditure. On the other hand, the taxable event refers to the factual assumption that determines the birth of the main tax liability.

1.2.4 Tax Base

The tax base is the monetary value or quantity upon which the tax rate is applied to determine the amount of tax owed. It represents the economic activity, asset, or transaction that is subject to taxation. Carrasco Iriarte (2017, p. 193) deepens into the four categories of the tax base:

- **Pure base:** a base that does not allow any reduction or diminution.
- **Diminished base:** a base that the government allows certain reductions or deductions such as medical and hospital expenses, expenses necessary to a company or establishment, etc.

- **Broad base:** the lawmaker seeks to address all conceivable scenarios that arise in real-life situations. Consequently, it encompasses aspects such as alienation, service provision, consumption provision and others.
- **Restricted base:** the government explicitly excludes certain activities, goods, or services.

1.2.5 Tax Rate

It determines the amount either fixed or percentage of tax that is levied on the tax base and the taxpayers must pay. Tax rates can be classified according to the following: fixed, proportional (a constant rate applied to all income levels), progressive (increasing with income), or regressive (decreasing with income) (Rios Granados, Márquez Romero, Rocha Cacho, c2020, p. 111).

- **Fixed.**
- **Proportional:** remains fixed even when the tax base is modified. The amount of the tax grows proportionally to the increase in base.
- **Progressive:** increases as the tax base increases. Therefore, the load tax increases more than proportionally, adjusting effectively to capacity contributory approaches. It is not possible that the aliquot maintains perpetual progressivity, since the tax would become confiscatory, exceeding 100% of the tax base. Therefore, it is necessary, for reasons of technique and tax justice, that the last rate of the rate acquires a proportional nature.
- **Regressive:** As the taxable base increases, the rate tends to decrease; contrary effect to that generated by the progressive rate.

1.2.6 Tax Payment

Carrasco (2017, p. 196-202) defines the payment as the termination form of the tax obligation through material elements such as cash, bank transferances, credit, or debit payments, among others, depending on the requirements of each countries' systems. As well, summarizes the classification of payments in terms of taxation:

- **Simple payment:** Taxpayer makes the payment without objection of any nature.
- **Payment under protest:** Taxpayer is not in agreement with the tax that is been requested to but proceeds with the payment under premise that will look for the legal established means of defense later.

- **Provisional payment:** It is made with an interim effect, which temporarily makes up for the lack of other subsequent payments or is made on account of the total or definitive tax used; the latter, generally, corresponds to the end of a taxpayer's fiscal year or to the annual tax applicable to the taxpayer. Therefore, these payments are deducted from the total tax incurred.
- **Definitive payment:** It is after the determination of the total liable tax and it could be a subject of the taxpayers' verification or not, depending on the rules of the taxation system.
- **In-guarantee payment:** It is a payment through which the taxpayer ensures future compliance with a tax obligation.
- **Payment in advance:** An advance payment is a payment made on account of what is already due to the tax authorities.
- **Late payment:** Occurs when the taxpayer pays the legally owed tax amounts but outside the terms or terms established in the applicable legal provisions. As result of this lateness, in addition to the amount owed, applicable surcharges and penalties for untimely payment must be paid as well.

Taxation is a binder in the tax-legal relationship since involves the State as the imposer of financial obligations on taxpayers in exchange of access to public services and other benefits. Taxes are based on normative assumptions related to the taxable event, where individuals who own the taxed wealth are obligated to make payments. Alternatively, rights pertain to the collection of taxes by the tax authority, representing the cost of a service provided by the State to individuals who request it or use it.

To ensure effective tax collection, the system must have qualitative and quantitative elements integrated into their structure. The Figure 1 recapitulates the aforementioned elements of a tax system such as taxable event, the individuals involved in the tax relationship, the taxable base, the tax rate, and the tax payment.

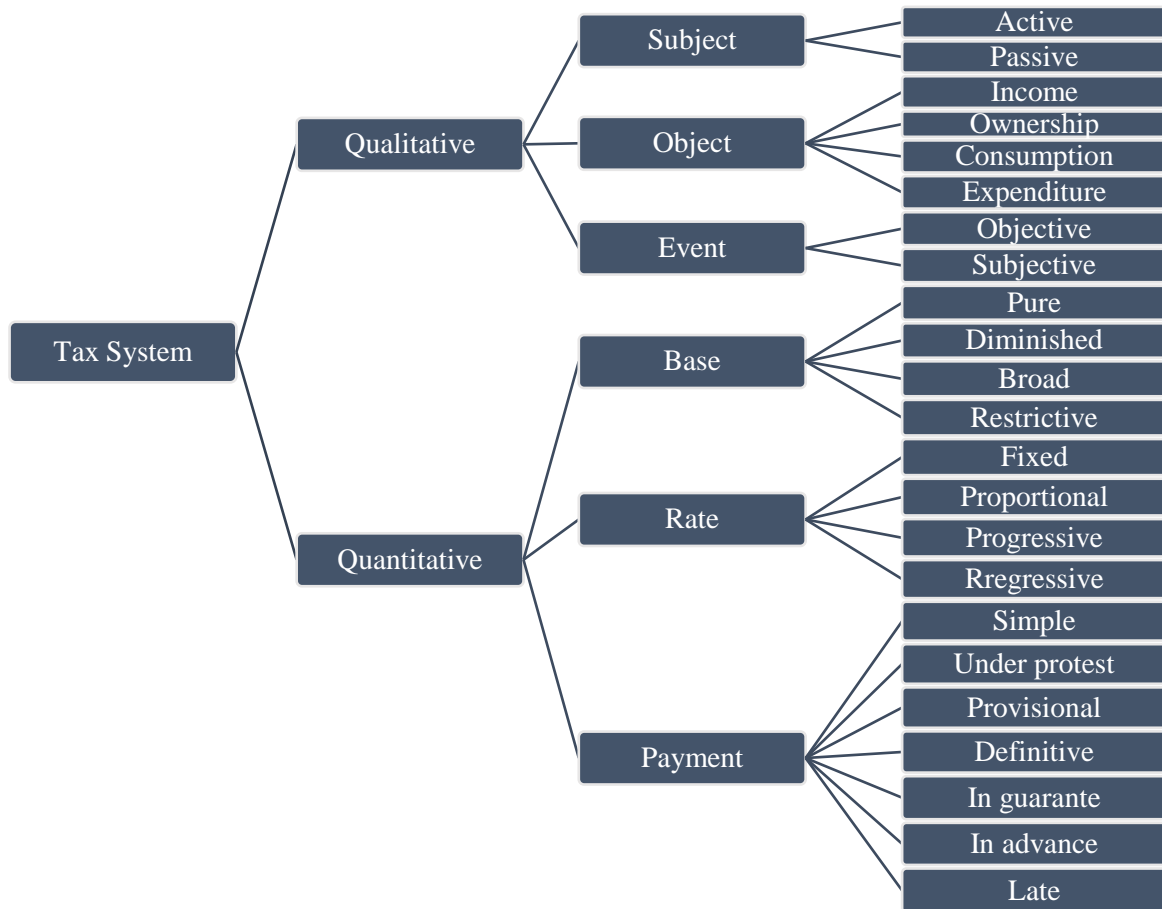


Figure 1 – Essential elements of a tax system

Source: *Own elaboration*

1.3 Taxation Functions

Taxes play a crucial role in funding government operations and public services, but their functions extend far beyond revenue generation. They serve as tools for achieving social, economic, and political objectives. They can be used to redistribute wealth, promote economic stability, regulate behavior, and address social inequalities.

Tax functions refer to the various roles and purposes served by taxation within a society or economy. These functions are essential for the functioning of governments, the distribution of resources, and the promotion of social welfare.

It is vital that policymakers, economists, and citizens comprehend the function that the taxes play in the society since tax policies exert extensive effects on individuals, enterprises, and the overall functioning of the society.

1.3.1 Revenue Generation

Government revenues are the government's income and according to the OECD latest publication (2023d, p. 149), taxes and social contributions, with some money from state-provided services are the major sources. Meanwhile, in some countries, may contain a large amount from non-tax sources, such as state-owned firm income or natural resource royalties. Government at any level of a nation uses taxation to raise revenue that will be used for public projects such as infrastructure, education, healthcare, and defense (2018, p. 119). Also, they have an important role in ensuring sustainable and equitable growth while combating tax evasion and avoidance (The World Bank, c2024b).

Revenue measures are frequently aimed to avoid worsening inequality, such as raising income taxes on people with higher incomes. Revenue policies can also be used to incentivize socially desirable behaviors.

1.3.2 Redistribution of Income and Wealth

In jurisprudential terms, public spending has been linked to the question of taxes with a defined aim, such as redistribution, or with those having a strong extra-fiscal tendency. Taxes with extra-fiscal purposes, such as disincentivizing taxpayers' behavior, are fully recognized by case law. There are many precedents referring to such purposes other than the collection of taxes for public expenditure or for a special expenditure, such as the one that refers to the special expenditure.

The wealth of the countries across the world is remarkable undistributed where according to the statistics of the OECD (2021, p. 2-3), since 2010, in two thirds of the surveyed countries, the top 10% households own more than the half of the total household wealth in comparison with the bottom half of the wealth distribution having almost no net wealth and from that half proportion of households, the 10% of low-income households are in excess of debt.

The research conducted by the OECD researchers Causa and Hermansen (c2024, p. 7-10) reveals that cash transfers, personal income taxes, and social security payments reduce over a one-quarter of the market income inequality among the working-age population.

The potential economic disparity consequences may impact material conditions, human capital accumulation and access to opportunities for those at the bottom of the income distribution. Furthermore, increasing inequality may lead to a loss of trust in the government and its ability to adopt policies that benefit the many over the few. Governments' ability to level the playing field for people by ensuring equality of opportunity and a minimum standard of living is critical to preventing social unrest and promoting well-being.

Governments can influence income disparity by levying taxes (e.g., tax breaks) and providing transfers (e.g., allowances or subsidies) (OECD, 2019, p. 162).

1.3.3 Economic Stabilization

The global economy is mainly influenced by two policies: monetary and fiscal. The monetary policy is indirectly influenced by the Central bank's adjustment of interest rates, bank reserves requirements, purchase and sale of government securities and foreign exchange. The fiscal policy is influenced by the Governments' changes of tax levels, scope and composition of spending and the degree and form of indebtedness. Fiscal policies are the usage of government spending and taxation to impact the economy to encourage strong, long-term growth and decrease poverty (Horton, El-Ganainy, [2020]).

Besides than providing goods and services, the fiscal policies' objectives stimulate the economy and control inflation focusing on the macroeconomic stabilization, promoting the sustainable growth of depending on nation's necessities.

Governments count with three main options to stimulate the economy: government spending, taxation and/or combination of both. The usage of this options depends on what the governments are addressing. When a country's economy is facing a recession, governments could make use of *expansionary fiscal policies* by increasing the government spending, reducing the taxes or some combination of both. On the other hand, *contractionary fiscal policies* could be used as controlling the inflation by reducing government spending, increasing taxation, or some combination of both (McConnell et al., c2009, p. 607-609).

1.3.4 Resource Allocation

The products and services that a government can provide to its citizens such as roads, schools, and fire protection, are usually not available in the marketplace. And yet, labor, equipment, buildings, and property are all required for government's provision.

The allocation of government's products and services to its citizens is by the non-market rationing principle. The economist David N. Hyman (2011, p. 6-8) outlines that in some circumstances, the government provides those services free of charge and without any eligibility conditions and in other circumstances, eligibility for such benefits is determined by factors such as income, age, family status, residency or payment of specific taxes, fees, or charges.

1.3.5 Market Regulation

The economic growth and/or societal welfare are some of the impacts by the country's externalities. Will Kenton (2024) describes an externality as cost or benefit resulting from either production or consumption of a good or service caused by one party but financially borne either positively or negatively by another.

Externalities are set into two main categories: negative and positive externalities (Corporate Finance Institute, c2015-2024). The majority of externalities fall into the classification of negative. These are subcategorized as production and consumption externalities and they are the result of an activity experienced by an unrelated third party. A positive externality subcategorized as production and consumption ones and as contrary of the negative type, a positive externality is having a benefit as result nevertheless, they also create market inefficiencies.

Governments address externalities by enforcing or prohibiting specific activities and/or behaviors. Professor Mankiw (2018, p. 193-194) addresses to *command-and-control policies* as the Government interventions to regulate behavior directly and *market-based policies* as the incentives given to private decision-makers in order to solve the problem on their own. In the taxation context, the government applies corrective taxes to the negative externalities or subsidies to the positive externalities, respectively also known as *Pigouvian taxes* or *Pigouvian subsidies*, both named after the economist Arthur C. Pigou (1932) who was the first person defining them in the twentieth century in his book *The Economics of Welfare*.

1.4 Fundamental principles

The economist Adam Smith, in the fourth book from his masterwork "Wealth of Nations" (Smith, c2017–2024), outlined four maxims pointing out the desirable qualities of a taxation system which aim to serve as foundation for understanding taxation systems. The principles are: equality, certainty, convenience, and efficiency.

1.4.1 Principle of Equality

Also known as "ability-to-pay principle". The taxpayers (defined as *passive subjects* in the tax-legal relationship), ought to without an exception support the government by the contribution of their proportional abilities.

This principle also involves the active and neutral participation of the government by no drawing any distinctions among people or classes in function of the strength of its rights upon them. This can be met when the contribution of each taxpayer is allocated to the

government expenses in such a way that the individual would not feel less or more inconvenienced by its payment's share than any other individual. If one individual bears less than their weight's fair share, as compensation, another individual must shoulder more and creating inequality (Mill, 2009, p. 622).

Mankiw (2018, p. 235) discusses the claim of "equal sacrifice" that this principle arises where all the subjects should support to the government but it also explains that the magnitude of that sacrifice not only depends on the size of tax payment but also other circumstances and explaining the vertical and horizontal equity notions.

1.4.2 Principle of Certainty

Certainty in the legal context entails to a law's characteristics as being certain, foreseeable, and easy to understand (Venice Commission, c2014).

It is a taxpayer's right to be informed and understand the guidelines of the tax levied. All information about the tax liability should be clear for the taxpayer and the tax collector: payable amount, payment deadline and manner of payment. The confirmation of the understanding of all details is a taxpayer's obligations warranty that their taxation collection process is trustable and clear as possible, aiming to reduce the tax extortion and corruption that could be possible presented from taxpayer or tax collector.

There is a correlation between the taxpayer's understanding of a tax system and the high likelihood-compliance of its obligations as well as the opposite (Kabinga, Alt, Tendet Kiprotich, c2013, p. 8).

1.4.3 Principle of Convenience

Beyond setting due-dates of tax payment, a government's tax system must consider the best timing, periodicity, and manner of tax payment. These factors compose the convenience principle.

When the government inputs the convenience principle during the design of the tax law, not only facilitate the payments to be done by the taxpayers but also it is a preventive measure from the government where the taxpayers obligations' compliance (Fiore, 2002).

The Association of International Certified Professional Accountants (c2017, p. 8) defines that difficulty of the tax payment is directly proportional to the probability that this tax payment will not be done. Therefore, the optimal payment system should be based on the

size of the responsibility, the collection simplicity, and the equity of collection from all taxpayers.

1.4.4 Principle of Efficiency

A tax system should be designed considering that the cost compliance of the taxpayer's contributions and the government's administrative costs should be reduced as much as possible (OECD, 2015, p. 20).

Inefficient tax administration can lead to lower tax revenues, slower economic growth, and higher social inequality. An inappropriately operated tax system can lead to noncompliance and tax avoidance, resulting in less revenue for the government. Moreover, ineffective tax administration might discourage foreign investment and harm economic progress (Salawu, 2023).

In the most recent study of the tax administration of 58 countries which altogether represent the 90% of world's GDP, the OECD's Tax Administration Series (2023e) showed that in its study that in 2022, EUR 13.40 trillion were collected as net revenues and around 1.72 million of staff members were employed, creating an operational cost of EUR 95 billion. This amount represents the 0.7% of total revenues collected reflecting the tax administration countries' efficiency and effectiveness. This study addresses the importance of digitalization, technology advances that made possible the electronic administration positively boosted by the appearance of COVID-19 pandemic, all efforts paid where in average, the 85% of individuals and 95% of legal entities electronically filed their tax obligations.

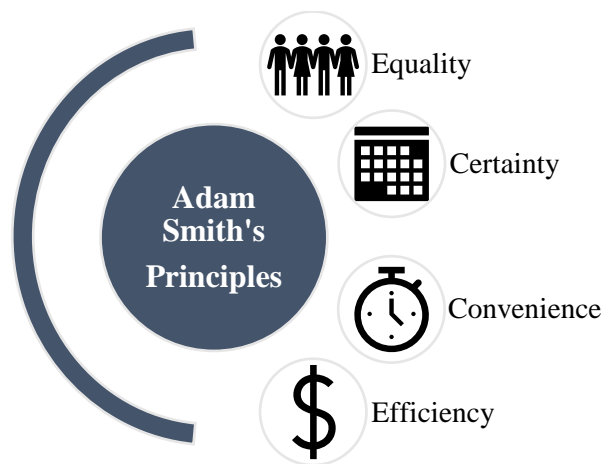


Figure 2 – Adam Smith taxation principles

Source: Smith, c2017–2024; *own processing*

2 MEXICAN TAXATION SYSTEM

According to the Article 31 of the Mexican Constitution, the IV paragraph determines that “the Mexican people have the obligation to contribute for the Public Spending, Federation, States, Mexico City as well to the Municipalities where the citizen is residing in a proportional and equitable manner as it is established in the Mexican law” (Mexico, 1917, p. 44).

Although this obligation is explicitly stated in the Mexican Constitution (1917, p. 44-45) in the chapter of “For the Mexicans”; the Income Tax Law (2013, p. 1) establishes that natural persons and legal entities residing in Mexico pay taxes on all sources of income. This includes residents abroad who have a permanent establishment in Mexico, as well as those who do not have a permanent establishment in Mexico but have income sourced within Mexican territory. In the three cases mentioned previously, natural persons and legal entities are obligated to pay income tax.

The Mexican Federation is composed by the Legislative Branch, the Executive Branch, and the Judicial Branch. The three of them cooperate together in order to assure that the taxation laws are legally fulfilled. The taxation laws to be imposed are created by the Legislative Branch while the tax collection and management are a responsibility of the Executive Branch. The Ministry of Finance and Public Credit (MFPC) oversees tax collection, while the Secretary of Tax Administration (STA) is responsible for enforcing taxation laws for individuals and organizations. It also validates that the laws are being well respected and applied (Procuraduría de la Defensa del Contribuyente, 2015, p. 30-31).

Other Institutions who support the tax collection throughout the Mexican territory are:

- State and Municipality administration offices;
- Mexican Institute of Social Security;
- National Institute of Worker’s Housing Fund; and
- National Water Commission.

Finally, the Judicial Branch is the interpreter of the laws in aim of solving any conflict that might arise between the taxpayers and the State safeguarding the taxpayers’ rights and ensuring the tax obligations are met.

2.1 Tax classification

The most common classification of the taxes are direct and indirect taxes. The direct taxes are the ones that the tax contributor is paying directly to STA where there is no intermediary

in between (e.g., income tax). The indirect taxes are the ones that in the contrary of the direct taxes, there is an intermediary between the person and the Tax Administration and it is taking the responsibility of transferring the tax charged (e.g., VAT) (Procuraduría de la Defensa del Contribuyente, 2015, p. 42).

The Mexican Tax System is composed by three classifications according to the responsible authority for the tax collection: federal, state and municipality.

