

# MANUFACTURING IN MEXICO:

A START UP CHECKLIST



PRODENSA



# A Prodensa Guide

**Objective:** to present a reference guide for the steps to start up a manufacturing operation in Mexico.

Prodensa is a Mexican advisory and project management firm with more than 35 years of experience supporting start up projects in Mexico – through strategic advisory and hands-on support. This E-Book serves as a guide reference for professionals conducting project management, due diligence, corporate planning, among others. It functions as a guide for a company that has already decided to operate in Mexico. It combines best practices with operational compliance in the different functional areas necessary to operate a manufacturing facility. Additional support for research, site selection or cash flow analysis can be provided to support your new venture.

Over 1000 international corporations have trusted their Mexican operations to our local experts.



**Disclaimer: this report was prepared  
solely for the purchasing party  
and shall not be transferred or copied  
in partial or entirety.**

It is not a lawful guide to be used for any purpose other than generalized research and understanding of the Mexican laws and provision necessary to give context to operational conditions in Mexico. It is aimed to support the understanding of a semi-professional in generalized and easy-to-understand terms. It is not legally binding nor complete in all legal contexts and shall not be used as reference to any arbitration. The reader at all times is solely responsible for the application of the information shared herein.



# CONTENTS OF THIS GUIDE

## **SECTION 1 – MEXICAN OPERATIONS**

An overview of the types of operations that can be established for a manufacturing company in Mexico, and their general implications and structures. This section includes a brief overview of Prodensa’s Project Management methodology that breaks a project into tangible stages, to be referenced in Section 3 – Key Milestones & Checklist.

## **SECTION 2 – OPERATIONAL COMPLIANCE**

In this extensive section, our Project Management experts outline some of the most important concepts and criteria for manufacturing operations in Mexico, including tips and best practices for compliance and business continuity.

- Human Resources
- Environmental Health & Safety
- International Trade Compliance
- Finance & Tax

## **SECTION 3 – KEY MILESTONES & CHECKLIST**

An overview of a timeline for the start up of manufacturing operations in Mexico and a detailed checklist of studies, permits, paperwork and sequential project management tasks for the start up of manufacturing operations in Mexico

## **SECTION 4 – TRANSITION TO MEXICO**

Prodensa’s President provides the tips to make a successful transition of manufacturing operations in Mexico.

