

Mexico

Mexico		2004			
The tax/benefit position of single persons					
	Wage level (per cent of APW)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		44288	66432	110720	44288
2. Standard tax allowances					
Basic allowance		1481	1572	1754	1481
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes					
Work-related expenses					
Other					
	Total	1481	1572	1754	1481
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		42807	64860	108966	42807
5. Central government income tax liability (exclusive of tax credits)		3872	7152	16953	3872
6. Tax credits					
Basic credit		4498	3465	2091	4498
Married or head of family					
Children					
Other		923	1705	4042	923
	Total	5421	5170	6133	5421
7. Central government income tax finally paid (5-6)		-1549	1982	10819	-1549
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		554	1006	2020	554
Taxable income					
	Total	554	1006	2020	554
10. Total payments to general government (7 + 8 + 9)		-995	2988	12840	-995
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	0
	Total	0	0	0	0
12. Take-home pay (1-10+11)		45283	63444	97880	45283
13. Employers' compulsory social security contributions		6349	8571	13337	6349
14. Average rates					
Income tax		-3.5%	3.0%	9.8%	-3.5%
Employees' social security contributions		1.3%	1.5%	1.8%	1.3%
Total payments less cash transfers		-2.2%	4.5%	11.6%	-2.2%
Total tax wedge including employer's social security contributions		10.6%	15.4%	21.1%	10.6%
15. Marginal rates					
Total payments less cash transfers: Principal earner		8.8%	15.2%	26.6%	8.8%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		15.4%	23.4%	33.7%	15.4%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.
Memorandum item: Non-wastable tax credit					
tax expenditure component		3872	5170	6133	3872
cash transfer component		1549	0	0	1549

Mexico		2004			
The tax/benefit position of married couples					
		Wage level (per cent of APW)	100-33	100-67	100-33
		Number of children	2	2	none
1. Gross wage earnings		66432	88576	110720	88576
2. Standard tax allowances					
	Basic allowance	1572	2573	3052	2573
	Married or head of family				
	Dependent children				
	Deduction for social security contributions and income taxes				
	Work-related expenses				
	Other				
	Total	1572	2573	3052	2573
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		64860	86003	107668	86003
5. Central government income tax liability (exclusive of tax credits)		7152	8858	11024	8858
6. Tax credits					
	Basic credit	3465	8249	7962	8249
	Married or head of family				
	Children				
	Other				
	Total	1705	2112	2629	2112
7. Central government income tax finally paid (5-6)		1982	-1504	433	-1504
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
	Gross earnings	1006	1283	1560	1283
	Taxable income				
	Total	1006	1283	1560	1283
10. Total payments to general government (7 + 8 + 9)		2988	-221	1993	-221
11. Cash transfers from general government					
	For head of family				
	For two children	0	0	0	0
	Total	0	0	0	0
12. Take-home pay (1-10+11)		63444	88797	108727	88797
13. Employers' compulsory social security contributions		8571	13216	14921	13216
14. Average rates					
	Income tax	3.0%	-1.7%	0.4%	-1.7%
	Employees' social security contributions	1.5%	1.4%	1.4%	1.4%
	Total payments less cash transfers	4.5%	-0.2%	1.8%	-0.2%
	Total tax wedge including employer's social security contributions	15.4%	12.8%	13.5%	12.8%
15. Marginal rates					
	Total payments less cash transfers: Principal earner	15.2%	15.2%	15.2%	15.2%
	Total payments less cash transfers: Spouse	-14.5%	8.5%	8.8%	8.5%
	Total tax wedge: Principal earner	23.4%	23.4%	23.4%	23.4%
	Total tax wedge: Spouse	5.4%	15.1%	15.4%	15.1%
Memorandum item: Non-wastable tax credit					
	tax expenditure component	5170	8858	10591	8858
	cash transfer component	0	1504	0	1504

The national currency is the peso (MXN). In 2004 MXN 11.29 was equal to USD 1 (average of eleven months daily exchange rates). The estimated earnings of the Average Production Worker for 2004 are 66 432 MXN (Secretariat estimate).