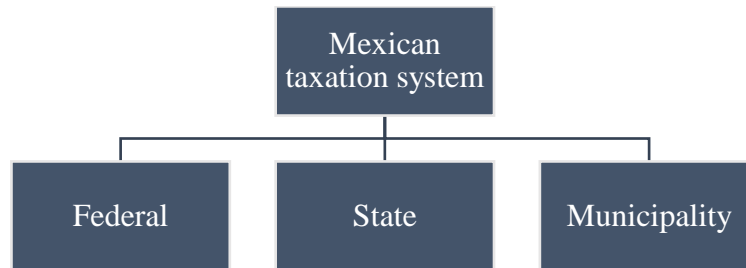


Figure 3 – Tax classification in Mexico

Source: *Own elaboration*

These three government levels have the authority to define the scope of the taxes in order to meet the necessary requirements for the investments plans and public spending (Procuraduría de la Defensa del Contribuyente, 2015, p. 46).

According to the Article 124, The State Congresses are responsible for the State taxes definition meanwhile the Article 117, paragraphs VI and XI define the limitation of the State and Municipal governments in terms of the taxation law establishment (Mexico, 1917, p. 127 and 146). For the Municipal taxes, the Article 115, paragraph IV states that the Municipalities have the freedom to define the revenue and contributions from the taxes collected coming from their assets (Mexico, 1917, p. 118-119).

2.1.1 Federal taxation

- Income tax;
- Value added tax;
- Special production and services tax; and
- New vehicles tax.

In the Appendix P I, there is a detailed summary of the federal taxes including tax base, rate, payments, and deductions applicable.

2.1.2 State taxation

Mexico is constituted by 32 federal states, from the Californian Peninsula to the Yucatan Peninsula, each federal entity has constitutional autonomy when allocating these resources

necessary for its economic development. There could be several variations between one state and another (Facturama, 2023f).

- **Payroll tax:** Taxes the granted remuneration whether it is a salary or a benefit given to the employees for the work performed. Therefore, employers are obliged to pay this tax whether the employer is a natural person or legal entity.
- **Vehicle ownership tax:** In some States of Mexico, this tax had been already eliminated but still valid in other States. The base is depending on the vehicle characteristics, such as the brand, model (size) and model year, whether it is a more equipped version, engine type and displacement. In the majority of states where it is applicable, the revenue is allocated for public transportation fee subsidies.
- **Accommodation tax:** This tax is charged to tourists for each night of stay in order to boost the tourism sector. This tax applies to services provided by hotels, motels, hostels, inns, campgrounds, RV stops and similar.
- **Tax on Public Entertainments:** Also called Amusement Tax, it obliges payment to natural person or legal entity who obtain an income from any act, function, or entertainment to which the public has access and covers an entrance fee, donation, cooperation, or any other concept.

Other common examples of state taxes are:

- Tax on the acquisition of motor vehicles or trailers that are not new;
- Tax for the promotion of public education; and
- Tax for the organization of lotteries, raffles, raffles, contests, and races.

2.1.3 Municipality taxation

Each federal entity is made up of municipalities. In total, Mexico is composed of 2,475 municipalities throughout the country, plus Mexico City is made up of 16 territorial demarcations (INEGI, [2022]).

At the municipal level, taxes help local governments to comply with their obligations in terms of services and public works. They are established by the corresponding state Congress and managed by the Municipal Treasury.

- **Property tax:** The property tax is the most applied at the municipal level. It is paid by the owners of a property, construction, or land, whether they are natural persons or legal entities.

- **Property acquisition tax:** It applies to both natural persons and legal entities who purchase and/or transfer real estate within the municipal area.
- **Right to public lighting:** Municipalities charge their citizens a contribution for public lighting services, which is included in either the property tax or the electricity bills charged by the National Electricity Commission. This tax is intended to pay for the maintenance and improvement of luminaires and lighting supply networks in streets, squares, gardens, and other areas of common use by the population.

More examples of municipality taxes:

- Tax for sports and educational promotion;
- Tax for tourism promotion, comprehensive family development and culture promotion;
- Tax on attendance at permitted games and public shows; and
- Tax for the maintenance and conservation of public roads.

3 ROLE OF TAXATION IN THE MEXICAN BUSINESS ENVIRONMENT

In 2022, Mexico collected MXN 4,818.014 billion as tax revenue according to the OECD'S Data base ([2023]a). Figure 4 shows that the categories of VAT, the corporate tax and income tax, all together represent over the 70% of the tax revenues in the country.

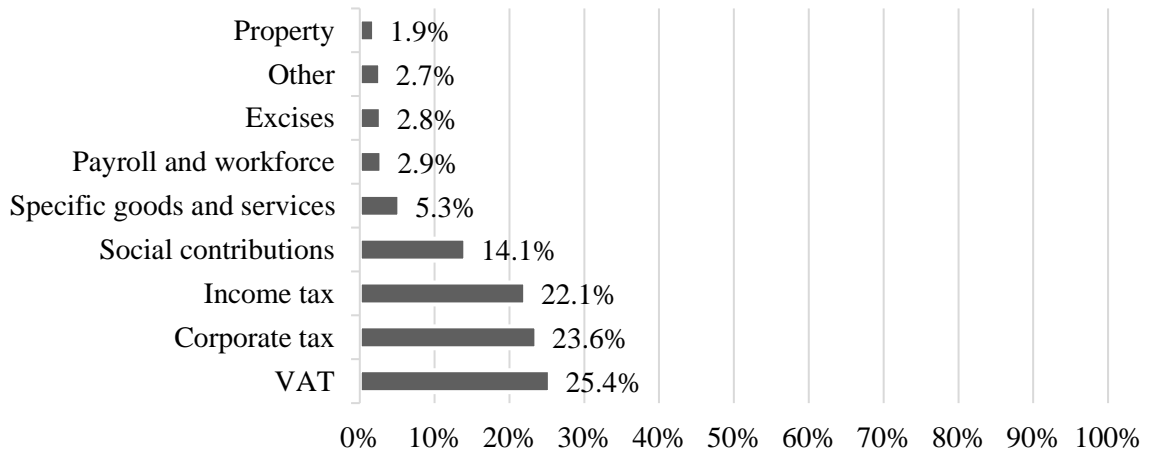


Figure 4 – Tax revenue composition of Mexico in 2022

Source: OECD Stat, [2023]a; *own processing*

The Mexican National Institute of Statistics and Geography (MNISG) (2020, p. 2) reported according to its latest data that in 2021, the 95% of the proportion of companies in Mexico belong to the classification Micro, Small and Medium Enterprises (MSME), classification given based on the number of employees and range of annual income.

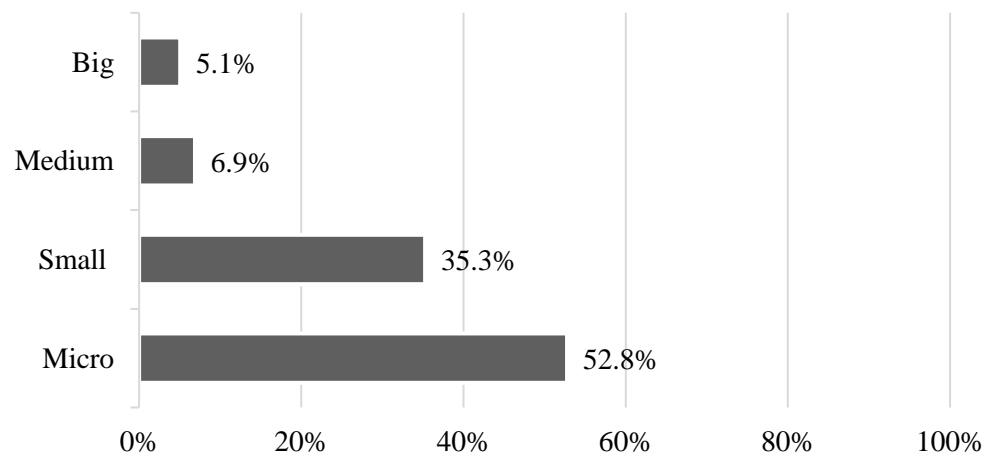


Figure 5 – Proportion of companies formed in Mexico in 2021

Source: Instituto Nacional de Información Estadística y Geográfica, 2020, p. 2; *own processing*

The category of MSME contributes to the 52% of the Gross Domestic Product (GDP) and generate 72% of employment, making them a key factor in the country's economic

development. Nevertheless, according to its preliminary figures from 2022, MNISG (2023g) accounted that the informal economy in Mexico is equivalent to the 24.4% of the Gross Domestic Product (GDP) which represents MXN 6,850,110 million.

The employment created by the informal economy sums up to 32.4 million of people employed equivalent to 55.5% of all jobs in the Mexican economy as reported by the Mexican Association of Entrepreneurs (MAE) (2023, p. 6-7). The conditions that the informality sets in disadvantage to the Mexican workers since they might be out of any social security scheme or other benefits derived from their employment status.

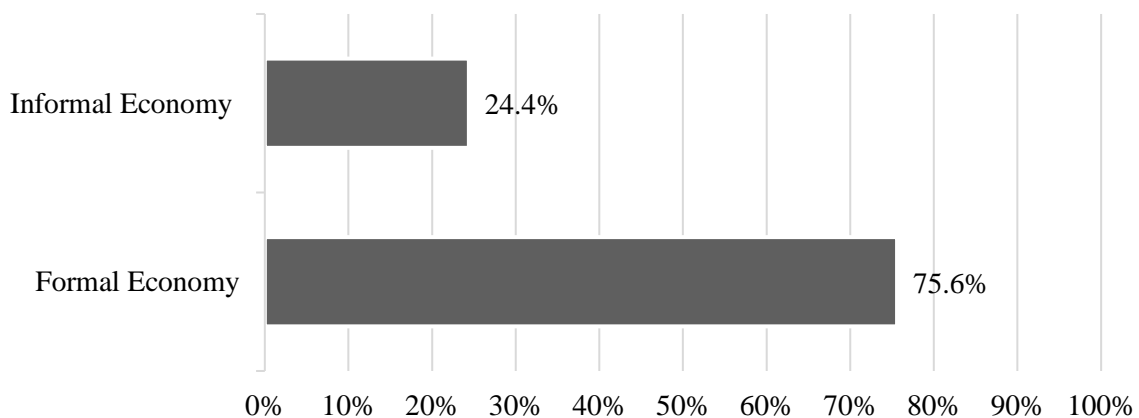


Figure 6 – GDP contribution by formal e informal economy

Source: Orozco Camacho, Corral Linares et al., 2023, p. 6-7; *own processing*

Formal economy has several benefits, including facilitating growth and increasing tax revenues. This contributes to reducing dependence on raw material exports, improves national competitiveness and boosts the domestic market. In addition, formal economy makes it possible to better identify and combat forced labor and child exploitation. It also enables minimum wage regulations to be enforced, resulting in 25% higher wages compared to the informal sector. The advantages of business formality extend to access to credit on favorable terms, participation in public tenders and programs, and the sale of products and services to larger companies. In general, promoting formality in the business sector brings economic advantages, social improvements and facilitates the application of labor regulations (Orozco Camacho, Corral Linares et al., 2023, p. 7).

3.1 Business constitution

In the series *Company guides*, the Mexican Secretary of Economy ([2023]) provides a guidance of the necessary steps for a business constitution represented in the Figure 7. There are 9 fundamental steps that are necessary.

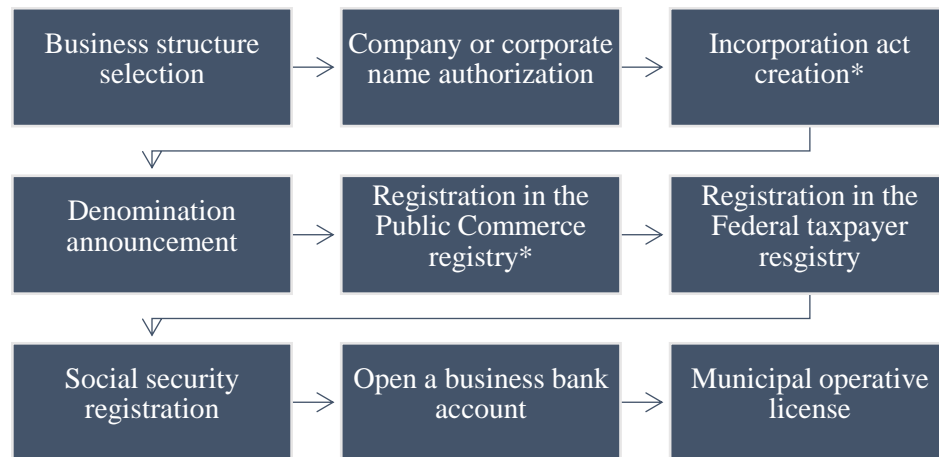


Figure 7 – Business constitution flow * If applicable

Source: Secretaría de Economía, [2023]; own processing

1. Business structure selection

The selection of the business structure depends on several circumstances, such as: the genesis and authorship of the business concept, the administrative structure required, available capital and requirements of the project, knowledge required for the business concept and business size and the projected income (Secretaría de Economía, [2023]).

When creating a business, there are three main structures that depending on the selection, they would have a direct impact on the tax liability and limitation on the tax regime selection. The structures are solopreneur, partnership, or commercial societies.

In the case of partnerships and commercial societies, Mexico recognizes seven types of commercial societies which differ from each other by necessary capital, obligations acquired by the partners, companies' management form and annual income amount allowed (Mexico, 2023h, p. 1). In the Appendix P II, there is a detailed comparative table of the following list:

- Simplified Joint Stock Company;
- Joint Stock Company;
- Limited Liability Company;
- Simple Limited Company;
- Limited Company by Shares;
- Collective Name Company; and
- Cooperative Society.

Figure 8 summarizes the results of the annual report of MAE (2023a, p. 21) where sheds light on the preferred legal structures of the Mexican new businesses where, it predominates Joint Stock Companies (for legal entities) with 23.4% of preference, Natural persons with

business activity with 20.3% and Simplified Trust (for natural persons and legal entities) with the 18.1%.

It is important to point out that 11.4% of new businesses neither are registered to any tax regime nor have a structure therefore, as a counteraction, Mexican authorities created the Simplified Trust regime aiming at promoting formality, broaden the tax base and facilitate the payment of taxes for micro and small companies.

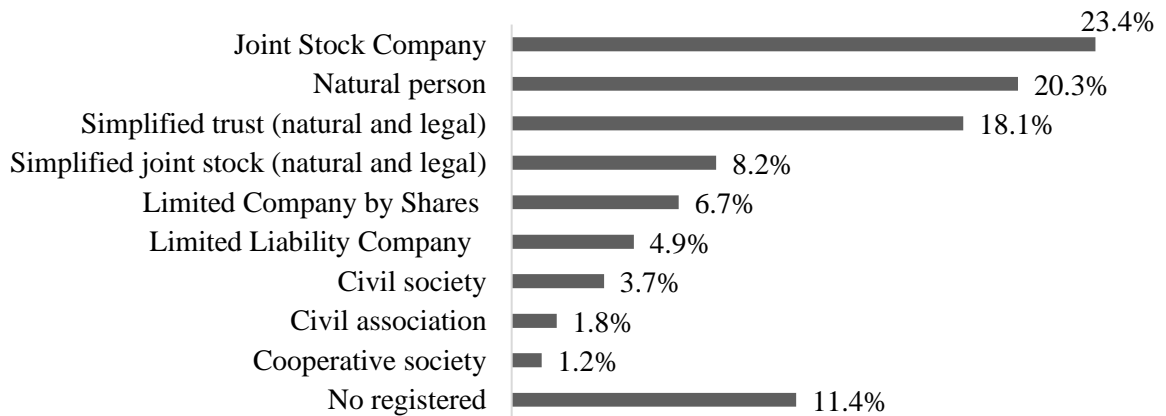


Figure 8 – Legal status of the businesses in Mexico

Source: Asociación de Emprendedores de Mexico ASEM, 2023a, p. 21; *own processing*

2. Company or corporate name authorization

It is a resolution issued by the Ministry of Economy that authorizes the usage of the company name in order to ensure that there is no other company with the same name (Secretaría de Economía, [2023]). This procedure can be electronically done and free of charge.

3. Incorporation act creation

The Articles of Incorporation is a vital legal document required by Mexican law for all companies and associations, whether for profit or non-profit serving as the company's birth certificate and establishing rules for partner participation and decision-making (Tally, c2021). It provides proof and legality to the constitution of a company at the time of creating a company. It contains information about who makes it up, the interests of the company, the fundamental statutes of its operation, the contributions of its members, among other aspects. The Mexican General law of Commercial companies (2023h, p. 3) lists up the mandatory information.

- The names, nationality and domicile of the individuals or legal entities that constitute the company;
- The purpose of the corporation, company's domicile, corporate name or denomination and its duration, which may be indefinite;

- Capital stock and reserve fund amount;
- The expression of what each partner contributes in money or other assets; the value attributed to them and the criterion followed for their valuation. When the capital is variable, it will be expressed in this way, indicating the minimum that is fixed;
- The appointment of administrators and the designation of those to bear the corporate signature. As well as the way the corporation is to be administered and the powers of the administrators;
- The manner of distributing the profits and losses among the members of the corporation;
- The cases in which the corporation must be dissolved in advance, basis for the liquidation of the company and the manner of proceeding to the election of the liquidators, when they have not been elected in advance; and
- The bylaws of a company govern the rules for holding Members' Meetings and meetings of the administrative bodies (Rodriguez, c2023).

4. Denomination announcement

After the creation of the Incorporation act, the public notary that legalized the aforementioned document must inform the Ministry of Economy about the details of the company; reserving the exclusive use of the name or company given in the step no. 2 and at the same time, the authority will inform the people or companies that are associated. The announcement procedure is free of charge.

5. Registration in the Public Registry of Commerce

Once the Incorporation act is created and legalized, the consecutive step is to register it to the Public Registry of Commerce, a Mexican institution that is responsible of providing legal certainty and security through the publicity of commercial legal acts related to merchants and that, according to the law, require it to be effective against third parties (Gobierno de México, [2023]).

The costs of legal incorporation vary depending on the Mexican state, the type of corporation and its initial capital, as well as the fees of notaries and law firms, with an average cost of MXN 15,400.00 for a corporation with an initial capital of MXN 1 million. The cost range of this procedure varies depending on the fee established by the corresponding Public Registry of Commerce of each state where the range goes from MXN 11,300.00 to MXN 22,570.00 based on the data of the website of the Mexican Company Easylex (EasyLex, [n.d.]).

6. Registration in the Federal Taxpayer Registry

This is one of the most important steps in the constitution of a business: the registration to the Federal Taxpayers Registry; this registration will enable the business owners to issue invoices and comply with all tax obligations depending on the regime and business structure chosen. The registration is free of charge (Secretaría de Administración Tributaria, [2023]).

As explained at the beginning of the chapter 2, The Mexican Income Tax Law recognizes two types of entities for tax-legal purposes: *natural person* and *legal entities*. The natural person is entitled to individually perform business activities under the denomination of *natural person with business activity* (NPBA) and other options of regimes depending on the economic activity that is carried out. On the other hand, the legal entity is the legal figure for groups, companies and associations duly constituted, which makes them holders of rights and obligations independently from those of their members. The legal entity separates the resources and individual property of the partners, which is why it is the legal figure for commercial companies and civil society organizations (Orozco Camacho, Corral Linares et al., 2023, p. 9).

The MFPC, through its Tax Administration service ([2023]) lists 19 regimes in total. The available regimes differ from each other, where depending on the economic activity, type of entity and some other specific requirements, the rights and obligations will be stated accordingly. The Table 1 enlists the tax regimes, including the type of entity who is eligible to accede.