# SUMMARY

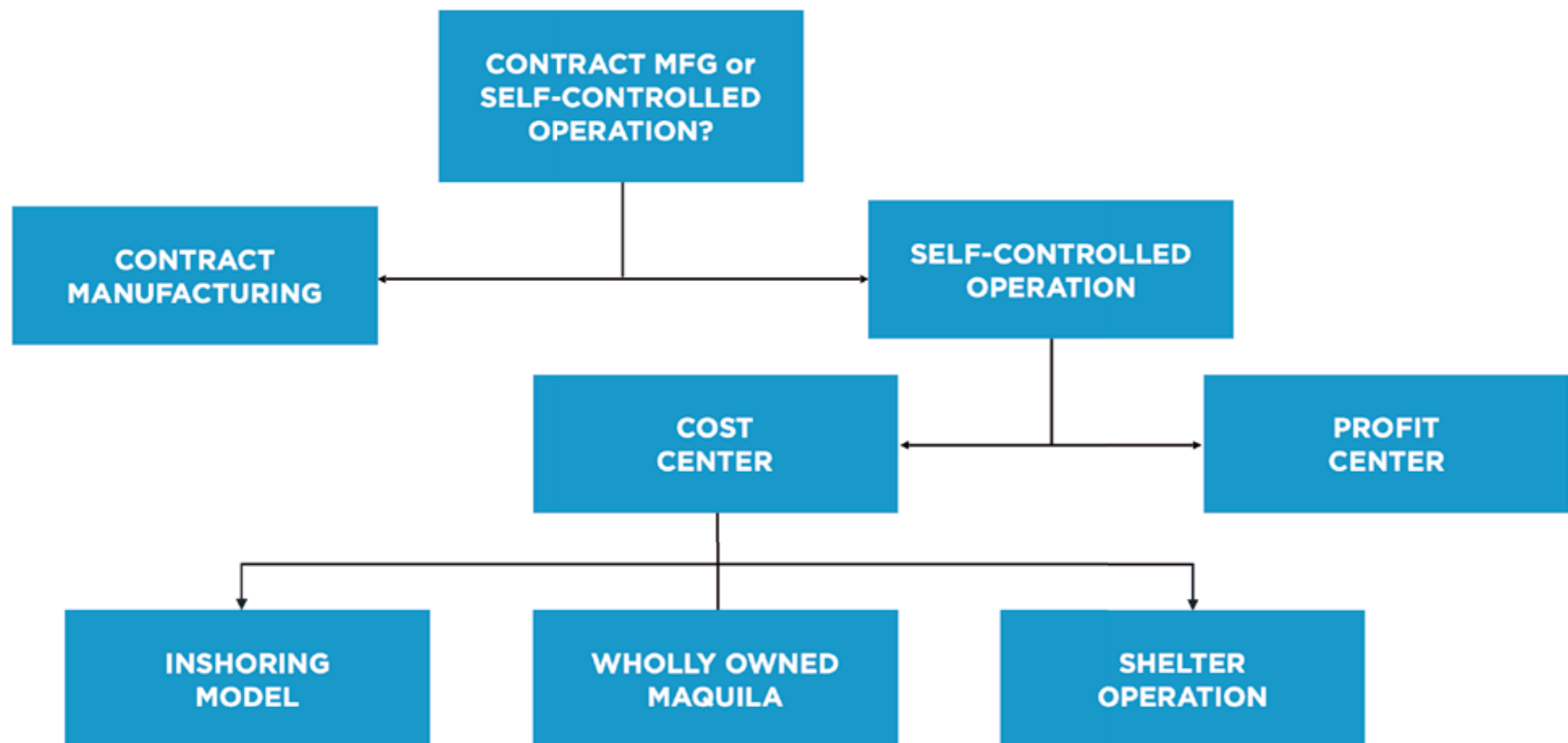


# MEXICAN OPERATIONS

## EVALUATION QUESTIONS TO PREPARE PROJECT

- Do I have steady production needs or does it greatly vary by month?
- How confident do I feel about running my own facility in Mexico?
- Where will the raw materials and suppliers be sourced?
- What is my operational personnel requirement per output per month?
- Where are my final customers located?
- Are any of my corporate technical staff required in Mexico for a period of time?

DEPENDING ON THE ANSWERS TO THESE QUESTIONS, YOUR OPERATION IN MEXICO WILL LOOK AND FUNCTION DIFFERENTLY. IF YOU´RE SEEKING THE EASE OF OPERATING IN MEXICO WITH VERY LIMITED LIABILITY AND EXPOSURE, A CONTRACT MANUFACTURING OR INSHORING OPERATION MIGHT BE RIGHT FOR YOU. IF YOU SEEK COMPLETE CONTROL OVER YOUR OPERATION AND PRESERVE YOUR KNOW-HOW AND INTELLECTUAL PROPERTY, YOU MAY CHOOSE TO ENTER INTO A STANDALONE MODEL.



Depending on where you sell your finished product, you may choose to enter into a profit center or cost center type of operation. Learn more about the implications and economic incentives for each type of operation in the full Manufacturing in Mexico E-Book.

**ADDITIONAL E-BOOK CONTENT:**

- Implications of cost center and profit center operations
- Definition and aspects of a “maquiladora”
- Advantages and implications of a shelter operation
- Phases of a start up project



# OPERATIONAL COMPLIANCE: HUMAN RESOURCES



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## MEXICAN LABOR LAW REFORM

In 2019, Mexico overhauled their Labor Law, most notably the labor justice system. Additionally, they refreshed the freedom of association and collective bargaining dynamics to align with the USMCA trade agreement.

In 2020, Mexico defined a new working modality, teleworking, in direct response to the COVID-19 pandemic, which requires employers to accommodate home office working conditions.

And most recently in 2021, they banned the practice of outsourcing of employees responsible for performing core lines of business for the company.

## PAYMENT & BENEFITS

The minimum wage is set annually, but market-based wages drive the competitiveness of manufacturing operations in Mexico. The federal government mandates a minimum requirement of benefits for all employees registered with Social Security:

- 15 days Christmas Bonus
- 12 days of Paid Time Off (after 1 year)
- 25% Vacation Bonus
- Profit-Sharing Bonus

Additional fringe and market-driven benefits include things such as savings fund, health insurance, attendance bonuses, car allowances, and more.