1. Personal income tax

1.1. Central government income tax

1.11. Tax unit

Each person is taxed separately.

1.12. Tax allowances and tax credits

1.121. Standard tax reliefs

There are two basic allowances, a yearly holiday bonus and an end-of-year bonus.

- *Holiday Bonus*: Mexico's Labour Law stipulates a minimum holiday bonus of 25 per cent of six days of the worker's wage. The maximum exemption according to Tax Law is equivalent to 15 days of minimum wage (the minimum wage for the whole country).¹ Given these two restrictions, the allowance is estimated as the minimum established by the Labour Law, up to the amount that is exempt according to Tax Law.
- *End-of-year bonus*: The minimum end-of-year bonus established in the Labour Law is 15 days of the worker's wage. Tax Law exempts end-of-year-bonuses up to 30 days of the legal minimum wage (the amount for the whole country). The allowance is estimated as the minimum established by the Labour Law, up to the amount that is exempt according to Tax Law.

1.122. Main non-standard tax reliefs

Deductions:

- Compulsory school transportation costs.
- *Medical expenses*: An unlimited deduction is allowed for taxpayer's medical expenses. For those made by the taxpayer, on behalf of his or her spouse and straight line relatives, the deduction is allowed only if the person, for whom he makes the expense, earns less than the minimum annual wage of his geographical area.
- *Funeral charges*: for the spouse and straight-line relatives up to a minimum annual wage of the taxpayer's geographical area.
- *Charitable donations* made to institutions such as:
 - ❖ federal, state, and municipal governments;
 - ❖ schools, colleges, and universities, hospitals or medical research centres and all other non-profit organisations listed in the law.

- Deposits on special savings accounts, insurance plans, and contributions to mutual funds related to retirement pensions are considered eligible up to 10 per cent of taxable income, and cannot exceed 79 017 MXN.
- Health insurance for individuals, if the beneficiary is the taxpayer, and/or his family.
- Beginning in 2004, real interest expenditure for the payment of mortgage loans for housing purposes that do not exceed 5 091 817 MXN. Real interest expenditure is considered the excess of interest expense over the inflation rate.

1.123. Tax credits

The tax credit is a variable amount that depends on the worker's income. This credit is revised yearly; in 2004, the estimated credit for the highest income bracket is equivalent to 2 090.92 MXN. The new Income Tax Law clarifies that employers must pay the worker's salary tax credit² that includes worker's tax liability and the excess over that amount that is paid to them in cash. Employers reduce the salary tax credit from their own federal tax liabilities.

1.124. Others

There is a fiscal subsidy that depends on the employee's taxable income and on the percentage that average fringe benefits given by the employer to all workers represent of such income. As income increases the absolute amount of the subsidy increases, but at a diminishing rate, so that the percentage it represents decreases; on the other hand, the amount diminishes with the decrease of the share of fringe benefits. An adjustment factor is estimated to account for the share of fringe benefits, following Article 114 of the Income Tax Law of 2004, using the formula: $1 - [2 \times (1 - TIP)]$. TIP denotes the Taxable Income Proportion and represents the sum of total salaries and wages in the manufacturing industry divided by the total amount of remuneration including fringe benefits. The credit that accounts for this fiscal subsidy is derived on the basis of a schedule where there is a base credit amount and an applicable credit rate that is specified for each bracket. For a given level of taxable income, one determines the applicable bracket and then the credit itself is derived using the formula:

adjustment factor \times [base credit + additional credit rate \times applicable tax rate \times (taxable income less inferior limit of bracket)].

1.13. Tax schedule

The tax schedule is as follows:

Taxable income (MXN)		Minimum tax (MXN)	Tax on the amount in excess of inferior limit (%)
Inferior limit	Superior limit		
0	5 833.66	0	3
5 833.67	49 514.58	174.97	10
49 514.59	87 017.48	4 542.99	17
87 017.49	101 154.04	10 918.67	25
101 154.05	121 108.90	14 452.81	32
121 108.91	And over	20 838.26	33

In 2004 the tax rate for the highest income bracket is 33 per cent versus 34 per cent in 2003; the number of brackets was reduced to six.