Table 1 – Tax regimes in Mexico

Regime code	Natural person	Legal entity	Name
601		x	General law for legal entity
603		x	Legal entity with non-profit purposes
605	x		Wage, salary, and income related to salaries
606	x		Leasing
607	x		Disposal or acquisition of assets
608	x		Other income
610	x	x	Residents abroad without a permanent establishment in Mexico
611	x		Dividend income (partners and shareholders)
612	x		Natural person with business and professional activities
614	x		Interest income
615	x		Income obtained from prizes
616	x		No tax obligations
620		x	Cooperative production society that opts to defer income
621	x		Simplified joint stock
622		x	Regime of agricultural, livestock, forestry, and fishing activities
623		x	Optional regime for groups of companies
624		x	Coordinates
625	x		Regime of business activities with income through technological platform
626	x	x	Simplified trust regime

Source: Secretaria de Administracion Tributaria, [2023]; *own processing*

From the 19 available regimes, according to the studies of ASEM related to the entrepreneurship environment in Mexico (2023a, p. 21) and (2023, p. 12-15) the most preferred regimes when a new business is created are the following:

- 601 - General law for legal entity;
- 612 - Natural person with business and professional activities;
- 621 - Simplified Joint Stock Company; and
- 626 - Simplified Trust Regime.

601 - General law for legal entity

The Mexican Income Tax law defines in its Art. 9 that all legal entities are entitled to pay a flat tax rate of 30% from all the income generated (2013, p. 13).

Additionally, legal entities must distribute 10% of generated annual profit as concept of employee participation in profits to all its employees as stated in the Art 123, paragraph IX of the Mexican Constitution (1917, p. 136).

According to the Article 14 of the Mexican Income tax Law (2013, p. 18-20), legal entities are required to make provisional payments by the 17th day of each month based on their

estimated taxable income at the end of the previous month and calculated principally by applying the profit factor to the cumulative monthly gross income as well as stated in the Article 76 of the aforementioned law (p. 76), they are required to file annual returns for the preceding calendar year by March 31st of the following year.

In chapter “Of the deductions” (p. 34-43), the Articles 25 to 28 state the applicable deductions for this regime:

- Refunds, discounts, or rebates made during the year and their net expenses;
- The sales costs;
- Investments;
- Bad debts and losses due to acts of God, force majeure, or disposal of assets;
- Employer contributions paid to the Mexican Social Security Institute, including those provided for in the Unemployment Insurance Law;
- Accrued interest payable during the year, without any adjustment;
- The annual adjustment for inflation;
- Advances and yields paid by production cooperative societies, civil societies, and associations to their members when they distribute them;
- Contributions made for the creation or increase of reserves for personnel pension or retirement funds, complementary to those established by the Mexican Insurance Law and seniority premiums;
- Depreciation and amortization of estimated life of assets;
- Amortization of intangible assets used for public domain assets or public services under concession;
- Start-up expenses incurred prior to the commencement of operations may be amortized at the rate of 10% per year, after applying the adjustment factors;
- Charitable donations are limited to 7% of the previous year taxable income; and
- Expenses for domestic travel (farther than 8-kilometer radius of the taxpayer's establishment) and international.

612 - Natural person with business activity

Continuing in aforementioned law, Article 100 (p. 134) states that natural persons are obligated to pay taxes on income derived from business activities such as carrying out activities commercial, industrial, agricultural, livestock, fishing, or forestry as well as provision of a professional service, the remuneration derived from an independent personal service.

As well as the tax regime for legal entities, natural persons are obliged to make provisional payments every month however, the fixed quota, lower and upper limits of the brackets are changed every month. The Mexican Tax Administration office released the payments in his latest document “Resolución Miscelánea Fiscal” applicable since 2023 (2022, p. 10-14). For further details, see Appendix P III.

As annual tax filing, the Article 150 (2013, p. 180), supported by Appendix 8 (Servicio de Administración Tributaria, 2022a, p. 20) defines the brackets of the income tax, where the tax rates, as shown in the Figure 9, the range starts from 1.92% up to 35%, depending on the annual tax base.

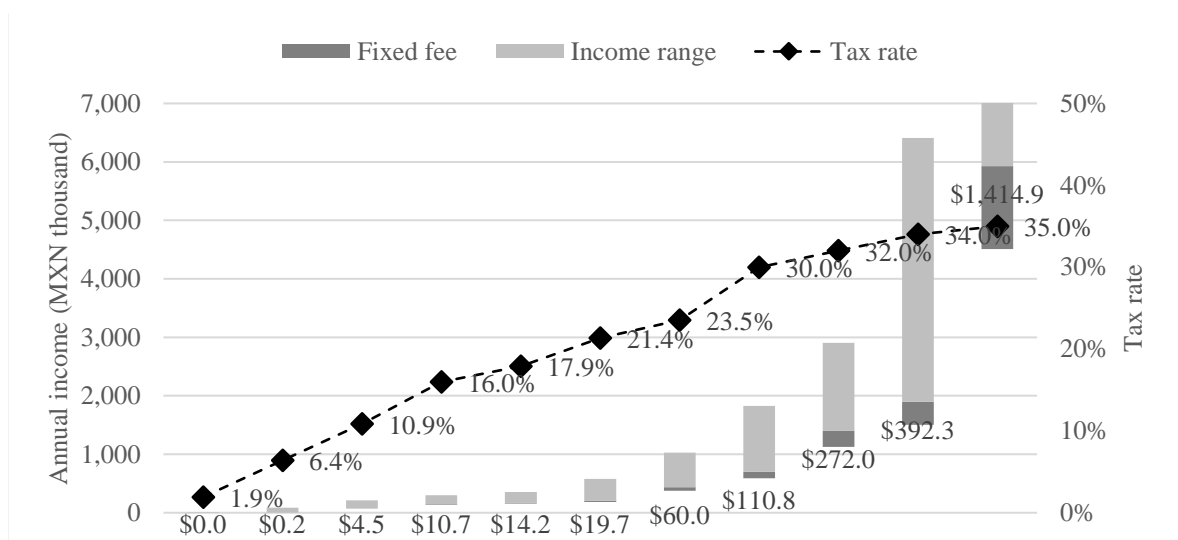


Figure 9 – Annual tax rates for NPBA

Source: Servicio de Administración Tributaria., 2022, p. 20; own processing

The applicable deductions for this regime are (Mexico, 2013, p. 136-137):

- Refunds, discounts, or rebates from the corresponding income has been accrued;
- Acquisitions of merchandise, as well as raw materials, semi-finished or finished products, used to provide services, to manufacture goods or to dispose of them. products used to render services, to manufacture goods or to dispose of them;
- Expenses and investments;
- The interest paid derived from the business activity or professional service, without any adjustment, as well as the interest and those generated by capital borrowed if such capital has been invested for activities’ purposes;
- Employer's contributions paid to the Mexican Social Security Institute; and
- Payments made for the local tax on income from business activities or professional services.

Taxpayers taxed under this regime are also allowed to include personal deduction which were previously specified in the Federal income tax (see Appendix P I).

621 - Simplified Joint Stock Company

The Mexican Economy Secretary through the Unit of Productive Development defines the regime Simplified Joint Stock Company as a type of commercial company formed by one or more natural persons who are only obligated to pay their contributions represented in shares with the advantage of constituting the company via online without an intervention of a public notary (Secretaría de Economía, [2023]).

As opposed to the two previous regimes explained, there is a limit of income amount of MXN 6,783,425.40, according to the latest release in the Official Gazette of the Federation (Secretaría de Gobernación, 2022).

In no case may shareholders be simultaneously shareholders of another type of commercial company if their participation is as majority shareholders or administrators.

The tax rate is under the same statutory defined for the 601 - General law for legal entity, which is a flat rate of 30%.

Authorized deductions in terms of Article 208 in connection with Article 25 of the Income Tax Law (2013, pp. 44-54, 250-255) are:

- Refunds, discounts, or bonuses made during the fiscal year and their net expenses;
- Purchase of goods and raw materials;
- Investments;
- Interest paid derived from the activity, without adjustment;
- Interest generated by borrowed capital, provided it has been used for the purposes of the activity;
- Contributions paid as employer to the Mexican Institute of Social Security and pension or retirement funds of the personnel and seniority premiums; and
- Contributions for the creation or increase of reserves.

The study “The Radiography of Entrepreneurship in Mexico” from ASEM (2023a, p. 10) shows that the 8.2% of the companies surveyed in 2023 belongs to this regime that was created by the Mexican Government in Sept 2016.

626 - Simplified Trust Regime

As introduced in step 1, the Simplified Trust Regime is an initiative introduced on Jan 1st, 2022 by the STA in order to simplify and streamline way the income tax payments with the aim to reduce tax rates for individuals who receive less than MXN 3.5 million of invoiced annual income of according to their economic activity and legal entities whose annual

income does not exceed the amount of MXN 35 million (Secretaria de Administración Tributaria, [2023]).

Table 2 – Monthly tax rate for Simplified trust regime for natural persons

Amount of income per month excluding VAT (MXN)	Tax rate (%)
Up to 25,000.00	1.00
Up to 50,000.00	1.10
Up to 83,333.33	1.50
Up to 208,333.33	2.00
Up to 3,500,000.00	2.50

Source: Mexican Income tax law (2013, p. 146); *own processing*

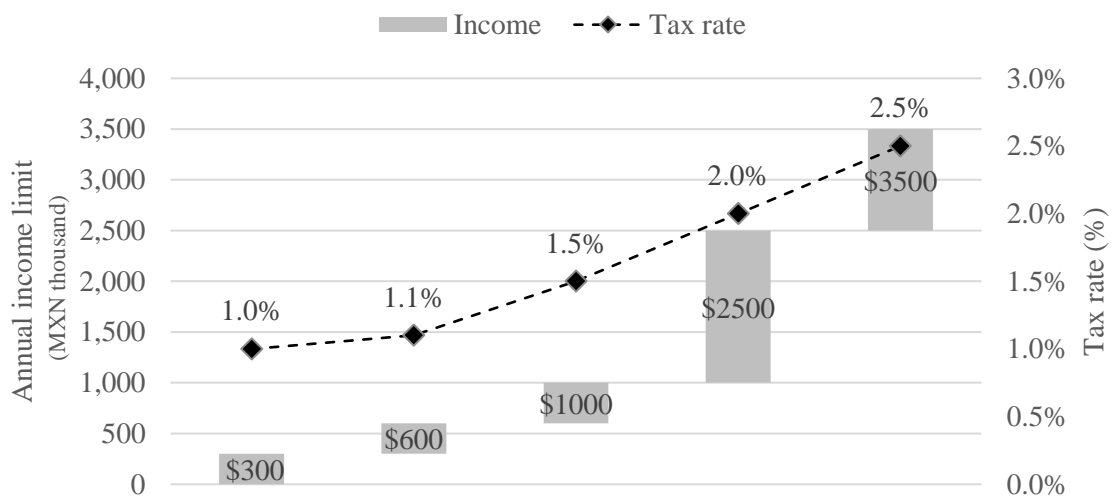


Figure 10 – Annual tax rate of Simplified tax regime

Source: Mexican Income tax law (2013, p. 146); *own processing*

The Art. 113-J (2013, p. 149) states that the natural persons that provide goods or services under this regime to legal entities, the latter must withhold, as a monthly payment, the amount resulting from applying the rate of 1.25% on the amount of the payments made to them, without considering the VAT and provide a tax voucher showing the amount of the tax withheld to the natural person which must be paid by such legal entity no later than the 17th day of the month immediately to which the payment corresponds.

Simplified trust regime underlines as shown in Table 2 that the tax rate range that is levied is from 1% to 2.5% of the income while in the contrary of the NPBA regime, the natural persons-taxpayers under this regime are not entitled to apply any deduction (Procuraduría de la Defensa del Contribuyente, 2023b, p. 46), this, stated under the premise that in 2020, the effective income tax rate after all possible deductions applied for individuals was in

average 25.4%, representing 10 times more than the maximum rate of the aforementioned regime (Secretaría de Administración Tributaria, [2023]).

Unlike natural persons, the legal entities under this regime are entitled to allowed deductions, which are the same as the stated ones in the previous regime 621 - Simplified Joint Stock Company.

With this regime, STA estimates that 82% of taxpayers classified as natural person and 2 million of legal entities would benefit. However, according to the 2023 study of ASEM, only 22.3% of natural and legal entities operate under this regime (Asociación de Emprendedores de Mexico ASEM, 2023a, p. 10).

Lastly, this regime is not available for the salaried workers (Secretaría de Administración Tributaria, [2023]) as well for the partners, shareholders or members of legal entities or related parties when they are one of the persons that participates in the administration, control or capital of the other directly or indirectly and residents abroad with one or more permanent establishments in the country (Procuraduría de la Defensa del Contribuyente, 2023b, p. 47, 58).

The tax regime landscape has been synthesized into the Table 3 for easy reference; encapsulating an overview of tax rates, deductions allowed and regulatory frameworks.

Table 3 – Comparative table of taxation regimes in Mexico

Regime	Natural person with business activity	Legal entity	Simplified Joint Stock Company	Simplified Trust
Registration cost (MXN)	Free	15,400.00 in average	Free	Free
Reserve fund	Not required	20% of capital stock	Not required	Not required
Capital stock requirement (MXN)	Not required	From 1.00	From 1.00	Not required
Annual income limit (MXN)	No limit	No limit	6.783 million	Natural person: 3.5 million
				Legal entity: 35 million
Tax rate (%)	From 1.9 to 35	30	30	From 1 to 2.5
Deduction allowance	Yes (personal and related to business)	Yes (related to business)	No	Yes (only to legal entities)

Source: Mexico, 2013; Servicio de Administración Tributaria, 2022a; and Secretaría de Gobernación, 2022; *own processing*

7. Social security registration

This is a mandatory registration to the Mexican Social Security Institute in order to guarantee employees and employers' medical assistance and welfare. The registration is free of charge.

8. Bank account

These are the five types of bank accounts for companies that exist in the Mexican market:

- a) Business checking account;
- b) Business account with checkbook;
- c) Business savings account;
- d) Payroll business account; and
- e) Business account in dollars.

The SME created under the Simplified Joint Stock regime the Ministry of Economy created a partnership with the Santander Bank to facilitate the opening of bank accounts where the only requirement is that the owners should be tax residents in Mexico (Secretaría de Economía, [2023]).

9. Operating permits obtention

Mandatory government permits that allow to operate in accordance with the federal, state, or municipal law, depending on the business activity where the company is located, its environmental impact, products or services offered and among other factors (Secretaría de Economía, [2023]). The National Catalog of Regulations, Formalities and Services ([2023]) provides all required procedures, services, regulations, inspections, and inspectors throughout the country, including the three levels of government. The most common operating permissions throughout Mexico are the following:

- Land use permit;
- Operating license;
- Opinion of Civil Protection and Firefighters; and
- Permission for advertisements on the facade of the company.

The process of establishing a business has been systematically outlined and organized into a comprehensive table for convenient reference. Table 4 delineates the step-by-step procedures involved in initiating a business venture, ranging from registration requirements to licensing procedures and compliance obligations. This table serves as an invaluable resource, offering a clear roadmap for navigating the complexities of business creation.

Table 4 – Compilation of business constitution steps

Step	Procedure	Cost (MXN)
1	Business structure creation and tax regime selection	Free
2	Company name registration	Free
3, 5	If applicable: Incorporation act creation + registration in the Public Commerce registry	11,300.00 – 22,570.00
4	Denomination announcement	Free
6	Registration in the Federal taxpayer registration office	Free
7	Social security registration	Free
8	Open a business bank account	Free
9	Operating permits obtention	Variable
Total		11,300.00 - 22,570.00

Source: Secretaría de Economía, [2023]; *own processing*

Additional: Registration of products and brands

Although it is not a mandatory procedure, the Ministry of Economy (Secretaría de Economía, [2023]) highly recommends the registration of trademarks and patents in the Mexican Institute of Industrial Property in order to guarantee the exclusive creations' usage and obtain legal support in case of illicit exploitation or plagiarism. The procedure can be carried out without a distinction, whether it is a natural person or legal entity, if registered in the Tax Administration Office.

- *Trademark registration* grants the exclusive usage right in the national territory for 10 years. The cost is MXN 3,126.41.
- *Patent registration* grants the exclusive exploitation right for a period of 20 years and a utility model registration grants for 10 years. The cost is MXN 5,200.00.

4 TAXATION PLANNING AS STRATEGY FOR DECISION MAKING

New and MSME confront distinct hurdles in handling their money and taxes. Tax preparation is critical for all businesses to maximize revenues while minimizing obligations and tax planning is vital part for the financial management (Nega, 2023, p. 1).

Taxation planning is a worldwide tool with an enormous contexts usage that allows the taxpayer to minimize the tax burden by developing and applying strategies based on the framework of the tax policy where the taxpayer is located at or its income source comes from (Caamal Yam et al., 2019, p. 195).

Thus, Dr. G. Rajendran (2019, p. 3) describes tax planning as financial activities arrangement in a way that the maximum tax benefits are obtained through the usage of several exemptions, deductions, rebates, and relief in order to lower tax liability.

One of the biggest benefits of the tax planning is the resource optimization such as money, time, and effort where the savings obtained can be redirected to other activities. Moreover, among other benefits, it favors the optimization of financial resources; create a fiscal culture which helps to plan and anticipate the effects of future events, minimizing risks and providing security by setting a course with certainty and lastly, while analyzing the company's situation, the organization might be able to detect other opportunity areas (Velázquez Rodríguez et al., c2024, p. 9).



Figure 11 – Tax planning equation

Source: Caamal Yam et al., 2019, p. 192; *own processing*

Arnulfo Sanchez Miranda (2021, p. 92-94) asserts that a well-designed tax strategy must have a thorough understanding of the Tax Law that is applicable to the subject, framework of such regime(s) with the purpose of avoiding fiscal and legal non-compliance that could result in severe penalties and wasted resources states that any strategy aimed at the correct payment of taxes and must include at least the vital objectives shown in Figure 12.

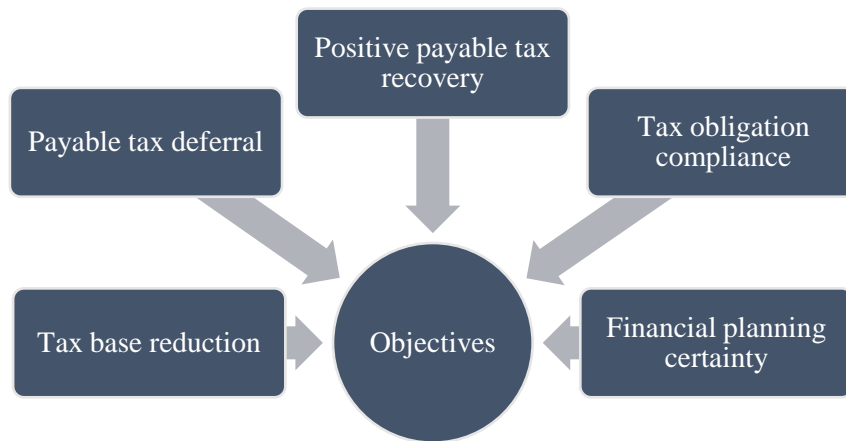


Figure 12 – Tax Planning objectives

Source: Sánchez Miranda, 2021, p. 92-94; *own processing*

4.1 Methodology

Tax planning methodology integrates financial, legal, accounting, and fiscal factors to manage taxes effectively while achieving financial goals (Velázquez Rodríguez, c2024, s. 14). It involves analyzing income, expenses, and investments to optimize tax liabilities within the bounds of the law; staying compliant with regulations, maintaining accurate records, and considering broader economic factors that lead to better financial outcomes. Caamal Yam, Cortes Pérez and Solis Vargas (2019, p. 192) define the five necessary steps for a successful strategic tax plan.