Additional employer-paid services are common in manufacturing operations, including uniforms, cafeteria services, private transportation, security and additional perks depending on the industry.

Consult the full Manufacturing in Mexico E-Book for more details as well as average costs of the most common employer-paid services.

### LABOR COSTS

Employees in Mexico are paid for a full week, consisting of 7 days, up to 6 of them labor days and at least 1 rest day. A full work week consists of 48 labor hours and reduced working hours are defined for different overnight shifts.

	Legal Shifts in Mexico					
	Day Shift (1st Shift)		Mixed Shift (2nd Shift)		Night Shift (3rd Shift)	
	Work Hours	Time Schedule	Work Hours	Time Schedule	Work Hours	Time Schedule
<b>6 x 1</b>	8 hours / day	7:00 - 15:00	7.5 hours / day	15:00 - 22:30	8.5 hours / day	22:30 - 7:00
6 working days 1 rest day	x 6 days = 48 hours	Monday - Saturday	x 6 days = 45 hours	Monday - Saturday	x 5 days = 42.5 hours	Monday - Friday (am) Extra time: 1/2 hour @ double = 1 extra hour paid
<b>5 x 2</b>	9.6 hours / day	7:00 - 16:36	Not Applicable		9.6 hours / day	16:36 - 2:06
5 working days 2 rest days	x 5 days = 48 hours	Monday - Friday			x 5 days = 48 hours	Monday - Saturday (am) Extra time: 6 hours @ double = 12 extra hours paid
<b>4 x 3</b>	12 hours / day	7:00 - 19:00	Not Applicable		12 hours / day	19:00 - 7:00
4 working days 3 rest days	x 4 days = 48 hours	(days can be escalated)			x 4 days = 48 hours	(days can be escalated) Extra time: 6 hours @ double = 12 extra hours paid



## **UNIONS**

Unions in Mexico typically represent only hourly employees, and strictly speaking no one is forced to join a union. There are different unions: trade, multi-craft, multi-site corporations, industry-specific or employer unions and associations.

Among other things unions review contracts, verify annual tax declarations, initiate collective disputes, oversee the training system, negotiate salary increases, and deal with occupational safety and health issues.

Consult the full Manufacturing in Mexico E-Book for more details about the typical fee structure for unions in Mexico and Prodensa recommendations for the efficient management of your manufacturing union.

### **ADDITIONAL E-BOOK CONTENT:**

- Recruitment and employment tactics and modalities
- Secretary of Labor Joint Commissions and their purposes
- Holidays and festivities in Mexico
- Common risks, fines and sanctions for Human Resources compliance in Mexico
- US & Mexico equivalent agencies