1.2. State and local income taxes

States do not levy taxes on income.

1.3. Payroll taxes

In 2002 the Supreme Court determined that the payroll tax was not in accordance to the principles established in our Constitution, therefore in 2004 the Congress derogated the federal payroll tax of 4%.

2. Compulsory social security contributions to schemes operated within the government sector³

2.1. Employees' contributions

Social security contributions are divided as follows:

For sickness and maternity insurance, 0.625 per cent of the workers monthly wage,⁴ plus 1.04 per cent⁵ of the amount in excess of three times the minimal legal wage (the amount that applies within the Federal District of Mexico City). For disability, and life insurance, 0.625 per cent of the monthly wage.

2.2. Employers' contributions

- For sickness and maternity 17.80 per cent⁶ of the minimum legal wage per worker (the amount that applies within the Federal District of Mexico City), plus 3.06 per cent⁷ of the amount in excess of three times the minimum legal wage (the amount that applies within the Federal District of Mexico City), plus 1.75 of the monthly wage.
- For disability and life insurance, 1.75 per cent of worker's monthly wage.
- For social services and nursery, 1 per cent of worker's monthly wage.
- For insurance for work injuries of employees, 3.2 per cent of worker's monthly wage.⁸

3. Universal cash transfers

3.1. Transfers related to marital status

None.

3.2. Transfers for dependent children

None.

4. Main changes in the tax/benefit system since 1995

The Social Security Law enacted in July 1997, changes fundamentally the financing of non-government employees' social security, which shifted from a pay-as-you-go scheme to funded individual accounts. The government no longer manages these accounts; new private financial institutions were created specifically for this purpose. However, the contractual obligation is between the workers and the government, not with the private administrator of the fund, because legally they are still considered as contributions to social security, independently of whom may manage the fund. It should be noted that the federal government also contributes to each pension account, and guarantees a minimum pension to every beneficiary of the social security system, again independently of the administration of the fund.

5. Memorandum items

5.1. Method used to identify an average production worker and to calculate his gross earnings

The income data refer to production workers in the manufacturing sector. It should be noted that in the sample used for this survey, medium and large size firms are over-represented. In Mexico, there are no state or local government income taxes. Information on non-standard tax reliefs is not available.

Figures for 1999 and subsequent years cannot be compared with preliminary figures from previous editions of this publication for two reasons: first, the wage level of the average production worker is now based on observed data instead of being estimated; second, social security contributions taken into account no longer include contributions made by employers and employees to privately managed individual accounts. Contributions no longer included in the calculation of social security contributions are specified in the table below.

	Account	Per cent of workers monthly wage
Employers' contributions	Retirement	2.00
	Discharge and old age insurance	3.15
	Housing Fund (INFONAVIT)	5.0
Employees' contributions	Discharge and old age insurance	1.125

5.2. Main employers' contributions to private pension, health, etc. schemes

No information available.

Notes

1. There are three minimum wage rates established in Mexico depending upon geographical location. For the purposes of the *Taxing Wages* publication, the calculations are either based on the minimum wage that applies within the Federal District of Mexico City or a representative value for the country as a whole. The latter is used in the evaluation of the holiday bonus and the end-of-year bonus.
2. The salary tax credit is initially a labour cost for the employer, but it is fully compensated because the employer reduces its salary tax credit expense from its own federal tax liabilities. For the purpose of *Taxing Wages'* country tables it is not included in the average and marginal "tax wedge" formulas.
3. Ley del Seguro Social y Reglamento para el Pago de Cuotas del Seguro Social, July 1998.
4. In this case, monthly wage includes total fringe benefits.
5. This rate will decrease 0.16 percentage points on an annual basis until 2007.
6. This rate will increase 0.65 percentage points on an annual basis until 2007.
7. This rate will decrease 0.49 percentage points on an annual basis until 2007.
8. The amount of the work injury fee depends on the risk level in which the company is classified. The average risk premium for 1998 was 5.19 per cent. However, a methodological change was made due to access to up-to-date information. This figure is now estimated as a weighted average, which accounts for the number of workers in each of the 100 risk levels in which a company can be classified.