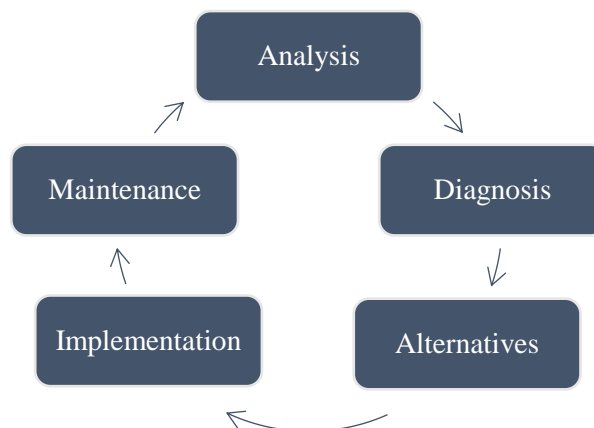


Figure 13 – Tax planning methodology

Source: Caamal Yam et al., 2019, p. 192; *own processing*

- **Analysis:** Its purpose is to assess the current fiscal, legal, and financial conditions of the natural person or legal entity targeted for planning.
- **Diagnosis:** After the thorough analysis, this entails performing a thorough consideration of all fiscal scenarios, identifying potential solutions, outlining the

inherent risks in order to narrow the possible solutions that will serve as a basis for decision making.

- **Alternatives:** A joint analysis should be made between advisors and shareholders to determine the best alternative along with the time of implementation. It consists of the decision-making action, analyzing the options to determine the final aspect of the corrected project in all its segments.
- **Implementation:** Core part of the fiscal planning project. Once agreements have been reached, the company should establish:
 - Suitable tax regime;
 - Scheduling tax obligations;
 - Creation of operating or information manuals where tax criteria is explicitly defined and operating instructions;
 - Tax records;
 - Evaluation questionnaires; and
 - Periodic status report.
- **Maintenance:** The outcome of the strategy may be affected if appropriate policies are not consistently followed, so it is essential to the operation of the business and coordinate fiscal activities on an ongoing basis.

4.2 Tax strategies

Buid Nega (2023, p. 1) stresses about that one of the most critical decisions that a business owner could make is choosing the right legal structure or entity for the business since each entity type has different tax implications that significantly impact the tax burden. G. Rajendran (2019, p. 4) addresses that locating the company in an area where there are more favorable tax treatments such as tax credit of the income tax or VAT. In Mexico, there are fiscal incentives such as a 50% tax credit for VAT or a tax credit equivalent to one third of the income tax incurred in the fiscal year or in provisional payments for tax domiciles or establishments located in the northern and southern borders of the country (Servicio de Administración Tributaria, [2023]).

In the context of Mexican business environment, the authors Caamal Yam, Cortes Pérez and Solis Vargas (2019, p. 193-195) summarized the different strategies used in Mexico according to the framework of the Mexican laws:

- **Analysis of immediate deductions' best timing:** If the natural person or legal entity have the economic capacity to buy assets, they could deduct them in percentages close to 100% immediately: computer equipment, intangible assets, and machinery according to the respective law' guidelines. It is notable that this situation warrants analysis because assets tend to depreciate over time.
- **Advances rents or insurance payments:** Natural persons with business activities or legal entities that are taxed on a cash-flow basis could increase the number of deductions for a specific period by anticipating rent from premises or insurance payments.
- **Purchase inventory:** Continuing with the previous assumption, taxpayers can purchase inventory such as raw materials or goods to immediately lower the taxable base of the period. However, it is necessary to further analyze purchases made in advance since in the future, the deduction of these purchases may not be allowed, potentially increasing the tax burden.
- **Purchase of a business at a loss:** Following the principle that losses work as deductions from profits, taxpayer could buy loss-making company, which is going to be merged with the taxpayer's business or company's group to subtract losses from income.
- **Intangible assets deduction:** The intangible assets of any company, such as trademarks, patents, and trade secrets, are deducted from the taxable income. The business owner can value of the assets through an appraisal because the authority takes as the original amount of the investment the appraised value.

II. ANALYSIS

5 BUSINESS ANALYSIS

This section comprises a thorough business analysis of a relatively new Mexican business in the Graphic sector named Galeria. The purpose of this analysis is to provide a glimpse into the history of the business, as well as to examine the micro and macro environment factors that play a significant role in the business environment in order to gain insights into the emerging opportunities and potential threats that enable a competitive performance and sustainable growth.

5.1 Overview

Galeria is a start-up in the graphic sector that specializes in the design and manufacturing of advertisement for public and private institutions and businesses in the northeastern region of Mexico.

According to industry reports by Mordor Intelligence (c2023), the Mexican commercial printing market revenue was valued at USD 3.96 million in 2023 and for the 2024-2029 period, it is expected to reach USD 4.44 million at an annual growth rate of 2.28%.

Founded in April 2023 by Ms. Rocío Michelle Alvarado Torres, an industry expert with 12 years of experience and another 13 years of experience in the safety sector, where she worked as General Manager in one of the largest manufacturing companies of personal protective equipment in northern Mexico; experience that allowed Ms. Alvarado to combine both her technical and managerial expertise in this business.

Galeria began its operations in the city of Guadalupe, Nuevo Leon and by the end of 2023, the business was relocated to the Nuevo Leon's capital city, Monterrey.

In 2023, with only 8 months of operations, the business reached MXN 1.47 million in sales with a net profit margin of 49.68% and the sales were increasing at an average rate of 185% every month since the beginning of operations. In 2024, the total sales as of Feb is MXN 632 thousand with a net profit margin of 51.69%. For 2024 annual sales projection, Ms. Alvarado expects to reach MXN 6.68 million.

In the customer's portfolio of Galeria, the principal customer is the Mexican government as municipal and state agencies such as General Secretary of Government, Security Secretary, State Institute of Public Security, State Women's Institute, and others. Other customers such as such as Mexican airlines, schools and business in various industries composed rest of the customer portfolio.

Below in the Figure 14, on the left side, there is a photo during the installation of the logo of the State Institute of Public Security, and on the right side, there is the installation of privacy films in a private kindergarten.



Figure 14 – Display of the company's services

Source: *Galeria internal files*

The organizational structure of the business is simple as shown in the Figure 15, Ms. Alvarado is the head of the business and there is a full-time operator since the end of November 2023 whose main responsibility is the installation of the advertisements. Other people are also involved in the operations, Ms. Norma Alicia Torres Gámez is the responsible for the fiscal matters and Jonathan Azael Mendoza as occasional operational support. Both without any monetary compensation now but to be incorporated into the team once the company will be established.

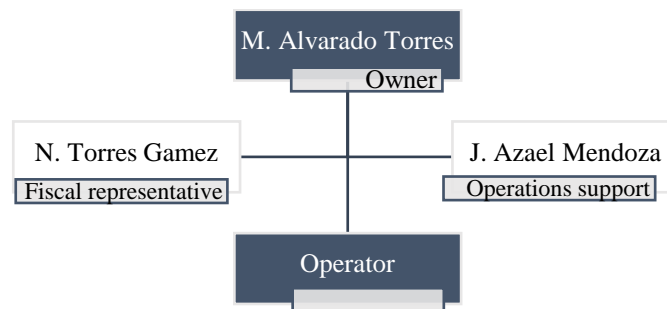


Figure 15 – Organizational structure

Source: *Own elaboration*

5.2 Environment analysis

Business analysis is divided into two categories: micro-environment and macro-environment. Micro-environment analysis deals with the internal factors that directly affect the business, such as customers, suppliers, employees, and competitors. On the other hand, macro-environmental analysis examines a broader set of external factors that affect the business on a larger scale. Two

types of analysis are performed: *SWOT analysis* to identify strengths, weaknesses, external opportunities, and potential threats, and *PESTLE analysis* to identify inherent risks for political, economic, social, technological, legal, and environmental factors.

5.2.1 Micro-environment

A SWOT analysis of Galeria will be conducted to evaluate its internal strengths and weaknesses, alongside external opportunities and threats, aiming to offer insights into the company's current position.

Table 5 – SWOT Analysis

Strengths	Weaknesses	Opportunities	Threats
<ul style="list-style-type: none"> • Offering technologically advanced products at competitive prices. • Securing significant contracts with State and Municipal governments, ensuring a steady revenue stream. • Establishing direct supply with top-tier international film manufacturers. 	<ul style="list-style-type: none"> • Absence of a cohesive corporate image. • Limited human resource capacity. • Financial constraints hindering investment opportunities. • Inadequate project management infrastructure. • Absence of social media presence. • Lack of a dedicated sales department. 	<ul style="list-style-type: none"> • Venturing into vehicle wrapping for diversification. • Venturing into temperature-controlling window films for households, institutions, and companies. • Offering services directly to businesses in the growing western Metropolitan area. 	<ul style="list-style-type: none"> • Cash flow management challenges. • Vulnerability to exchange rate fluctuations within the supply chain. • Potential customer dissatisfaction due to rapid demand increases and limited human resources. • Dependency on a restricted customer portfolio. • Financial strain from unexpected rises in labor-related expenses, impacting overall profitability.

Source: *Own elaboration*

In summary, the SWOT analysis of Galeria reveals a combination of strengths, weaknesses, opportunities, and threats that shape its strategic landscape. Galeria has strengths in offering advanced products, securing government contracts, and establishing international supply chains which allows the company to have a relatively low cost of raw materials. However, it faces challenges due to internal weaknesses such as limited resources and inadequate structure. Opportunities exist in diversification efforts and expanding services to directly to customers. However, it is important to address certain threats such as cash flow management issues and dependency on a restricted customer base in a strategic manner. This is crucial

for Galeria to successfully navigate the competitive landscape and maintain profitability in the industry.

5.2.2 Macro-environment

A PESTLE analysis of Galeria will assess political, economic, social, technological, legal, and environmental factors affecting its operations and decisions. It aims to understand how these factors influence Galeria's business environment, providing insights into its strategic positioning within the graphic sector.

Table 6 – PESTLE analysis

Political	<ul style="list-style-type: none"> • Potential changes in state and local government due to triennial election cycles could jeopardize demand from the major customer. The next elections for both governments are scheduled to take place on June 2nd 2024 (Instituto Nacional Electoral, [2024]). • Constant changes in tax policies (e.g., new technology for electronic invoicing in Mexico, cancellation of regimes and forced migration to newly implemented regimes) (Facturama, 2022).
Economic	<ul style="list-style-type: none"> • Changes in employment rates and compensation could result in an increase in direct costs to the company (e.g., minimum wage increased in 2023 and a possible increase in annual bonus to employees from 15 to 30 days could occur in 2024). • Exchange rate fluctuations affecting the cost of imported materials and equipment. • Changes in tax laws affect the financial performance of companies by increasing the tax burden and administrative complexity.
Social	<ul style="list-style-type: none"> • Urbanization rates increase in Monterrey metropolitan area. Demographic shifts in Monterrey's population, such as age distribution and urbanization, shaping market segments for graphic products. • Generational differences in consumer preferences and behavior.
Technological	<ul style="list-style-type: none"> • Technology usage incentives. • Technological advancements in graphic design software, printing equipment, and digital marketing tools impacting the efficiency and competitiveness of the company.
Legal	<ul style="list-style-type: none"> • Occupational safety laws for employees and contractors during elevated installations. • Low entry barrier favoring competitors due to non-exclusive supply agreement with suppliers.
Environmental	<ul style="list-style-type: none"> • Durability of products installed outdoors may be affected by local hot weather. • New environmental laws imposed in the state, forcing companies to deal with residues and waste (e.g., plastics and chemicals).

Source: *Own elaboration*

In conclusion, Galeria's PESTLE analysis highlights several significant external factors that shape its operating environment. Political uncertainties resulting from three-year election

cycles and constant changes in tax policies pose risks to demand and financial performance. Fluctuations in employment rates, exchange rates and tax laws further impact operating costs and complexity. Changing demographics and generational differences in consumer behavior require adaptation to evolving market segments. In addition, technological advances present both opportunities and challenges to improve efficiency and competitiveness. Compliance with health, safety, and environmental regulations is critical in a changing regulatory environment. In addition, low barriers to entry and climatic factors that affect product durability underscore competitive and environmental considerations. Overall, proactive adaptation and strategic responses to these diverse external influences are essential for Galeria to navigate and thrive in this industry.

6 STRATEGIC PLAN

5-steps methodology for the tax planning tailored for Galeria business will be applied; this study aims to address the unique challenges faced by the owner within its industry landscape. By examining the company's specific financial structure, operational dynamics and regulatory environment, the author seeks to develop a comprehensive tax planning framework while ensuring the compliance with the legal requirements and finally, endeavors to provide actionable insights and strategic recommendations to enhance Galleria's financial and competitive advantage in the market.

6.1 Analysis

The first step for the tax planning methodology is the analysis of the company. This analysis will focus on the tax burden from the beginning of the operations in May 2023 to the-end of Feb 2024.

Table 7 – General company details

Company details		
Company age	10 months (as Feb 2024)	
Industry	Graphic sector	
Location of activities	Monterrey, Nuevo Leon, Mexico	
International relationships	Yes (suppliers only)	
Number of employees	1	
International payments	Yes, USD (suppliers only)	
Loans	No	
Taxation regime	612 - Natural person with business activity	
Representative to the STA	Norma Alicia Torres Gámez	
Federal taxpayer registry number	TOGN651017B37	
Taxation incentives	No	
Applicable taxes		
Description	Type	Rate
Income tax	Federal	1.92-35%
VAT	Federal	16%
Payroll tax	State	3%

Source: *Own elaboration*

The business is not registered under Ms. Alvarado's name because of her affiliation with the credit bureau, which prevents her from having a debit or credit card in her name. In order to deduct personal and business-related expenses, invoices must support those expenses and they must be paid through electronic funds transfer from accounts opened in the taxpayer's name at financial institutions and entities authorized by the Bank of Mexico. Payments can be made by nominative check from the taxpayer's account, credit card, or debit card.as specified in Article 27 of the Mexican Income Tax Law (2013, p. 27).

6.1.1 Tax liability historical data

The methodology for the tax calculation is found in Appendix P IV.

Table 8 – Monthly income tax liability overview (MXN)

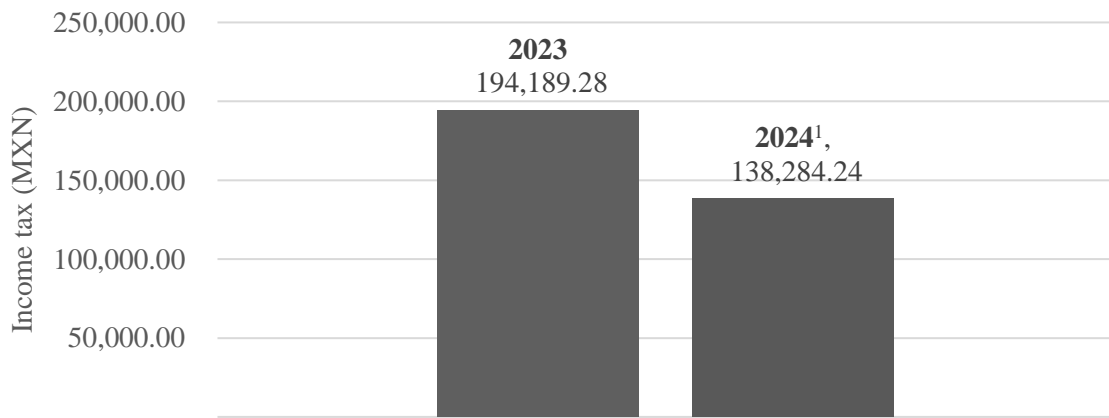
Regime		2023							2024		
		626 - Simplified trust regime Natural person			612 - Natural person with business activity				612- Natural person with business activity		
Month		May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb
Income	Monthly	17,816.23	23,486.40	109,930.97	349,409.52	158,278.35	188,118.93	238,002.60	384,061.99	181,255.94	450,911.97
	Cumulative	17,816.23	41,302.63	151,233.60	349,409.52	507,687.88	695,806.81	933,809.41	1,317,871.40	181,255.94	632,167.91
Deduction	Operative	18,400.40	10,859.00	43,873.84	103,174.70	24,314.87	103,168.69	72,801.22	76,943.82	30,314.97	60,597.81
	Salaries							5,534.82	8,262.10	7,081.80	6,845.74
	Bonus							-	533.50	-	-
	Social security							1,609.31	2,849.88	2,357.00	2,468.07
	Payroll tax							-	214.32	349.36	283.16
	Plotter rent + cons.	-	-	13,900.00	14,500.00	20,500.00	20,250.00	20,250.00	22,800.00	22,800.00	22,800.00
	Rent + services	7,000.00	7,000.00	7,000.00	7,000.00	7,000.00	8,500.00	8,500.00	8,500.00	26,514.48	12,824.00
	Total	21,336.34	15,001.56	54,410.03	104,726.75	43,524.49	110,811.70	92,447.15	102,784.61	76,676.90	90,423.29
	Cumulative	25,400.40	40,401.96	94,811.99	104,726.75	148,251.24	259,062.94	351,510.09	454,294.70	76,676.90	167,100.20
Tax base/Profit		17,816.23	23,486.40	109,930.97	244,682.78	359,436.64	436,743.87	582,299.32	863,576.70	104,579.04	465,067.71
Tax rate		1.00%	1.00%	2.00%	-	-	-	-	-	-	-
Tax rate	Month	-	-	-	-	Sept	Oct	Nov	Dec	Jan	Feb
	Fixed fee	-	-	-	32,691.18	45,037.08	50,041.20	101,605.79	110,842.74	22,665.17	65,382.36
	Low limit	-	-	-	125,325.21	281,128.42	312,364.91	541,563.01	590,796.00	93,993.91	250,650.41
	Rate	-	-	-	34.00%	23.52%	23.52%	30.00%	30.00%	32.00%	34.00%
	Lower limit tax	-	-	-	40,581.57	18,418.09	29,253.93	12,220.89	81,834.21	3,387.24	72,901.88
Subtotal (FF + LLT)		-	-	-	73,272.75	63,455.17	79,295.13	113,826.68	192,676.95	26,052.41	138,284.24
Total tax		178.16	234.86	2,198.62	-	-	-	-	-	-	-
Prov. Payment		-	178.16	234.86	-	73,272.75	73,272.75	79,295.13	113,826.68	-	26,052.41
Surcharge		-	3.00	-	-	-	-	-	-	-	-
Overpaid (in favor)		-	-	-	-	- 9,817.58	-	-	-	-	-
Payable tax		178	57	1,964	73,273	-	6,022	34,532	78,850	26,052	112,232

Source: Own elaboration

Table 9 – Annual tax liability for 2023 exercise (MXN)

Regime		626 - Simplified trust regime - natural person	612 - Natural person with business activity	Total
EBT		151,233.60	863,576.70	1,014,810.30
Tax rate		1.00%	-	-
Tax rate	Fixed fee	-	110,842.74	-
	Low limit	-	590,796.00	-
	Rate	-	30.00%	-
	Lower limit tax	-	81,834.21	-
Subtotal (fixed fee + LLT)		-	192,676.95	-
Total tax		1,512.34	-	-
Provisional monthly payments		2,198.62	192,676.95	
Payable tax		- 686.28	-	194,189.28
EAT		149,721.26	670,899.75	820,621.01

Source: *Own elaboration*



¹ 2024 figure corresponds until February results.

Figure 16 – Income tax paid

Source: *Own elaboration*

Table 9 highlights the income tax liability of 2023 exercise which was MXN 194,189.28. This resulted in earnings before tax (EBT) of MXN 1,014,810.30 and earnings after tax (EAT) of MXN 820,621.01, representing a 19.14% of the annual average income tax rate. For the 2024 exercise, the income tax liability is MXN 138,284.24, which represents a 71.21% of the tax levied in the previous year. This is due to two main factors: a monthly sales increase of 185% and the progressive tax brackets that change monthly (available in Appendix P III).