# OPERATIONAL COMPLIANCE: ENVIRONMENTAL, HEALTH & SAFETY

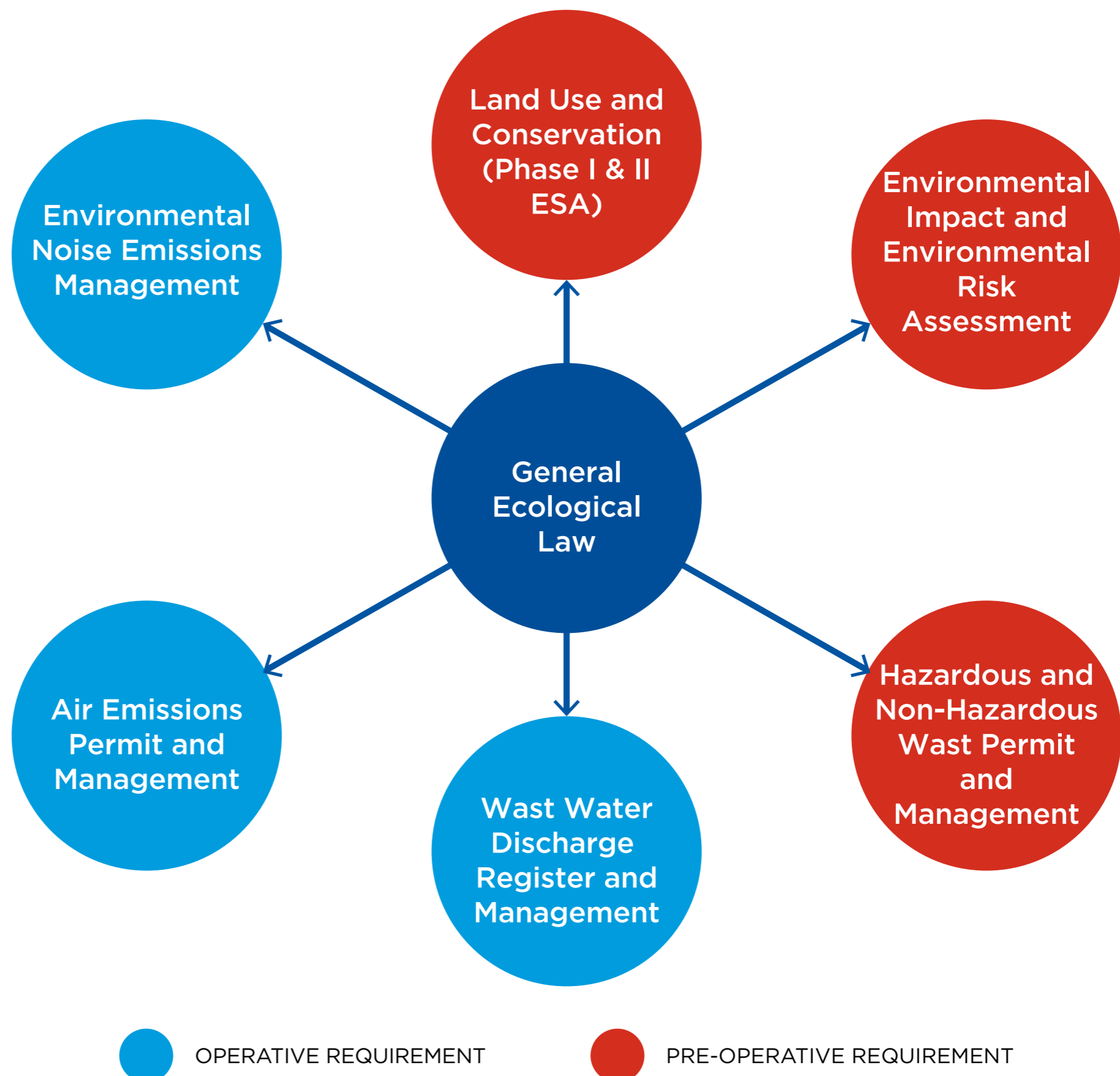


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Sr. Project Manager  
Northwest

## EHS REGULATION

Federal laws dictate EHS regulatory practices in Mexico, and individual states are responsible for the implementation. Employers have the obligations that protect the wellbeing of employees and generally pursue: safety and health, substance controls, training, communication and reporting.

The graphic depicts the general Environmental Regulation required by a manufacturing operation in Mexico.





## **FACILITY-RELATED & CONSTRUCTION PERMIT**

When building or altering a facility, there is some important due diligence for the construction and environmental agencies that must be addressed in a timely matter. This includes a construction license for each construction project including sidewalks or construction materials (concrete, gravel, sand, etc) in a public via.

You must also conduct a construction environmental impact study, topography land survey, soil mechanics, and hydrologic study. Important documentation may include project description with blueprints, Gantt, property deed, site photos, building layout, structural calculations, permits, traffic/parking study, electricity/gas contracts, materials/equipment lists, emissions summary, waste materials generation plan, among others.

## **ENVIRONMENTAL IMPACT ASSESSMENTS**

There are multiple types of EIAs required for different purposes in Mexico. The aim of EIAs at the federal level is to regulate activities and works in certain sectors that imply more environmental risk and environmentally sensitive areas.

Consult the full Manufacturing in Mexico E-Book for a list of all EIAs as well as their particular requirements.

## **MEXICAN NOMS**

Currently there are 41 official Mexican norms in health and safety material in the workplace. Their application is obligatory in the national territory and run a risk of fines that range from 250 to 50,000 UMAs per occasion.

During operation in Mexico, there are various reporting requirements, policies and procedures, deviation detection, corrective actions development, implementation, mandatory periodic inspections and audits. It is important to base your EHS Management System on ISO 14001 & 45001 to provide systemic compliance with the applicable legal requirements.