2004 Parameter values

Average earnings/yr	Ave_earn	66 432		
Allowances				
(general min wage per day)	min_wage	43.29		
(general min wage per day for the Federal District of Mexico City)	min_wage_FD	45.24		
Income tax	tax_table	0.00	0.00	0.030
		5 833.67	174.97	0.100
		49 514.59	4 542.99	0.170
		87 017.49	10 918.67	0.250
		101 154.05	14 452.81	0.320
		121 108.91	20 838.26	0.330
Tax credit basic	Basic_crd	0.00	4 786.43	
		20 803.02	4 784.39	
		30 631.06	4 784.39	
		31 203.85	4 781.88	
		40 840.69	4 618.93	
		41 605.43	4 497.62	
		44 518.08	4 497.62	
		52 286.98	4 165.75	
		55 474.10	3 820.43	
		62 744.66	3 464.86	
		73 202.47	2 981.66	
		83 659.60	2 558.98	
		86 816.50	2 090.92	
Other credit/subsidy	Other_crd	0.00	0.00	0.50
		5 833.67	87.42	0.50
		49 514.59	2 271.53	0.50
		87 017.49	5 458.93	0.50
		101 154.05	7 226.34	0.50
		121 108.91	10 418.96	0.40
		244 259.36	26 675.11	0.30
		384 986.37	41 029.16	0.00
adjustment factor	adj_fac	0.4769		
Employees SSC	SSC_rate	0.0125		
	SSC_rate_sur	0.0104		
Employers SSC	SSC_empr	0.0770		
	SSC_empr_min	0.1780		
	SSC_empr_sur	0.0306		

2004 Tax equations

The equations for the Mexican system in 2004 are on an individual basis.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “_princ” and “_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “_spouse” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	earn		
2. Allowances	tax_al	B	$\text{MIN}(\text{earn}, \text{MIN}(\text{earn} * (6/365) * 0.25, \text{min_wage} * 15) + \text{MIN}(\text{earn} * (15/365), \text{min_wage} * 30))$
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	$\text{Positive}(\text{earn} - \text{tax_al})$
5. CG tax before credits	CG_tax_excl	B	$\text{Tax}(\text{tax_inc}, \text{Tax_sch})$
6. Tax credits	tax_cr	B	$\text{VLOOKUP}(\text{tax_inc}, \text{Basic_crd}, 2) + \text{adj_fac} * (\text{VLOOKUP}(\text{tax_inc}, \text{Other_crd}, 2) + \text{VLOOKUP}(\text{tax_inc}, \text{Other_crd}, 3) * \text{VLOOKUP}(\text{tax_inc}, \text{tax_table}, 3) * (\text{tax_inc} - \text{VLOOKUP}(\text{tax_inc}, \text{tax_table}, 1)))$
7. CG tax	CG_tax	B	$\text{CG_tax_excl} - \text{tax_cr}$
8. State and local taxes	local_tax	B	0
9. Employees' soc security	SSC	B	$\text{earn} * \text{SSC_rate} + \text{Positive}(\text{earn} - (3 * 365 * \text{min_wage_FD})) * \text{SSC_rate_sur}$
11. Cash transfers	cash_trans	B	0
13. Employer's soc security	SSC_empr	B	$\text{earn} * \text{SSC_empr} + (365 * \text{min_wage_FD}) * \text{SSC_empr_min} + \text{Positive}(\text{earn} - (3 * 365 * \text{min_wage_FD})) * \text{SSC_empr_sur}$
Memorandum item: Non-wastable tax credit			
tax expenditure component	taxexp	B	$\text{tax_cr} - \text{transfer}$
cash transfer component	transfer	B	$\text{IF}(\text{CG_tax} < 0, -\text{CG_tax}, 0)$

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

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Part IV

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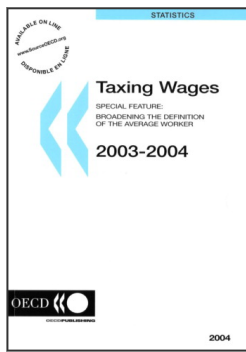
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