Table 8 shows that the company reached a 30% tax rate for Dec 2023 results, which increased to 32% in Jan 2024 and further increased to 34% in Feb 2024.

For the remainder of the 2024 exercise, if the company continues with its current trend, it will reach a 35% tax rate in just a few months.

This is the highest rate that a natural person could be charged, making it a strong incentive for the owner to set up the business and convert it into a legal entity as soon as possible, where the corporate tax rate is 30%.

It should be noted that when this Master's thesis project was selected in late October 2023, the applicable income tax rate was 23.52%. Since then, business conditions have changed, as explained in the previous paragraph. However, the objective of this strategic plan for incorporating the business as a legal entity remains the same and the author will include all conditions and constraints in the analysis for the final proposals.

On August 1st, 2023, Ms. Alvarado changed the tax regime from *626 - Simplified Trust Regime* for Natural Persons to *612 - Natural Person with Business Activity*. This decision increased the annual tax liability by 559% compared to the amount paid in the 2023 exercise. The tax rate would now be only 2.5% instead of 30%, resulting in an annual tax liability of only MSNX 29,382.10. However, based on the 2024 income estimate, this regime can only be utilized for an additional 7 months (until approximately July 2024) due to the limitation of a total annual income of MXN 3.5 million.

This change was implemented due to two main factors:

- The inability of state and municipal governments to withhold 1.25% of each transaction and
- To be able to select *626 – STR* for legal entities once the business is incorporated as a legal entity. This is because the Mexican Income Law prohibits a direct change from a natural person to a legal entity under the same regime.

In the *626 – STR* for natural Persons, the legal entities that receive goods or services from natural persons under the aforementioned regime are obliged to withhold, as a monthly payment, the amount resulting from the application of the rate of 1.25% to the amount of payments made without taking into account the VAT and to provide the taxpayers with the tax receipt showing the amount of tax withheld, which must be paid by said legal entity no later of the 17th of following month, in accordance with Article 113-J of the Mexican Income Tax Law (2013, p. 149). Considering that Galleria's main customer is the State and Municipal governments and the latter does not withhold this tax, Ms. Alvarado opted to change the taxation regime.

As presented in Table 7 – General company details, the business is not registered under Ms. Alvarado's name for the tax purposes due to her affiliation with the credit bureau, which prohibits her from possessing a debit or credit card in her name. Under the current *612 - NPBA* regime, taxpayers are entitled to deduct personal expenses, including medical expenses, school fees and mortgage interest, among others (Mexico, 2013, p. 27).

The inability to deduct personal expenses from the annual tax calculation results in an increase of approximately MXN 42,350.00, which is equivalent to 6.99% of the tax paid in 2023.

According to the National Commission for the Protection and Defense of Users of Financial Services (2016), the credit bureau's temporality will expire by the end of May 2024, making her eligible to own a debit/credit card.

It was discovered that the business is not utilizing the tax deduction allowance for travel expenses as outlined in Paragraph V of Article 28 of the Income Tax Law.

Considering that the metropolitan area of Monterrey covers 7,440 km² and most of Galeria's customers are located throughout the State of Nuevo Leon, which spans 64,156 km², the business may be eligible to apply travel expense deductions as stated in the aforementioned article. This article defines those expenses incurred outside an 8-kilometer radius of the taxpayer's establishment, applicable to the business owner and employees, are deductible for income tax purposes.

The limits for allowances are as follows: for food expenses, the limit is MXN 750.00 per day in Mexico or MXN 1,500.00 per day if abroad; for automobile expenses, the limit is MXN 850.00 per day; and for lodging expenses, the limit is MXN 3,850.00 per day if abroad (2013, p. 44 and 45).

6.1.2 Executive summary of findings

- The income tax liability of 2023 exercise is MXN 194,189.28, resulting in an EBT of MXN 1,014,810.30 and an EAT of MXN 820,621.01. The average income tax rate is 19.14%.
- In 2024 exercise, the income tax liability until the end of February is MXN 138,284.24, which represents 71.21% of the tax levied in the previous year. This is due to two main factors: a continuous monthly sales increase of 185% and progressive tax rate brackets, with the company now in the 34% tax rate for February results.

- The tax liability for the 2023 exercise increased by 559% due to the tax regime change from 626 - STR (original) to 612 - NPBA (current) in August 2023.
- The annual tax liability increased by 6.99% due to Mrs. Alvarado not able to be the representative for fiscal matters due to her affiliation in the credit bureau (period ending by the end of May 2024).
- Expenses incurred outside an 8-kilometer radius from the taxpayer's establishment, such as food and toll fees which are deductible and not included in the income tax calculation.

6.2 Diagnosis

After analyzing the business situation, this second step consists in identifying the possible solutions and the inherent risks of the project. The study will begin by analyzing the historical income and expense data that directly affect the income tax. Then, a regression model will be used to project these figures for a three-year period.

6.2.1 Historic data

Table 10 – Income and expense historical data

	Period	Income (MXN)	Expense (MXN)
2023	May	17,816.23	18,400.40
	June	23,486.40	10,859.00
	July	109,930.97	43,873.84
	August	349,409.52	103,174.70
	September	158,278.35	24,314.87
	October	188,118.93	103,168.69
	November	238,002.60	72,801.22
	December	384,061.99	76,943.82
2024	January	181,255.94	30,314.97
	February	450,911.97	60,597.81
	Total	2,101,272.90	544,449.32

Source: *Own elaboration*

Table 10 presents the income and expenses, including direct materials, manufacturing supplies, and other installation costs. For all other expenses, including direct labor, wages, and indirect expenses such as facility rent, utilities and asset acquisition, they were separated due to their variation and uneven existence during those periods. These expenses will be determined separately and included in the three-year projections in the appropriate months based on the short to medium-term plans of the business owner.

6.2.2 Projections for 2024-2026

A linear regression analysis was used to process and analyze the data presented in Table 10. This statistical tool was chosen due to the limited amount of data available (months) since the company is still in its first year of operation. Currently, it is not possible to identify a seasonality effect.

- Normal equations for parameter function construction

$$na_0 + a_1 \sum x = y \tag{1}$$

$$a_0 \sum x + a_1 \sum x^2 = \sum xy \tag{2}$$

- Regression function

$$\hat{y}_x = a_0 + a_1x \tag{3}$$

- Residual value

$$u = y - \hat{y} \tag{4}$$

Linear regression model for income

Table 11 – Linear regression model for income

Month		Income (MXN)	x ²	xy	ŷ	u	
2023	May	1	17,816.23	1.00	17,816.23	53,121.56	-35,305.33
	June	2	23,486.40	4.00	46,972.80	96,906.00	-73,419.60
	July	3	109,930.97	9.00	329,792.90	140,690.44	-30,759.47
	August	4	349,409.52	16.00	1,397,638.10	184,474.88	164,934.65
	September	5	158,278.35	25.00	791,391.76	228,259.32	-69,980.96
	October	6	188,118.93	36.00	1,128,713.59	272,043.75	-83,924.82
	November	7	238,002.60	49.00	1,666,018.21	315,828.19	-77,825.59
	December	8	384,061.99	64.00	3,072,495.89	359,612.63	24,449.35
2024	January	9	181,255.94	81.00	1,631,303.45	403,397.07	-222,141.13
	February	10	450,911.97	100.00	4,509,119.66	447,181.51	3,730.46
Total		55	2,101,272.90	385.00	14,591,262.60	-	-

Source: *Own elaboration*

- Value substitution in the equations:

(1) $10a_0 + 55a_1 = 2,101,272.90$

(2) $55a_0 + 385a_1 = 14,591,262.60$

Regression parameters:

Result: $a_0 = 36,778.93$ $a_1 = 7,843.18$

- Parameter substitution in the model function:

$$(3) \quad \hat{y}_x = 36,778.93x + 7,843.18$$

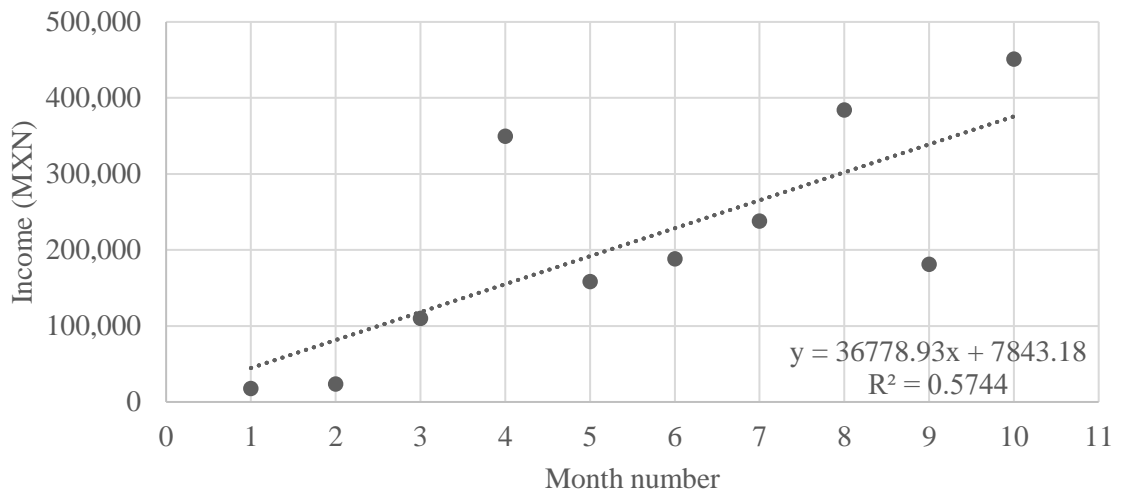


Figure 17 – Income regression graph and model

Source: *Own elaboration*

The regression analysis with the equation $\hat{y}_x = 36,778.93x + 7,843.18$ and $R^2 = 0.5744$ indicates a moderate association between the number of months (x) and income (y). The R^2 (correlation coefficient) value of 0.5744 suggests that approximately 57.44% of the variability in income can be explained by the number of months. Therefore, this regression model provides a reasonably good fit to the data, indicating a meaningful relationship between the number of months and income. However, further analysis may be needed in the future to understand other factors that influence income variability.

It is important to note that the months with the highest residual values (u) are August 2023 (month 4) and January 2024 (month 9). In the case of August 2023, the residual value of 164,934.65 indicates that the actual sales data (MXN 349,409.52) was higher by 164,934.65 units than what was predicted, resulting in an underestimation of the results for that month. This discrepancy can be attributed to the payment for the government's initial service.

In the case of January 2024, the residual value of -222,141.13 indicates that the actual sales (MXN 181,255.94) are below the predicted value. The discrepancy between the predicted and actual values is -222,141.13 units (MXN 403,397.07). This indicates that the data was overestimated, which can be attributed to the opening of a new fiscal year. Conversely, the outcomes for December 2023 were comparatively elevated due to the conclusion of the fiscal year.

Linear regression model for expenses

Table 12 – Linear regression model for expenses

Month		Expense (MXN)	x^2	xy	\hat{y}	u
2023	May	1	1.00	18,400.40	36,201.07	-17,800.67
	June	2	4.00	21,718.00	40,258.93	-29,399.93
	July	3	9.00	131,621.52	44,316.78	-442.94
	August	4	16.00	412,698.80	48,374.64	54,800.06
	September	5	25.00	121,574.35	52,432.50	-28,117.63
	October	6	36.00	619,012.14	56,490.36	46,678.33
	November	7	49.00	509,608.54	60,548.22	12,253.00
	December	8	64.00	615,550.56	64,606.08	12,337.74
2024	January	9	81.00	272,834.73	68,663.94	-38,348.97
	February	10	100.00	605,978.10	72,721.80	-12,123.99
Total		55	385.00	3,328,997.14	-	-

Source: *Own elaboration*

- Value substitution in the equations:

(1) $10a_0 + 55a_1 = 544,449.32$
 (2) $55a_0 + 385a_1 = 3,328,997.14$

Regression parameters:

Result: $a_0 = 4,054.86$ $a_1 = 32,143.21$

- Parameter substitution in the model function:

(3) $\hat{y}_x = 4,054.86x + 32,143.21$

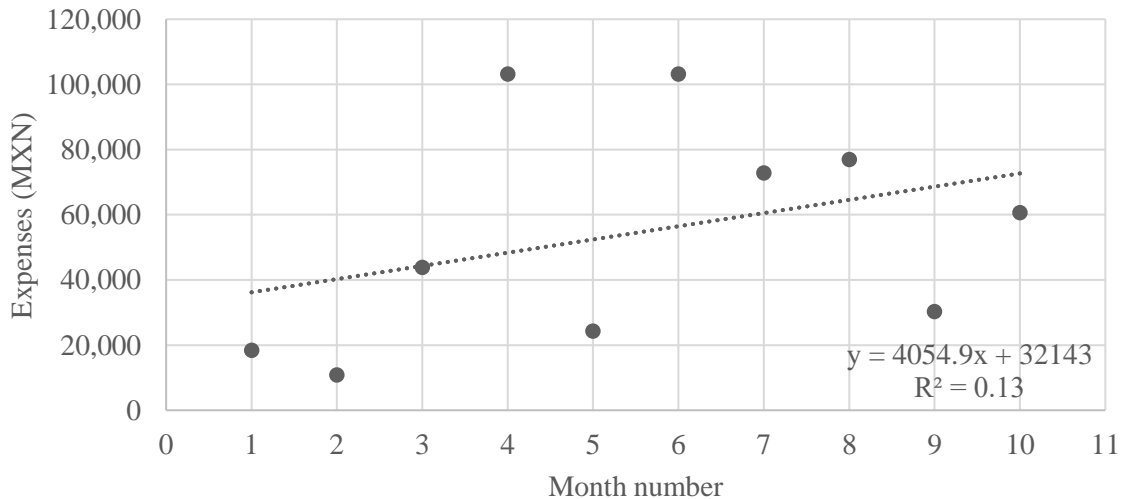


Figure 18 – Expenses regression graph and model

Source: *Own elaboration*

The regression analysis with the equation $\hat{y}_x = 4,054.86x + 32,143.21$ and $R^2 = 0.13$ indicates a weak relationship between the number of months (x) and expenses (y). The R^2 (correlation coefficient) value of 0.13 indicates that only 13% of the variability in expenses

can be explained by the number of months. Therefore, while there is a relationship between the number of months and expenses, it is relatively weak, and other factors may have a more significant impact on expense variability.

The months with the highest residual values are August 2023 (month 4) and January 2024 (month 9). This is consistent with the findings of the income regression model which indicated that in August 2023 the model underestimated the results by 54,800.06 units and in January 2024, the model overestimated the results -38,348.97 units. It is important to mention that the expenses considered in this regression analysis pertain solely to direct materials, manufacturing supplies and other installation costs. Other expenses, such as direct labor, wages, and indirect expenses, including facility rent, utilities and asset acquisition, have been excluded due to their variation and uneven occurrence during these months. These expenses were separately estimated according to the business owner's projections.

Conclusion:

For projecting income and expenses from 2024 to 2026, the author will use the following functions: $\hat{y}_x = f(x)$, where x represents the month number and y represents the calculated value for that month:

$$\text{Income:} \quad \hat{y}_x = 36,778.93x + 7,843.18$$

$$\text{Expenses} \quad \hat{y}_x = 4,054.86x + 32,143.21$$

In addition to the regression models of income and expenses, it will be included as well the future investments, products and necessary movements for the business expansion designated by the business owner, such as:

- The incorporation change as legal entity is targeted in July 2024;
- Since the incorporation, Ms. Alvarado will be registered in the payroll and will be able to deduct personal expenses either in the annual income tax filling as an employee;
- Budgeted purchases of:
 - Used cargo van in the 3Q of 2024, at an estimated price of MXN 374,000.00;
 - In the 3Q of 2024, a PC station at an estimated price of MXN 27,899.00 and a desk at an estimated price of MXN 5,299.00; and
 - Plotter in the 4Q of 2025, at an estimated price of MXN 3.34 million.
- Two employees will be hired. One in Sept. 2024 and the other in the 3Q of 2025; and
- Car wrapping will be included in the services offered from the 4Q of 2024.

6.2.3 Analysis of alternatives

Table 13 summarizes the possible regime available according to the business activity and sector as well as the benefits and the constraints of each one.

Table 13 – Possible regime alternatives

Name	Regime type					
	612 – NPBA (Current)	601 – General Law	626 – Simplified Trust		621 – Simplified Stock	
Type	Natural	Legal	Natural	Legal	Natural	
Tax rate	1.92 – 35.00%	30.00%	1.00 – 2.50%	30.00%	30.00%	
Income projections for following years (MXN million)						
Annual income limit (MXN million)	NA	NA	3.50	35.00	6.78	
2024	6.68	✓	✓	X	✓	
2025	15.49	✓	✓	X	X	
2026	24.26	✓	✓	X	X	
Deductions	Type	Business and personal	Business	No	Business	Business
	Annual Limit	Business: No limit. Personal: 15% of total income	No limit	No allowed	No limit	No limit
	Investment limit	No limit	No limit	No limit	3 million	No limit
Inc. Act	Req.	NA	Yes	NA	Yes	Yes
	Price	Free		Free		Free

Source: *Own elaboration*

The alternatives chosen for further study are:

1. 601 – General Law on legal entities.
2. 626 – Simplified Trust Regime for legal entities.
3. 612 – NPBA natural person change to Ms. Alvarado's name (reference).

Option 2: The Simplified Trust Regime for legal entities has an annual investment deduction constraint of MXN 3 million. However, it is important to note that based on regime change justification in 2023, the business owner intended to qualify for this regime once the business is incorporated due to the higher investment deduction rates offered by this regime compared to others, as stated in the Art. 209 of the Mexican Income Tax (2013, p. 251) reason why it is included in the analysis.

Table 14 summarizes the maximum percentage rates for investment deduction for the alternatives that will be studied.

Table 14 – Allowable investment deduction rates applicable for the alternatives

Regime	601 - General law and 612 - NPBA		626 – Simplified trust regime	
Type	Legal and natural		Legal	
Income tax law article	32		209	
	(%/Year)	Year limit	(%/Year)	Year limit
Furniture and office equipment.	10	10	25	4
Automobiles	25	4	25	4
PC equipment	30	3	50	2
Machinery (other)	10	10	20	5
Maximum amount in the fiscal year (MXN)	No limit		3,000,000.00 ¹	

¹ If the amount of investments in the fiscal year exceeds the indicated amount, the maximum percentages established in Article 32 will be applied.

Source: *Own processing*

Although option 3 does not fulfill the ultimate goal of becoming a legal entity, it is included just as a reference to verify if there is a significant reduction in the annual tax liability once the owner is able to include personal deductions in the annual tax calculation.

Regimes 626 - STR on natural persons and 621 - SSR on legal entities are discarded due to their limitations and failure to fulfill the ultimate goal of legal entity incorporation.

6.3 Alternatives

For the three selected alternatives, in this step the author will perform the tax calculation for the exercises 2024-2026, considering the income and expenses models as well as the expenses projections mentioned in the second step.

