

Reading Time: 2 minutes

Mexico's constitution covers numerous and extensive rights and privileges for workers, which range from payroll to holidays and even employee housing.

Mexico Taxation Rules for Payroll

Mexico operates under a progressive income tax that ranges up to 35% based on an employee's salary.

The country's Administrator of Retirement Funds (AFORE) creates retirement savings accounts for employees. All employees can open an AFORE account, which includes three subaccounts. Employers contribute between 2% and 5%, depending on what subaccount the employee chooses.

You must register employees for social security and insurance on the day you hire them, or you will face significant penalties. Employers are also required to deduct income tax contributions from workers' paychecks and submit them to the Mexican government every month.

Mexico Payroll Options

Several different Mexico payroll options are available, including finding a local payroll outsourcing firm.

If you [establish a subsidiary in Mexico](#), you can either pay employees yourself or contract out to a local company. Even if you contract out your payroll, you are still the Employer of Record and are responsible for all tax and payroll laws.

Larger companies may choose to pay employees themselves whether they are foreign or local. You'll need to register your business, create a subsidiary, and then hire the necessary staff. This process could take months and requires extensive knowledge of Mexico's payroll regulations.

Alternatively, you can work with a [global PEO such as Globalization Partners](#). As a Mexico payroll processing company, we hire employees on your behalf, so we take on the responsibility as the Employer of Record — even though your employees are working for you. We pay all your workers and make sure you stay compliant with payroll laws.

What Is Required to Set up Mexico Payroll?

The first step in setting up Mexico payroll is to register your business by filing before a notary public and the National Registry of Foreign Investment. You'll then receive a tax identification card from the Federal Taxpayers registry.

You cannot pay your employees until you register with Mexican Social Security and get tax registration in the country. Mexico rolled out new Mexican Tax Revenue regulations in 2017 that requires all employees' net pay to be received in official Mexican banks and paid in pesos. Therefore, you need to establish bank accounts in Mexico before making payments to employees or the government.

Entitlement/Termination Terms

Before hiring an employee, it is best practice to draft an employment contract with entitlement and termination terms. Employees receive seven mandatory holidays and can take the first day of December off every six years. They are also entitled to six to 12 vacation days on a sliding scale, depending on their length of service. Make sure these entitlements are spelled out in the contract.

Employment agreements can be terminated for reasons including:

- Mutual understanding, including resignation
- Employee death
- Employee's physical or mental incapacity or disability
- For cause

Termination payments include any outstanding wages, vacation time, vacation bonus, yearly bonus, and more. Include specific termination terms in an employment contract to avoid any misunderstandings.

Work with Globalization Partners for an easier way to set up Mexico payroll. We'll help you hire employees, act as the Employer of Record, and ensure you are meeting every employment law. Contact us today to learn more.