The operational compliance of a manufacturing facility in Mexico is dictated by the Mexican NOMs, outlined by the federal STPS. Some of the most important and applicable operational requirements include:

- EHS Personnel and Safety Procedures
- Workplace Health Studies
- Emergency Response Systems
- Hygiene in Food Systems
- Waste, Materials & Management
- Monitoring of Emissions
- Maintenance & Operational Safety
- Psychosocial Risk Factors
- Safety Conditions in the Workplace

**ADDITIONAL E-BOOK CONTENT:**

- EHS regulatory bodies and authorities
- Detailed list of Environmental Impact Assessments
- Critical Pre-Operative Timeline of Requirements
- Complete list of official Mexican NOMs
- US & Mexican equivalent agencies



# OPERATIONAL COMPLIANCE: INTERNATIONAL TRADE



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## IMMEX PROGRAM

The IMMEX Program is an instrument which allows the temporary importation of goods or services that are used in an industrial process or service to produce, transform or repair foreign goods imported temporarily for subsequent export.

The primary goal is to enable foreign companies to manufacture in Mexico through cost-efficient methods and incentives while still focusing on the quality of goods being produced.

“Maquiladoras” are factories in Mexico run by foreign companies, making goods for the export market. They operate under a preferential tax and fiscal program, giving them advantages for operation.

## VAT CERTIFICATION

VAT (value-added tax) credit certification is needed to avoid paying tax on temporary imports. Since 2020, importers must also obtain the Authorized Economic Operator certification to receive the same benefit.

There are different categories for eligibility and length of benefit and generally you must have an authorized and valid IMMEX Program, an automated inventory control system for temporary imports (Annex 24), and a list of IMMEX clients and suppliers that perform import-export operations.



**IMPORT DUTIES IN MEXICO**

Mexican import duty rates depend on the HTS Classification Code of goods to be imported. There are different tariff types and rates, calculated by Mexican Customs and the Mexican IRS (SAT in Spanish). Some of the most common import duties include:

- Value-Added Tax
- General Import Tax
- DTA/MPF, or Merchandise Processing Fee
- Compensatory Quotas

Description	Country of Origin	MX HTS	IGI Normal Rate	PROSEC Rate	8th Rule	Certification of Origin	
						USMCA	EUROPE
Steel Sheet	EU, Asia or North America	7208.51.02	0%	N/A	N/A	N/A	N/A
Aluminum Plate	CHN	7606.11.99	5%	0%	N/&A	N/A	N/A
Plastic Parts	TWN	3926.90.99	15%	5%	0%	N/A	N/A
Rubber Parts	USA/CAN	4016.10.01	10%	N/A	N/A	0%	N/A
Aluminum Alloy Parts	DEU	7601.20.99	5%	N/A	N/A	N/A	0%

**INTERNATIONAL TRADE COMPLIANCE REGULATIONS**

It is important to operate within the many global regulations that surround trading activities and the import and export of products, services and technology. The penalties can be severe for non-compliance with international export, trade and financial laws.

**ADDITIONAL E-BOOK CONTENT:**

- Benefits, modalities and obligations for the IMMEX Program
- Import duties & reduction programs in Mexico
- Additional permits for special import
- Timeline for International Trade Compliance in Mexico
- US & Mexican equivalent agencies
- Prodensa recommendations and common problems



# OPERATIONAL COMPLIANCE: FINANCE & TAXES



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Project Manager  
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## TAXATION IN MEXICO

Income tax in Mexico is a federal tax payable at a 30% rate, like a direct tax on the profit obtained. It is payable monthly to the Mexican SAT authority by residents in Mexico, residents abroad with a permanent establishment in Mexico or sources of wealth in Mexico.

Value-Added tax is payable at a general rate of 16% on sales of goods and services, import of goods and lease payments. Some exemptions apply. Declarations must be done monthly and there are some credit opportunities if companies pay more VAT in purchases and expenses versus collected from clients/sales.

Payroll Tax is a state fee that is paid when carrying out transactions in the company's labor relations. It is declared monthly to the Finance Secretary of the corresponding state, and ranges from 2-3%.

Employers in Mexico are obligated to pay workers a share of the profits based on their annual tax declaration. The amount to be distributed among the workforce is 10% of the profits before income tax. It must be paid within 60 days of the annual declaration of taxes to the authorities.

Consult the Full E-Book for additional taxes such as dividends, interests, technical assistance fees, royalties, and property/real estate.