Table 15 – Tax calculation of each alternative for 2024-2026

Regime	Year	EBT (MXN)	Personal deductions (MXN)	Annual tax base (MXN)	Annual tax liability					
					Tax rate (%)	Fixed fee (MXN)	Low limit (MXN)	Tax liability (MXN)	Prov. payments (MXN)	Overpayment / Underpayment (MXN)
Historical	2023	151,233.60	-	151,233.60	1.0	-	-	1,512.34	2,198.62	- 686.28
		863,576.70	-	863,576.70	30.0	110,842.74	590,796.00	192,676.95	192,676.95	-
Current (NPBA)	2024	4,246,672.09	-	4,246,672.09	34.0	392,294.17	1,503,902.47	1,324,835.84	1,324,835.84	-
	2025	8,895,108.71	-	8,895,108.71	35.0	1,414,947.85	4,511,707.38	2,949,138.32	2,936,355.28	12,783.03
	2026	19,402,023.81	-	19,402,023.81	35.0	1,414,947.85	4,511,707.38	6,626,558.60	6,600,544.98	26,013.62
NP Change	2024	1,839,092.08	-	1,839,092.08	34.0	392,294.17	1,503,902.47	506,258.64	565,774.98	- 59,516.34
		2,395,818.32	42,350.00	2,353,468.32	34.0	392,294.17	1,503,908.47	681,144.52	695,545.56	- 14,401.04
	2025	8,867,599.93	42,350.00	8,825,249.93	35.0	1,414,947.85	4,511,707.38	2,924,687.74	2,926,177.40	- 1,489.66
2026	19,387,387.95	42,350.00	19,345,037.95	35.0	1,414,947.85	4,511,707.38	6,606,613.55	6,595,435.81	11,177.74	
Corporate (STR)	2024	1,839,092.08	-	1,839,092.08	34.0	392,294.17	1,503,902.47	506,258.64	565,774.98	- 59,516.34
		2,414,968.25	-	2,414,968.25	30.0	-	-	724,490.47	724,490.47	-
	2025	9,207,944.95	-	9,207,944.95	30.0	-	-	2,762,383.48	2,762,383.48	-
	2026	19,378,588.98	-	19,378,588.98	30.0	-	-	5,813,576.69	5,789,405.84	24,170.86
Corporate (G. Law)	2024	1,839,092.08	-	1,839,092.08	34.0	392,294.17	1,503,902.47	506,258.64	565,774.98	- 59,516.34
		2,416,753.15	-	2,416,753.15	30.0	-	-	725,025.94	-	725,025.94
	2025	9,213,299.65	-	9,213,299.65	30.0	-	-	2,763,989.90	3,507,038.77	- 743,048.87
	2026	20,025,607.53	-	20,025,607.53	30.0	-	-	6,007,682.26	4,306,562.80	1,701,119.46

Source: *Own elaboration*

Table 16 – Tax savings calculation of each alternative for 2024-2026

Regime	Year	EAT				Average annual tax			
		EBT – Tax liability (MXN)	Profit share (MXN)	Total EAT		Cumulative (MXN)	Total (MXN)	%	% Savings (vs current)
				(MXN)	%				
Historical	2023	820,621.01	-	820,621.01	80.86		194,189.28	19.14	-
Current (NPBA)	2024	2,921,836.25	292,183.62	2,629,652.62	61.92	2,629,652.62	1,324,835.84	31.20	-
	2025	5,945,970.39	594,597.04	5,351,373.35	60.16	7,981,025.98	2,949,138.32	33.15	-
	2026	12,775,465.21	1,277,546.52	11,497,918.69	59.26	19,478,944.66	6,626,558.60	34.15	-
NP Change	2024	3,047,507.25	304,750.72	2,742,756.52	64.77	2,742,756.52	1,187,403.16	28.04	10.37
	2025	5,942,912.19	594,291.22	5,348,620.97	60.32	8,091,377.49	2,924,687.74	32.98	0.83
	2026	12,780,774.40	1,278,077.44	11,502,696.96	59.33	19,594,074.45	6,606,613.55	34.08	0.30
Corporate (STR)	2024	3,023,311.22	-	3,023,311.22	71.07	3,023,311.22	1,230,749.11	28.93	7.10
	2025	6,445,561.46	644,556.15	5,801,005.32	63.00	8,824,316.53	2,762,383.48	30.00	6.33
	2026	13,565,012.29	1,356,501.23	12,208,511.06	63.00	21,032,827.59	5,837,747.55	30.12	11.90
Corporate (G. Law)	2024	3,024,560.65	-	3,024,560.65	71.07	3,024,560.65	1,231,284.58	28.93	7.06
	2025	6,449,309.76	644,930.98	5,804,378.78	63.00	8,828,939.43	2,763,989.90	30.00	6.28
	2026	14,017,925.27	1,401,792.53	12,616,132.75	63.00	21,445,072.17	6,007,682.26	30.00	9.34

Source: Own elaboration

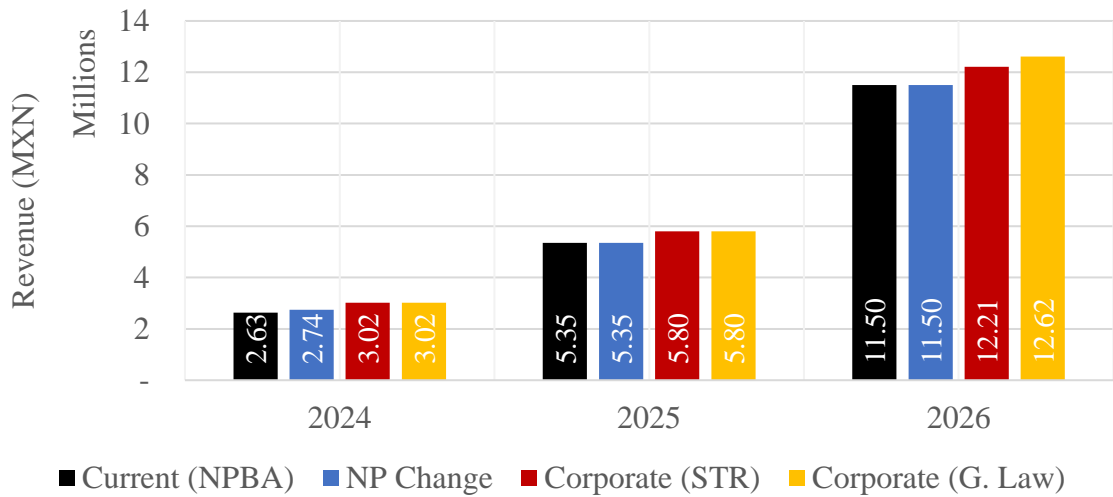


Figure 19 – Projection of annual EAT per alternative for 2024-2026

Source: *Own elaboration*

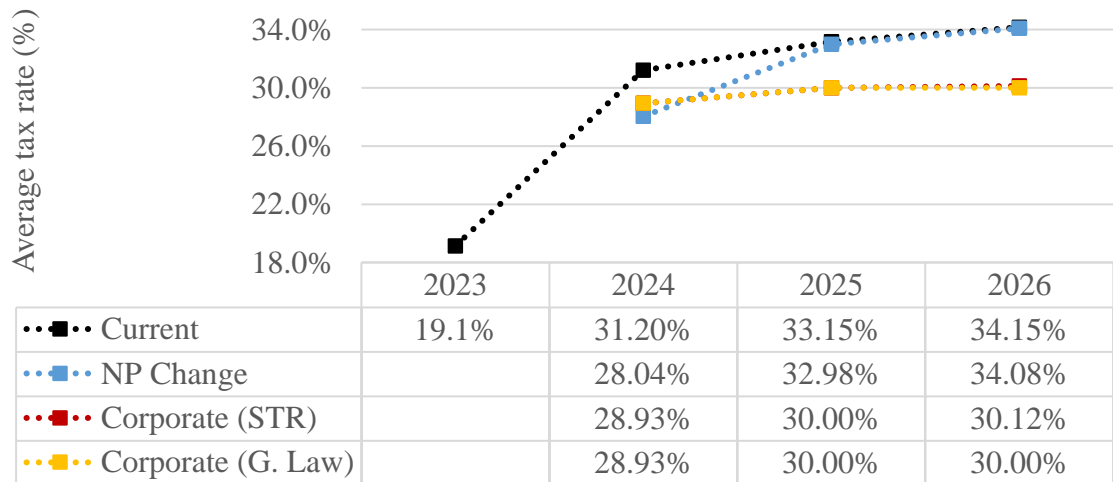


Figure 20 – Projection of average annual tax rate

Source: *Own elaboration*

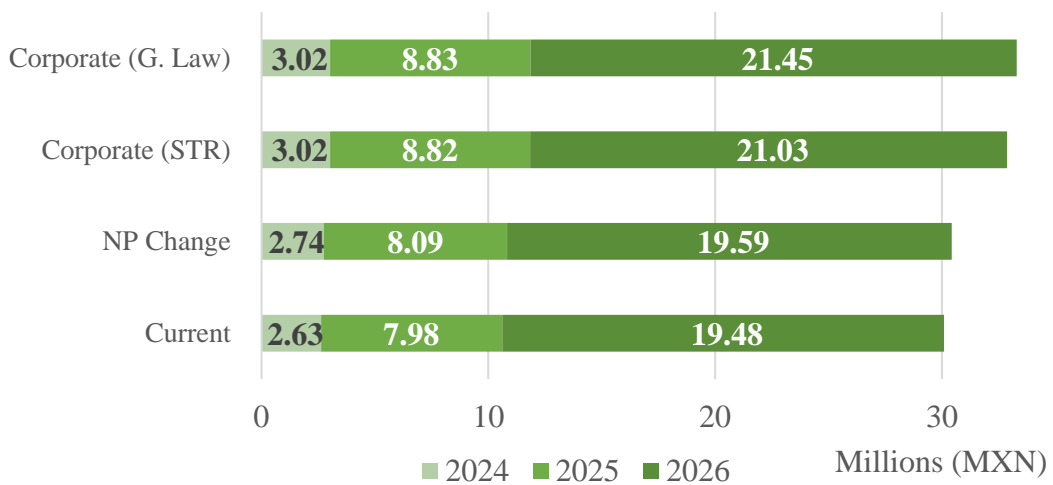


Figure 21 – Projection of accumulative EAT for 2024-2026

Source: *Own elaboration*

Findings:

Overall, the alternative with the lower tax burden, higher EBT and EAT is regime *601 - General Law* for legal entities.

By choosing this regime, the business owner could save a 7.56% of income tax in average during the 2024-2026 exercises. The average tax rate range oscillates from 28.93% to 30.0%, as shown in Figure 20. This rate is lower than the 30% tax rate mandated by law as well as lower than the range of the current regime results (31.20% – 34.15%).

This rate reduction represents an increase of MXN 3.2 million of EAT in total, representing a 10.66% increment from the current regime as seen in the Figure 21.

This regime requires lower and less aggressive monthly provisional payments throughout the year due to a different calculation method that uses a utility coefficient (explained in Appendix P IV) that is adjustable every year. Additionally, in this regime, the company is not required to make provisional monthly payments during the first year of operations, which could be favorable for the company's cash flow.

It is important to mention that it is recommended to transition to a legal entity before July 31st 2024 since this is when the business will complete the first year in operations with current regime and according to the Article 93 of the Income Tax Law (2013, p. 123), companies during its first year of operation, both natural and legal entities are exempt from distributing this profit share; this represents a 10% savings of the EAT of 2024.

In case of Regime *626-STR* for legal entities, the results indicate that there is no significant difference in the average annual tax rate between this regime and the *601 - General Law* regime. The results of EAT for 2024 and 2025 are very similar, with a difference of only 0.04-0.06% respectively. However, in 2026, there is a significant decrease of 3.34% in the EAT when compared vs *601 – General Law* regime. This difference was mainly caused by the impossibility of applying a 20% deduction rate for the investment of plotter budgeted for that exercise due to the three million deduction limit of this regime.

Regarding to the change of the natural person under Ms. Alvarado's name, study done just as reference, the results showed that only 2024 results would create a 9.43% improvement in tax liability and a 4.30% increase in EAT. However, there would be no significant change in the following years.

Although this tax regime allows for more deductions than other regimes, it is most suitable for business owners with an annual income no higher than MXN 1.1 million per fiscal year in order to be eligible for a 30% tax rate or lower. This is due to the combination of monthly increment of the tax rate and the progressive structure.

In general, it is important to emphasize that the calculation of tax liability for corporate tax is completely different from the currently used method. Also, there are new and different obligations for bookkeeping and additional information of submission along with the tax filing in a monthly basis so, it is highly recommended and encouraged for the owner to hire a professional in these matters, study deeply about the corporate tax law and stay up-to-date on any potential changes in the law that may affect the company's tax liability and to prevent non-compliance situations.

Once the company will be familiar with the new requirements and changes, other strategies mentioned in the chapter 4 such as buying a business at a loss may be a subject for future study.

Conclusion:

Conduct change to regime 601 – *General Law* for legal entities starting from July 1st 2024.

6.4 Implementation

A project schedule for implementing the strategic plan and the costs that would be incurred during the process is proposed below.

6.4.1 Proposed schedule

Figure 22 outlines the proposed schedule for implementing the strategy, with July 1st as the initial start date for using the new regime which aligned with the tax is calculation from the previous point. The registration process for the company is expected to take approximately nine weeks.

The proposed schedule has been developed in the most efficient way, including additional steps necessary for tax compliance before and after starting operations under the new regime.

		Plan	Done	★ Milestones	2024													
Event	Year Month Week	May				June				July				August				
		19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35
Current regime (612 - NPBA)																		
Monthly tax filing and payment	Accountant																	
Inform customers about the change	M. Alvarado																	
Notice of termination of operations	N. Torres																	
Annual tax filling and payment	N. Torres/Acc.																	
Credit bureau release					★													
Company incorporation																		
Company name authorization	M. Alvarado																	
Incorporation act creation	Public notary																	
Denomination announcement	Public notary																	
Registration in the Public Commerce registry	Public notary																	
Registration in the Federal taxpayer registry	M. Alvarado																	
Registration with the State General Treasury	M. Alvarado																	
Ministry Health registration	M. Alvarado																	
Municipal operative license	M. Alvarado																	
Social security registration	M. Alvarado	Owner registration- Step 1				Step 2 - Employees registration												
Registration of the Joint Safety and Hygiene	M. Alvarado																	
Open a business bank account	M. Alvarado																	
Corportate regime (601 - Gen. Law)																		
Start operations with new regime																		
Monthly tax filing and payment	Accountant	Not required in the first year																
Monthly financial status submission	Accountant																	

Figure 22 – Proposed project schedule

Source: *Own elaboration*

6.4.2 Cost analysis

The flow of the incorporation process, as shown in Figure 7 – Business constitution flow, has been used as the basis for the necessary steps. The total implementation cost for the company registration as a legal entity is MXN 15,869.00 according to the updated price list and the figures in the guide “How to establish a company in Nuevo León” of the World Trade Center Monterrey ([2023]).

Table 17 – Price list for the procedures required for the incorporation

Process	Price (MXN)
Company name authorization	565.00
Incorporation act creation	8,500.00
Denomination announcement	330.00
Registration in the Public Commerce Registry	700.00
Registration in the Federal Taxpayer Registry	Free
Registration with the State General Treasury	Free
Ministry Health registration	Free
Municipal operative license	5,775.00
Social Security registration	Free
Registration of the Joint Safety and Hygiene Commission with the Secretary of Labor.	Free
Open a business bank account	-
Total	15,869.00

Source: *Own elaboration*

6.5 Maintenance

For this last phase of the strategic plan, a list of recommended actions to be periodically reviewed to periodically verify the company’s status is proposed. The recommended actions are:

- Create a recordkeeping system that clearly shows income and expenses;
- Keep a record and monitor the monthly tax results even though it is not required by the new regime during the first year of operations. Also, include other taxes to be paid; and
- Create a record for the expenses (food and automobile’s related) incurred during the projects where the location is farther than eight-kilometer radius from the company’s establishment in order to reduce the tax burden.

CONCLUSION

The objective of this thesis is to analyze the tax situation of Galeria company from an income perspective and to develop a comprehensive strategic plan for a corporate tax regime transition. The plan should maximize tax efficiency while ensuring compliance with relevant laws and regulations, ultimately enhancing the company's financial performance for the long-term sustainability of the company.

The analysis of the company covered the business and market generalities as well as its micro and macro-environment factors that affect the company either positively or negatively, providing meaningful insights that were taken into consideration when creating the strategic plan.

A comprehensive analysis of Galleria's historical income tax data revealed that the owner was forced to change the tax regime after three months of operation due to constraints caused by the Customer's operational restrictions. This change resulted in a 559% increase in tax liability in 2023. The owner's personal financial situation, as registered in the credit bureau, prevented her from being the company's representative in fiscal matters. This resulted in an additional 6.99% increase in tax liability for the same year, as personal deductions could not be applied.

The average annual income tax rate paid in the 2023 exercise was 19.14%. However, it should be noted that the Company closed the exercise by paying a higher tax, a rate of 30% in December 2023. This rate increased to 32% in January 2024 and to 34% in February 2024. This was caused mainly by two factors: a monthly increment of 185% in sales and the progressive tax rate brackets that increases monthly. It is worth noting that legal entities pay a 30% flat rate of income tax, creating a strong incentive for the owner to pursue the regime transition.

The company's tax planning strategy was developed using a five-step methodology. Historical data was analyzed using statistical tools, such as regression models, to make projections for a three-year period and considering the owner's plans for expansion and business growth. The available regime alternatives were carefully analyzed based on their characteristics, taxation rates, incentives, and restrictions. The analysis resulted in the selection of two possible regimes. After calculating the income tax based on the results, the regime 601 – *General Law* was selected based on the savings increase by 7.56% in average.

This resulted in an increase of MXN 3.02 million in EAT, which represents a 10.66% increment from the current regime.

A project schedule was created outlining all the necessary steps for the transition. The lead time for the company registration process takes a little over two months (nine weeks), targeting the start of operations with the new regime on July 1st, 2024 with an estimated implementation cost of MXN 15,869.00.

Tailored recommendations were provided, including implementing records for monthly and annual tax liabilities, and identifying and tracking the expenses that can reduce the tax base. The company must stay up-to-date with continuous law reforms that could negatively impact or cause non-compliance with its fiscal obligations.

Implementing the recommended tax strategy could provide Galeria a sustainable growth and establishing milestone laying the groundwork for financial stability, regulatory adherence and enduring success and start building trust for potential customers with a corporative image from a taxation perspective. The strategy development represents a positive step towards efficient tax management and compliance, requiring continuous monitoring, evaluation, and refinement to adapt to evolving circumstances and maximize tax benefits. Future opportunities for Galeria lie in further research and development to refine its strategy. This requires a deep exploration of emerging trends, utilization of technological advancements and vigilance regarding regulatory changes to uphold effectiveness and relevance over time.

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LIST OF ABBREVIATIONS

OECD	Organization for Economic Co-operation and Development
MFPC	Ministry of Finance and Public Credit
STA	Secretary of Tax Administration
MXN	Mexican Peso
USD	United States dollar
EUR	Euro
GDP	Gross Domestic Product
MNISG	Mexican National Institute of Statistics and Geography
MSME	Micro, Small and Medium Enterprises
MAE	Mexican Association of Entrepreneurs
SWOT	Strengths, Weaknesses, Opportunities and Threats
PESTLE	Political, Economic, Sociological, Technological, Legal and Environmental
NPBA	Natural person with business activity
EBT	Earnings before taxes
EAT	Earning after taxes
STR	Simplified Trust Regime
SSR	Simplified Stock Regime

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APPENDICES

Appendix P I: Federal tax table

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Appendix P V: Deductions allowed for monthly and annual tax calculation

Appendix P VI: Tax calculation results of alternatives for 2024-2026 projection

Appendix P I: Federal tax table

Table 18 – Federal tax explanation summary

Name	Income tax	Value added tax	Special production and services	New vehicles tax
Subject	People who receive income: residents in Mexico or residents abroad with a source of wealth in the country.	Natural person and legal entity who alienate goods and/or provide services.	Natural person and legal entity who in the national territory, dispose of or import certain goods and/or provide certain services.	Natural person and legal entity who sell and/or import new vehicles.
Object	The income that people receive in cash or credit.	Goods or services.	Alienation and import of: alcoholic beverages, crystallizable honey, processed tobacco, gasoline, diesel, energy drinks, drinks with added sugars, fossil fuels, pesticides, and high-calorie foods. Services by commission, mediation, agency, representation, brokerage, consignment, and distribution: sale of alcoholic beverages, honey, manufactured tobacco, energy drinks, pesticides, and foods with high calorie content. Gambling, raffles, and telecommunications taxed too	Alienation and import of new cars.
Base	Income received subject to tax, minus deductions.	The value of the operation.	Value of the asset that is sold. Quantity of liters and alcohol content may also form the basis, where applicable.	Sale price including optional common or luxury equipment. Import: includes contributions paid, except VAT.
Tax rate	Natural person: from 1.92% to 35%. Legal entity: 30%. Depending on the lower limit at which locate the base ¹	General rate: 16% Reduced tax rate ² : 8% Special rate ³ : 0%	Different rates and/or quotas for each good or service. ⁴	Range from 2% to 17%. Depending on the lower limit in which the base.
Tax payment	Annual tax: Natural person - April of consecutive year. Legal entity - March of consecutive year. Provisional payments: no later than the 17th of consecutive month.	No later than the 17th of consecutive month.	No later than the 17th of consecutive month.	Annual tax: no later than April of consecutive year. Provisional payments: no later than the 17th of consecutive month. Import: when the General Import Tax.

Source: Procuraduría de la Defensa del Contribuyente, 2015; own processing

¹ People whose income in the fiscal year (January 1st to December 31st) is equal to or less than MXN 7,735.00 are exempt from taxation. Additionally, salaried people whose cumulative income for the previous fiscal year did not exceed MXN 600,000.00 are exempt from submitting the annual tax filing if this was their sole income source. In the event that income was derived from a source other than that described above, such as fees for additional work, rental income, or the sale of properties, the taxpayer is required to submit the tax filing (2013, s. 118-121).

The regulations allow personal deductions to be made in the annual tax filings. Some of these deductions relate to health-related expenses, including fees for medical services, hospital expenses, and medicines; medical analysis and examinations; rehabilitation devices and prostheses; payment of education services; and funeral expenses. Additionally, interest on mortgage loans is deductible. In contrast to many other countries, there is no differentiation in the tax code between married and unmarried individuals in Mexico (Velásquez Loaiza, c2024).

² 8% tax rate is restricted to the northern cross-border zone with United States of America and southern cross-border zone with Guatemala for the supply of products, services, and commodities for household or business use.

³ Special 0% VAT rate is applicable to goods and services exports, unprocessed food and milk, patented pharmaceuticals, and feminine hygiene products. Tax exemption: books, newspapers, and magazines; residential construction; copyright transfer by authors; education; public transportation of passengers by land; transportation of goods by sea for non-residents; local and foreign currency; and credit instruments (including shares).

⁴ Alcoholic beverages ranging from 26.5% to 53% of excise tax, 160% + fee for products with tobacco, 1 MXN/liter of soft drinks, 30% for raffle and gambling services, 3% for telecommunications services and variable percentage for fuels.

Appendix P II: Comparative table of commercial societies in Mexico

Table 19 – Comparative table of commercial companies in Mexico

Society type	Simplified Joint Stock Company	Joint Stock Company	Limited Liability Company	Simple Limited Company	Limited Company by Shares	Collective Name Company	Cooperative Society
Social object	Any legal commercial activity.	Any legal commercial activity.	Any legal commercial activity.	Any legal commercial activity.	Any legal commercial activity.	Any legal commercial activity.	Any legal commercial activity.
Amount and type of partners required.	One or more. Natural persons (prohibited to simultaneously be shareholders of another commercial company if their participation allows them to have control or management of the company)	Two or more. Natural person or legal entity.	Two up to fifty. Natural person or legal entity.	One or more. Limited partners.	Two or more. Natural person or legal entity.	Two or more. Natural person or legal entity (may hold industrial or capitalist partners status. Membership is non-transferable without the consent of the other partners.	Minimum five. 25 min in case of cooperatives. Natural persons.
Income limit (MXN)	6.78 million	No limit	No limit	No limit	No limit	No limit	No limit
Minimum capital (MXN)	No required	Established in the company's incorporation articles	3,000.00	No required	No required	No required	Established in the company's incorporation articles
Reserve fund	Not required	5% of net profits must be set aside annually	5% of net profits must be set aside annually	5% of net profits must be set aside annually	5% of net profits must be set aside annually	5% of net profits must be set aside annually	10 to 20% of the returns obtained by the cooperative societies in each fiscal year.

Continuation of Table 15

Ways to constitute	Electronically on the Ministry of Economy system	Public notary or subscription	Public notary	Public notary	Public notary or subscription	Public notary	Public notary or by a district judge, municipal president, secretary, municipal delegate or head of the political-administrative bodies of Mexico City or of the place where the cooperative society's domicile.
Responsability	Up to the amount of their contributions.	Partners are only liable for the payment of their shares and are not personally liable for corporate debts.	The partners are liable for the operations of the partnership up to an amount equal to the value of the contributions made. In the event that the partnership incurs debts or is unable to meet its obligations, the partners are only liable in proportion to their contributions.	The limited partners are liable in a subsidiary, unlimited and joint and several manner for the obligations of the company, and one or more limited partners are only liable for the payment of their contributions.	The limited partner or partners are liable in a subsidiary, unlimited and joint and several manner for the obligations of the partnership, and the limited partner or partners are only liable for the payment of their shares.	The partners are liable, subsidiarity, unlimitedly and jointly and severally, for the corporate obligations.	Limited. when the partners are only obligated to pay the contribution certificates they have subscribed. It is supplemented, when the partners are liable pro rata for the corporate operations, up to the amount determined in the articles of incorporation.
Dissolution	Through a notary public. Simplified dissolution could be possible only if requirements General Law of Mercantile Corporations are met	Through a notary public. Simplified dissolution could be possible only if requirements General Law of Mercantile Corporations are met	Through a notary public. Simplified dissolution could be possible only if requirements General Law of Mercantile Corporations are met	Through a notary public. Simplified dissolution could be possible only if requirements General Law of Mercantile Corporations are met	Through a notary public. Simplified dissolution could be possible only if requirements General Law of Mercantile Corporations are met	Through a notary public. Simplified dissolution could be possible only if requirements General Law of Mercantile Corporations are met	Through a notary public. Simplified dissolution could be possible only if requirements General Law of Mercantile Corporations are met

Source: Secretaria de Administracion Tributaria, [2023]; *own processing*

Appendix P III: Monthly tax rates of provisional payments for natural person with business activity regime

Table 20 – Monthly tax rates of provisional payments for natural person with business activity (MXN)

Percentage to be applied on lower limit	January			February			March		
	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee
1.92%	0.01	746.04	-	0.01	1,492.08	-	0.01	2,238.12	-
6.40%	746.05	6,332.05	14.32	1,492.09	12,664.10	28.64	2,238.13	18,996.15	42.96
10.88%	6,332.06	11,128.01	371.83	12,664.11	22,256.02	743.66	18,996.16	33,384.03	1,115.49
16.00%	11,128.02	12,935.82	893.63	22,256.03	25,871.64	1,787.26	33,384.04	38,807.46	2,680.89
17.92%	12,935.83	15,487.71	1,182.88	25,871.65	30,975.42	2,365.76	38,807.47	46,463.13	3,548.64
21.36%	15,487.72	31,236.49	1,640.18	30,975.43	62,472.98	3,280.36	46,463.14	93,709.47	4,920.54
23.52%	31,236.50	49,233.00	5,004.12	62,472.99	98,466.00	10,008.24	93,709.48	147,699.00	15,012.36
30.00%	49,233.01	93,993.90	9,236.89	98,466.01	187,987.80	18,473.78	147,699.01	281,981.70	27,710.67
32.00%	93,993.91	125,325.20	22,665.17	187,987.81	250,650.40	45,330.34	281,981.71	375,975.60	67,995.51
34.00%	125,325.21	375,975.61	32,691.18	250,650.41	751,951.22	65,382.36	375,975.61	1,127,926.83	98,073.54
35.00%	375,975.62	Onwards	117,912.32	751,951.23	Onwards	235,824.64	1,127,926.84	Onwards	353,736.96
Percentage to be applied on lower limit	April			May			June		
	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee
1.92%	0.01	2,984.16	-	0.01	3,730.20	-	0.01	4,476.24	-
6.40%	2,984.17	25,328.20	57.28	3,730.21	31,660.25	71.60	4,476.25	37,992.30	85.92
10.88%	25,328.21	44,512.04	1,487.32	31,660.26	55,640.05	1,859.15	37,992.31	66,768.06	2,230.98
16.00%	44,512.05	51,743.28	3,574.52	55,640.06	64,679.10	4,468.15	66,768.07	77,614.92	5,361.78
17.92%	51,743.29	61,950.84	4,731.52	64,679.11	77,438.55	5,914.40	77,614.93	92,926.26	7,097.28
21.36%	61,950.85	124,945.96	6,560.72	77,438.56	156,182.45	8,200.90	92,926.27	187,418.94	9,841.08
23.52%	124,945.97	196,932.00	20,016.48	156,182.46	246,165.00	25,020.60	187,418.95	295,398.00	30,024.72
30.00%	196,932.01	375,975.60	36,947.56	246,165.01	469,969.50	46,184.45	295,398.01	563,963.40	55,421.34
32.00%	375,975.61	501,300.80	90,660.68	469,969.51	626,626.00	113,325.85	563,963.41	751,951.20	135,991.02
34.00%	501,300.81	1,503,902.44	130,764.72	626,626.01	1,879,878.05	163,455.90	751,951.21	2,255,853.66	196,147.08
35.00%	1,503,902.45	Onwards	471,649.28	1,879,878.06	Onwards	589,561.60	2,255,853.67	Onwards	707,473.92

Continuation of Table 15

Percentage to be applied on lower limit	July			August			September		
	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee
1.92%	0.01	5,222.28	-	0.01	5,968.32	-	0.01	6,714.36	-
6.40%	5,222.29	44,324.35	100.24	5,968.33	50,656.40	114.56	6,714.37	56,988.45	128.88
10.88%	44,324.36	77,896.07	2,602.81	50,656.41	89,024.08	2,974.64	56,988.46	100,152.09	3,346.47
16.00%	77,896.08	90,550.74	6,255.41	89,024.09	103,486.56	7,149.04	100,152.10	116,422.38	8,042.67
17.92%	90,550.75	108,413.97	8,280.16	103,486.57	123,901.68	9,463.04	116,422.39	139,389.39	10,645.92
21.36%	108,413.98	218,655.43	11,481.26	123,901.69	249,891.92	13,121.44	139,389.40	281,128.41	14,761.62
23.52%	218,655.44	344,631.00	35,028.84	249,891.93	393,864.00	40,032.96	281,128.42	443,097.00	45,037.08
30.00%	344,631.01	657,957.30	64,658.23	393,864.01	751,951.20	73,895.12	443,097.01	845,945.10	83,132.01
32.00%	657,957.31	877,276.40	158,656.19	751,951.21	1,002,601.60	181,321.36	845,945.11	1,127,926.80	203,986.53
34.00%	877,276.41	2,631,829.27	228,838.26	1,002,601.61	3,007,804.88	261,529.44	1,127,926.81	3,383,780.49	294,220.62
35.00%	2,631,829.28	Onwards	825,386.24	3,007,804.89	Onwards	943,298.56	3,383,780.50	Onwards	1,061,210.88
Percentage to be applied on lower limit	October			November			December		
	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee	Lower limit	Upper limit	Fixed fee
1.92%	0.01	7,460.40	-	0.01	8,206.44	-	0.01	8,952.49	-
6.40%	7,460.41	63,320.50	143.20	8,206.45	69,652.55	157.52	8,952.50	75,984.55	171.88
10.88%	63,320.51	111,280.10	3,718.30	69,652.56	122,408.11	4,090.13	75,984.56	133,536.07	4,461.94
16.00%	111,280.11	129,358.20	8,936.30	122,408.12	142,294.02	9,829.93	133,536.08	155,229.80	10,723.55
17.92%	129,358.21	154,877.10	11,828.80	142,294.03	170,364.81	13,011.68	155,229.81	185,852.57	14,194.54
21.36%	154,877.11	312,364.90	16,401.80	170,364.82	343,601.39	18,041.98	185,852.58	374,837.88	19,682.13
23.52%	312,364.91	492,330.00	50,041.20	343,601.40	541,563.00	55,045.32	374,837.89	590,795.99	60,049.40
30.00%	492,330.01	939,939.00	92,368.90	541,563.01	1,033,932.90	101,605.79	590,796.00	1,127,926.84	110,842.74
32.00%	939,939.01	1,253,252.00	226,651.70	1,033,932.91	1,378,577.20	249,316.87	1,127,926.85	1,503,902.46	271,981.99
34.00%	1,253,252.01	3,759,756.10	326,911.80	1,378,577.21	4,135,731.71	359,602.98	1,503,902.47	4,511,707.37	392,294.17
35.00%	3,759,756.11	Onwards	1,179,123.20	4,135,731.72	Onwards	1,297,035.52	4,511,707.38	Onwards	1,414,947.85

Source: (Servicio de Administración Tributaria, 2022, s. 10-14); own processing

Appendix P IV: Methodology of tax calculation for monthly provisional payments and annual tax calculation

Natural person with business activity	Corporate (Simplified trust regime)	Corporate (General Law)
<i>Total income</i> Income from current period (Art. 102) Accumulable income in the exercise <hr/> - <i>Total Deductions</i> Deductions from current period (Art. 103) Accumulable deductions in the exercise Proportional profit share payed in the period Fiscal loss <hr/> = Taxable income - Low limit <hr/> = Surplus over limit x Tax rate over the surplus <hr/> = Tax for low limit + Fixed fee <hr/> = Chargable tax - Previous provisional payments <hr/> Provisional payment of the month	<i>Total income</i> Income from current period (Art. 207) Accumulable income in the exercise <hr/> - <i>Total Deductions</i> Deductions from current period (Art. 208) Accumulable deductions in the exercise Fiscal loss Proportional profit share payed in the period <hr/> = Taxable income x Tax rate (30% - Art. 9) <hr/> = Chargable tax - Previous provisional payments <hr/> Provisional payment of the month	<i>Total income</i> Income from current period (Art. 16) Accumulable income in the exercise <hr/> x <i>Profit coefficient (Art. 14)</i> <hr/> = Fiscal utility before fiscal loss - Fiscal loss - Yield or advances distributed - Proportional profit share payed in the pe <hr/> = Taxable income x Tax rate (30% - Art. 9) <hr/> = Chargable tax - Previous provisional payments <hr/> Provisional payment of the month

Figure 23 – Methodology for monthly provisional payments of all alternatives

Source: Mexico, 2013; own processing

Formula of coefficient of utility

$$\text{Coefficient of utility} = \frac{\text{Fiscal utility}}{\text{Nominal income}}$$

Natural person with business activity	Corporate (Simplified trust regime)	Corporate (General Law)
Total Income in the exercise	Total Income in the exercise	Total Income in the exercise
- Authorized deductions (Art. 103)	- Authorized deductions (Art. 208)	- Authorized deductions (Art. 25)
<hr/>	<hr/>	<hr/>
= Taxable base	= Taxable base	Taxable base
- Personal deductions (Art. 151)	- Tax loss carryforwards from previous years	- Tax loss carryforwards from previous ye
- Tax loss carryforwards from previous years	<hr/>	<hr/>
<hr/>	= Taxable income	Taxable income
= Taxable income	x Tax rate (30% - Art. 9)	x Tax rate (30% - Art. 9)
- Low limit (Art. 152)	<hr/>	<hr/>
= Surplus over limit	= Chargable tax	Chargable tax
x Tax rate over the surplus (Art. 152)	- Provisional payments payed during the fiscal year	- Provisional payments payed during the fiscal
<hr/>	<hr/>	<hr/>
= Base for fixed fee	Annual payable tax	Annual payable tax
+ Fixed fee (Art. 152)		
<hr/>		
= Chargable tax		
- Provisional payments payed during the fiscal year		
<hr/>		
Annual payable tax		

Figure 24 – Methodology for annual tax of all alternatives

Source: Mexico, 2013; *own processing*

Appendix P V: Deductions allowed for monthly and annual tax calculation

Table 21 – Deductions for monthly provisional payments calculation

Description	NPBA	Corporate	
		STR	General law
		Art. 208	Art. 14
Discounts, rebates, or refunds.	✓	✓	
Raw material	✓	✓	
Expenses net of discounts, rebates, or refunds.		✓	
Expenses	✓		
Investments	✓	✓	
Accrued interest payable	✓	✓	
Social security	✓	✓	
Complementary asportation to employee's pension fund		✓	
Payroll tax	✓		
Proportional profit share payed	✓	✓	✓
Fiscal loss	✓	✓	✓
Yield or advances distributed			✓

Source: Mexico, 2013; *own processing*

Table 22 – Deductions for annual payments calculation

Description	NPBA	Corporate	
		STR	General law
		Art. 208	Art. 25
Discounts, rebates, or refunds.	✓	✓	✓
Raw material	✓	✓	✓
Expenses net of discounts, rebates, or refunds.		✓	✓
Expenses	✓		✓
Investments	✓	✓	✓
Accrued interest payable	✓	✓	✓
Social security	✓	✓	✓
Complementary contribution to employee's pension fund		✓	✓
Non-recoverable credits			✓
Payroll tax	✓		
Cost of sales			✓
Annual adjustment for inflation.			✓
Advances to and income from cooperative companies			✓
Advances for expenses.			✓
Total profit shared payed	✓	✓	✓
Fiscal loss	✓	✓	✓
Yield or advances distributed			✓
Medical expenses	✓		
School expenses	✓		
Mortgage expenses	✓		
Funeral expenses	✓		
Donations	✓		✓
Complementary contribution to self-pension fund	✓		
Insurance prime	✓		

Source: Mexico, 2013; *own processing*

Appendix P VI: Tax calculation results of alternatives for 2024-2026 projection

Table 23 – Tax calculation for 2024 exercise projection (MXN)