## TAX INCENTIVES

As previously mentioned, VAT payments on temporary imports can only be exempted if the





taxpayer has the IMMEX Program and the VAT Certification. It works as a temporary VAT credit granted by the SAT to the taxpayer for a specified period that the raw materials and machinery will be in Mexico.

Mexico's Northern & Southern borders receive a benefit that consists of a tax credit equivalent to 50% of VAT, thus an 8% tax. The taxpayer must reside within the border regions and the delivery of the good or service must also reside in said regions. These regions also enjoy an Income Tax credit, allowing these companies to be subject to only 2/3 of the tax caused by the income carried out from activity in these regions.

### **TRANSFER PRICING METHODS**

Transfer pricing provisions in Mexico are based on the arm's length principle for inter-company transactions.

Under the Safe Harbor Regime, the higher amount between 6.9% of the total value of the assets and inventories or 6.5% of the total amount of cost and expenses of the operation must be considered.

### **ADDITIONAL E-BOOK CONTENT:**

- Mexican tax implications, calculation base and important considerations
- Summary of taxes to pay in Mexico
- Income tax calculation for profit center vs. cost center operations
- VAT refund procedures, deadlines and resolutions
- US & Mexican equivalent agencies



# KEY MILESTONES & CHECKLIST



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The key milestones to a start up project in Mexico are crucial to the success of a company, especially regarding concerns for the timeline, budget and compliance of operations.

## **TASK RESPONSIBILITY MATRIX**

Prodensa employs the TRM as a project management tool based on 35 years of experience and best practices. It outlines the responsibilities for relevant participants of the project and is the basis for the Start up Checklist found in the full Manufacturing in Mexico E-Book.

## **GANTT CHART**

As a familiar tool among project managers and engineers, it projects the TRM into a timeline with step-by-step planning and scheduling.

## **BALANCED SCORECARD**

Prodensa uses the BSC during the operational phase of your project to track and report the operational KPIs of your project in Mexico in real-time.

## **KEY MILESTONES**

Prodensa experts will create a custom Gantt chart taking into consideration your location, industry, products, mode of operation and specific local compliance requirements.



### **ACCOUNTING & FINANCE**

- Incorporation Process
- Taxes ID (Federal (RFC) and State Registrations)
- Building selection (Real Estate Approach-review details)
- Lease / Purchase Agreement execution with Mexican entity
- Accounting and ERP Software Set-up.
- Bank Accounts
- Utilities Set-up (Electricity, Water, Gas, Voice & Data)

### **HUMAN RESOURCES**

- Set up of salaries and benefit packages according with market
- Recruiting and Hiring of Top Management
- Internal Work rules definition and registration
- Collective Bargaining Agreement for blue collar workers
- Recruiting and Hiring of blue collar Workers
- Training Period

### **IMPORT & EXPORT**

- Custom Broker and Freight Forwarder Selection
- Importer of Records
- Classification of Machinery & Raw Material
- IMMEX Program
- Sectorial Programs to reduce import duties (PROSEC)
- VAT Certification
- Production Start-up
- Importation Process. (Machinery & Raw Material)
- Machinery Set-up
- First Exportation

### **ENVIRONMENTAL, HEALTH & SAFETY**

- Environmental Impact Study
- Civil Protection, fire department permits
- Other environmental Licenses and Registrations subject to the operation
- Health & Safety Licenses, Hazardous and Non-Hazardous materials
- Certification for Mexican Standards (NOM's)

**Consult the full Manufacturing in Mexico E-Book for the Start up Checklist, a project management tool for guidance on the due diligence, project planning or budgeting, resource allocation and communication to executive teams about the required activities.**

- Administration & Finance
- Human Resources
- International Trade Compliance
- Environmental
- Health & Safety



# A SUCCESSFUL TRANSITION TO MEXICO

Derived from 25 years of experience, from Plant Manager of a Prodensa-administered facility to a strategic leader and partner, Alejandro shares his tips on how to make your project the most successful it can be.



**ALEJANDRO  
MENDOZA**  
President  
Prodensa USA

- **WHAT ARE THE KEYS TO A SUCCESSFUL MANUFACTURING START UP IN MEXICO?**
- **WHAT ARE THE COMMON MISTAKES COMPANIES OFTEN MAKE?**
- **WHAT DOES A SUCCESSFUL PROJECT IN MEXICO DEPEND ON?**



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