Month	2024												Annual tax				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sept	Oct	Nov	Dec					
Current (NPBA)	Income	Total	338,853.55	375,632.48	412,411.41	449,190.34	485,969.27	522,748.20	559,527.13	596,306.06	633,084.99	696,649.92	760,214.85	850,565.78	6,681,154.0		
		Accumulative	338,853.55	714,486.03	1,126,897.44	1,576,087.78	2,062,057.05	2,584,805.25	3,144,332.38	3,740,638.44	4,373,723.43	5,070,373.35	5,830,588.20	6,681,153.98			
	Deductions	Total	120,265.70	135,715.20	116,474.09	120,240.03	124,666.21	128,351.95	509,351.56	221,872.03	243,917.30	217,207.69	219,560.04	276,860.11		2,434,481.89	
		Cummulative	120,265.70	255,980.89	372,454.98	492,695.01	617,361.22	745,713.17	1,255,064.73	1,476,936.76	1,720,854.06	1,938,061.74	2,157,621.79	2,434,481.89			
		Tax base/Profit	218,587.85	458,505.14	754,442.46	1,083,392.77	1,444,695.83	1,839,092.08	1,889,267.65	2,263,701.68	2,652,869.37	3,132,311.61	3,672,966.41	4,246,672.09			4,246,672.09
		Fixed fee	32,691.18	65,382.36	98,073.54	130,764.72	163,455.90	196,147.08	228,838.26	261,529.44	294,220.62	326,911.80	359,602.98	392,294.17			
		Low limit	125,325.21	250,650.41	375,975.61	501,300.81	626,626.01	751,951.21	877,276.41	1,002,601.61	1,127,926.81	1,253,252.01	1,378,577.21	1,503,902.47			
		Rate	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%			
		Lower limit	31,709.30	70,670.61	128,678.73	197,911.26	278,143.74	369,627.90	442,077.02	428,774.02	518,480.47	638,880.26	780,092.33	932,541.67			
		Subtotal (fixed fee + LLT)	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	565,774.98	572,915.28	690,303.46	812,701.09	965,792.06	1,139,695.31	1,324,835.84			
	Prov. Payment	-	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	565,774.98	572,915.28	690,303.46	812,701.09	965,792.06	1,139,695.31				
	Overpayed (in favor)	-	-	-	-	-	-	-	-	-	-	-	-				
	Proportional of profit share	-	-	-	-	-	-	-	-	-	-	-	-				
	Payable tax	64,400.48	71,652.49	90,699.30	101,923.72	112,923.65	124,175.34	7,140.31	117,388.18	122,397.63	153,090.97	173,903.25	185,140.53				
NP Change	Income	Total	338,853.55	375,632.48	412,411.41	449,190.34	485,969.27	522,748.20	559,527.13	596,306.06	633,084.99	696,649.92	760,214.85	850,565.78	2,584,805.25		
		Accumulative	338,853.55	714,486.03	1,126,897.44	1,576,087.78	2,062,057.05	2,584,805.25	3,144,332.38	3,740,638.44	4,373,723.43	5,070,373.35	5,830,588.20	6,681,153.98			
	Deductions	Total	120,265.70	135,715.20	116,474.09	120,240.03	124,666.21	128,351.95	512,694.76	221,872.03	243,917.30	222,623.17	219,560.04	279,863.11		745,713.17	
		Cummulative	120,265.70	255,980.89	372,454.98	492,695.01	617,361.22	745,713.17	1,255,064.73	1,476,936.76	1,720,854.06	1,938,061.74	2,157,621.79	2,434,481.89			
		Tax base/Profit	218,587.85	458,505.14	754,442.46	1,083,392.77	1,444,695.83	1,839,092.08	46,832.37	421,266.40	810,434.09	1,284,460.84	1,825,115.65	2,395,818.32			2,395,818.32
		Fixed fee	32,691.18	65,382.36	98,073.54	130,764.72	163,455.90	196,147.08	6,141.95	73,895.12	83,132.01	326,911.80	359,602.98	392,294.17			
		Low limit	125,325.21	250,650.41	375,975.61	501,300.81	626,626.01	751,951.21	32,736.84	393,864.01	443,097.01	1,253,252.01	1,378,577.21	1,503,902.47			
		Rate	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	30.00%	30.00%	30.00%	34.00%	34.00%	34.00%			
		Lower limit	31,709.30	70,670.61	128,678.73	197,911.26	278,143.74	369,627.90	4,228.66	8,220.72	110,201.12	10,611.00	151,823.07	303,251.39			
		Subtotal (fixed fee + LLT)	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	565,774.98	10,370.61	82,115.84	193,333.13	337,522.80	511,426.05	695,545.56			
	Prov. Payment	-	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	10,370.61	82,115.84	193,333.13	337,522.80	511,426.05	695,545.56				
	Overpayed (in favor)	-	-	-	-	-	-	-	-	-	-	-	-				
	Proportional of profit share	-	-	-	-	-	-	-	-	-	-	-	-				
	Payable tax	64,400.48	71,652.49	90,699.30	101,923.72	112,923.65	124,175.34	10,370.61	71,745.23	111,217.30	144,189.67	173,903.25	184,119.51				
Corporate (STR)	Income	Total	338,853.55	375,632.48	412,411.41	449,190.34	485,969.27	522,748.20	559,527.13	596,306.06	633,084.99	696,649.92	760,214.85	850,565.78	2,584,805.25		
		Accumulative	338,853.55	714,486.03	1,126,897.44	1,576,087.78	2,062,057.05	2,584,805.25	3,144,332.38	3,740,638.44	4,373,723.43	5,070,373.35	5,830,588.20	6,681,153.98			
	Deductions	Total	120,265.70	135,715.20	116,474.09	120,240.03	124,666.21	128,351.95	509,062.98	220,306.52	242,374.20	215,314.30	217,592.10	274,945.48		745,713.17	
		Cummulative	120,265.70	255,980.89	372,454.98	492,695.01	617,361.22	745,713.17	1,255,064.73	1,476,936.76	1,720,854.06	1,938,061.74	2,157,621.79	2,434,481.89			
		Tax base/Profit	218,587.85	458,505.14	754,442.46	1,083,392.77	1,444,695.83	1,839,092.08	50,464.15	426,463.69	816,728.25	1,297,617.64	1,839,794.17	2,414,968.25			1,839,092.08
		Fixed fee	32,691.18	65,382.36	98,073.54	130,764.72	163,455.90	196,147.08	-	-	-	-	-	-			
		Low limit	125,325.21	250,650.41	375,975.61	501,300.81	626,626.01	751,951.21	-	-	-	-	-	-			
		Rate	34.00%	34.00%	34.00%	34.00%	34.00%	34.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%			
		Lower limit	31,709.30	70,670.61	128,678.73	197,911.26	278,143.74	369,627.90	-	-	-	-	-	-			
		Subtotal (fixed fee + LLT)	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	565,774.98	-	-	-	-	-	-			
	Total tax	-	-	-	-	-	-	15,139.24	127,939.11	245,018.48	389,285.29	551,938.25	724,490.47				
	Prov. Payment	-	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	-	15,139.24	127,939.11	245,018.48	389,285.29	551,938.25				
	Overpayed (in favor)	-	-	-	-	-	-	-	-	-	-	-	-				
	Proportional of profit share	-	-	-	-	-	-	-	-	-	-	-	-				
	Payable tax	64,400.48	71,652.49	90,699.30	101,923.72	112,923.65	124,175.34	15,139.24	112,799.86	117,079.37	144,266.82	162,652.96	172,552.22				
Corporate (General law)	Income	Total	338,853.55	375,632.48	412,411.41	449,190.34	485,969.27	522,748.20	559,527.13	596,306.06	633,084.99	696,649.92	760,214.85	850,565.78	2,584,805.25		
		Accumulative	338,853.55	714,486.03	1,126,897.44	1,576,087.78	2,062,057.05	2,584,805.25	3,144,332.38	3,740,638.44	4,373,723.43	5,070,373.35	5,830,588.20	6,681,153.98			
	Deductions	Total	120,265.70	135,715.20	116,474.09	120,240.03	124,666.21	128,351.95	509,062.98	220,306.52	242,374.20	215,314.30	217,592.10	274,945.48		745,713.17	
		Cummulative	120,265.70	255,980.89	372,454.98	492,695.01	617,361.22	745,713.17	1,255,064.73	1,476,936.76	1,720,854.06	1,938,061.74	2,157,621.79	2,434,481.89			
		Tax base/Profit	218,587.85	458,505.14	754,442.46	1,083,392.77	1,444,695.83	1,839,092.08	-	-	-	-	-	-			1,839,092.08
		Tax base (coef. Utility)	-	-	-	-	-	-	-	-	-	-	-	-			
		Fixed fee	32,691.18	65,382.36	98,073.54	130,764.72	163,455.90	196,147.08	-	-	-	-	-	-			
		Low limit	125,325.21	250,650.41	375,975.61	501,300.81	626,626.01	751,951.21	-	-	-	-	-	-			
		Rate	0.34	0.34	0.34	0.34	0.34	0.34	-	-	-	-	-	-			
		Lower limit	31,709.30	70,670.61	128,678.73	197,911.26	278,143.74	369,627.90	-	-	-	-	-	-			
	Subtotal (fixed fee + LLT)	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	565,774.98	-	-	-	-	-	-				
	Total tax	-	-	-	-	-	-	-	-	-	-	-	-				
	Prov. Payment	-	64,400.48	136,052.97	226,752.27	328,675.98	441,599.64	-	-	-	-	-	-				
	Overpayed (in favor)	-	-	-	-	-	-	-	-	-	-	-	-				
	Proportional of profit share	-	-	-	-	-	-	-	-	-	-	-	-				
	Payable tax	64,400.48	71,652.49	90,699.30	101,923.72	112,923.65	124,175.34	-	-	-	-	-	-				

Source: Own elaboration

Table 24 – Tax calculation for 2025 exercise projection (MXN)

Month		2025												Annual tax	
		Jan	Feb	Mar	Apr	May	Jun	Jul	Ago	Sept	Oct	Nov	Dec		
Current (NPBA)	Income	Total	940,916.71	1,031,267.64	1,068,046.57	1,104,825.50	1,195,176.43	1,231,955.36	1,268,734.29	1,359,085.22	1,449,436.15	1,539,787.08	1,630,138.01	1,666,916.94	15,486,285.90
		Accumulative	940,916.71	1,972,184.35	3,040,230.92	4,145,056.42	5,340,232.85	6,572,188.21	7,840,922.50	9,200,007.72	10,649,443.87	12,189,230.95	13,819,368.96	15,486,285.90	
	Deductions	Total	236,388.11	227,103.97	287,787.86	239,616.17	282,618.66	383,761.00	308,500.05	308,607.49	378,281.75	3,125,261.37	362,269.69	450,981.08	6,591,177.19
		Cummulative	236,388.11	463,492.08	751,279.94	990,896.11	1,273,514.77	1,657,275.76	1,965,775.81	2,274,383.31	2,652,665.06	5,777,926.42	6,140,196.11	6,591,177.19	
	Tax base/Profit		704,528.60	1,508,692.27	2,288,950.98	3,154,160.31	4,030,195.13	4,878,389.49	5,838,623.73	6,889,101.46	7,960,255.86	6,374,781.57	7,642,649.89	8,858,585.76	8,895,108.71
	Tax rate	Fixed fee	117,912.32	235,824.64	353,736.96	471,649.28	589,561.60	707,473.92	825,386.24	943,298.56	1,061,210.88	1,179,123.20	1,297,035.52	1,414,947.85	
		Low limit	375,975.62	751,951.23	1,127,926.84	1,503,902.45	1,879,878.06	2,255,853.67	2,631,829.28	3,007,804.89	3,383,780.50	3,759,756.11	4,135,731.72	4,511,707.38	
		Rate	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	
		Lower limit	114,993.54	264,859.36	406,358.45	577,590.25	752,610.97	917,887.54	1,122,378.06	1,358,453.80	1,601,766.38	915,258.91	1,227,421.36	1,521,407.43	
	Subtotal (fixed fee + LLT)		232,905.86	500,684.00	760,095.41	1,049,239.53	1,342,172.57	1,625,361.46	1,947,764.30	2,301,752.36	2,662,977.26	2,094,382.11	2,524,456.88	2,936,355.28	
	Prov. Payment		-	232,905.86	500,684.00	760,095.41	1,049,239.53	1,342,172.57	1,625,361.46	1,947,764.30	2,301,752.36	2,662,977.26	2,662,977.26	2,662,977.26	2,936,355.28
	Overpaved (in favor)		-	-	-	-	-	-	-	-	-	568,595.14	138,520.38	-	
	Proportional of profit share		-	-	-	-	36,522.95	36,522.95	36,522.95	36,522.95	36,522.95	36,522.95	36,522.95	36,522.95	
	Payable tax		232,905.86	267,778.14	259,411.40	289,144.12	292,933.04	283,188.88	322,402.84	353,988.06	361,224.90	-	-	273,378.03	
NP Change	Income	Total	940,916.71	1,031,267.64	1,068,046.57	1,104,825.50	1,195,176.43	1,231,955.36	1,268,734.29	1,359,085.22	1,449,436.15	1,539,787.08	1,630,138.01	1,666,916.94	15,486,285.90
		Accumulative	940,916.71	1,972,184.35	3,040,230.92	4,145,056.42	5,340,232.85	6,572,188.21	7,840,922.50	9,200,007.72	10,649,443.87	12,189,230.95	13,819,368.96	15,486,285.90	
	Deductions	Total	239,568.11	227,103.97	287,787.86	239,616.17	284,189.55	388,675.08	310,070.94	310,178.38	379,852.64	3,132,247.73	363,840.58	455,554.96	6,618,685.97
		Cummulative	239,568.11	466,672.08	754,459.94	994,076.11	1,278,265.66	1,666,940.74	1,977,011.68	2,287,190.06	2,667,042.70	5,799,290.43	6,163,131.01	6,618,685.97	
	Tax base/Profit		701,348.60	1,505,512.27	2,285,770.98	3,150,980.31	4,023,873.35	4,867,153.63	5,825,816.98	6,874,723.82	7,944,307.33	6,351,846.68	7,618,144.11	8,829,506.09	8,867,599.93
	Tax rate	Fixed fee	117,912.32	235,824.64	353,736.96	471,649.28	589,561.60	707,473.92	825,386.24	943,298.56	1,061,210.88	1,179,123.20	1,297,035.52	1,414,947.85	
		Low limit	375,975.62	751,951.23	1,127,926.84	1,503,902.45	1,879,878.06	2,255,853.67	2,631,829.28	3,007,804.89	3,383,780.50	3,759,756.11	4,135,731.72	4,511,707.38	
		Rate	0.35	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	35.00%	
		Lower limit	113,880.54	263,746.36	405,245.45	576,477.25	750,398.35	913,954.99	1,117,895.70	1,353,421.63	1,596,184.39	907,231.70	1,218,844.34	1,511,229.55	
	Subtotal (fixed fee + LLT)		231,792.86	499,571.00	758,982.41	1,048,126.53	1,339,959.95	1,621,428.91	1,943,281.94	2,296,720.19	2,657,395.27	2,086,354.90	2,515,879.86	2,926,177.40	
	Prov. Payment		-	231,792.86	499,571.00	758,982.41	1,048,126.53	1,339,959.95	1,621,428.91	1,943,281.94	2,296,720.19	2,657,395.27	2,657,395.27	2,657,395.27	2,926,177.40
	Overpaved (in favor)		-	-	-	-	-	-	-	-	-	571,040.37	141,515.41	-	
	Proportional of profit share		-	-	-	-	38,093.84	38,093.84	38,093.84	38,093.84	38,093.84	38,093.84	38,093.84	38,093.84	
	Payable tax		231,792.86	267,778.14	259,411.40	289,144.12	291,833.42	281,468.95	321,853.03	353,438.25	360,675.09	-	-	268,782.13	
Corporate (STR)	Income	Total	940,916.71	1,031,267.64	1,068,046.57	1,104,825.50	1,195,176.43	1,231,955.36	1,268,734.29	1,359,085.22	1,449,436.15	1,539,787.08	1,630,138.01	1,666,916.94	15,486,285.90
		Accumulative	940,916.71	1,972,184.35	3,040,230.92	4,145,056.42	5,340,232.85	6,572,188.21	7,840,922.50	9,200,007.72	10,649,443.87	12,189,230.95	13,819,368.96	15,486,285.90	
	Deductions	Total	234,508.93	225,609.86	286,472.37	238,108.45	244,648.55	345,716.33	270,131.82	270,041.62	339,840.23	3,086,863.53	323,811.23	412,588.06	6,278,340.95
		Cummulative	234,508.93	460,118.79	746,591.15	984,699.60	1,229,348.14	1,575,064.47	1,845,196.29	2,115,237.91	2,455,078.13	5,541,941.66	5,865,752.89	6,278,340.95	
	Tax base/Profit		706,407.78	1,512,958.02	2,293,639.77	3,160,356.82	4,110,884.71	4,997,123.74	5,995,726.21	7,084,769.81	8,194,365.74	6,647,289.29	7,953,616.07	9,207,944.95	9,207,944.95
	Tax rate	Fixed fee	-	-	-	-	-	-	-	-	-	-	-	-	
		Low limit	-	-	-	-	-	-	-	-	-	-	-	-	
		Rate	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	
		Lower limit	-	-	-	-	-	-	-	-	-	-	-	-	
	Subtotal (fixed fee + LLT)		-	-	-	-	-	-	-	-	-	-	-	-	
	Total tax		211,922.34	453,619.67	688,091.93	948,107.05	1,233,265.41	1,499,137.12	1,798,717.86	2,125,430.94	2,458,309.72	1,994,186.79	2,386,084.82	2,762,383.48	
	Prov. Payment		-	211,922.34	453,619.67	688,091.93	948,107.05	1,233,265.41	1,499,137.12	1,798,717.86	2,125,430.94	2,458,309.72	2,458,309.72	2,458,309.72	2,762,383.48
	Overpaved (in favor)		-	-	-	-	-	-	-	-	-	464,122.93	72,224.90	-	
	Proportional of profit share		-	-	-	-	-	-	-	-	-	-	-	-	
Payable tax		211,922.34	241,697.33	234,472.26	260,015.12	285,158.36	265,871.71	299,580.74	326,713.08	332,878.78	-	-	304,073.76		
Corporate (General law)	Income	Total	940,916.71	1,031,267.64	1,068,046.57	1,104,825.50	1,195,176.43	1,231,955.36	1,268,734.29	1,359,085.22	1,449,436.15	1,539,787.08	1,630,138.01	1,666,916.94	15,486,285.90
		Accumulative	940,916.71	1,972,184.35	3,040,230.92	4,145,056.42	5,340,232.85	6,572,188.21	7,840,922.50	9,200,007.72	10,649,443.87	12,189,230.95	13,819,368.96	15,486,285.90	
	Deductions	Total	234,062.70	225,163.63	286,026.14	237,662.22	244,202.32	345,270.10	269,685.60	269,595.39	339,394.00	3,086,417.30	323,365.00	412,141.84	6,272,986.25
		Cummulative	234,062.70	459,226.33	745,252.48	982,914.70	1,227,117.02	1,572,387.12	1,842,072.72	2,111,668.10	2,451,062.10	5,537,479.41	5,860,844.41	6,272,986.25	
	Tax base/Profit		706,854.01	1,512,958.02	2,294,978.44	3,162,141.72	4,113,115.83	4,999,801.09	5,998,849.78	7,088,339.62	8,198,381.77	6,651,751.54	7,953,616.07	9,213,299.65	9,213,299.65
	Tax base (coef. Utility)		-	-	2,294,978.44	3,128,977.83	4,031,180.39	4,961,146.27	5,918,875.44	6,944,807.80	8,038,943.35	9,201,282.08	10,431,824.00	11,690,129.22	
	Tax rate	Fixed fee	-	-	-	-	-	-	-	-	-	-	-	-	
		Low limit	-	-	-	-	-	-	-	-	-	-	-	-	
		Rate	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	
		Lower limit	-	-	-	-	-	-	-	-	-	-	-	-	
	Subtotal (fixed fee + LLT)		-	-	-	-	-	-	-	-	-	-	-	-	
	Total tax		-	-	688,493.53	938,693.35	1,209,354.12	1,488,343.88	1,775,662.63	2,083,442.34	2,411,683.00	2,760,384.62	3,129,547.20	3,507,038.77	
	Prov. Payment		-	-	688,493.53	938,693.35	1,209,354.12	1,488,343.88	1,775,662.63	2,083,442.34	2,411,683.00	2,760,384.62	3,129,547.20	3,507,038.77	3,507,038.77
	Overpaved (in favor)		-	-	-	-	-	-	-	-	-	-	-	-	
Proportional of profit share		-	-	-	-	-	-	-	-	-	-	-	-		
Payable tax		-	-	688,493.53	250,199.81	270,660.77	278,989.76	287,318.75	307,779.71	328,240.66	348,701.62	369,162.58	377,491.57		
Cofficient of utility													0.7549		

Source: Own elaboration

