

R&D Tax Incentives: Mexico, 2020

Design of R&D tax relief provisions

Mexico reintroduced R&D tax incentives in the form of an incremental R&D tax credit in 2017, following a previous experience up to 2008.

Table 1. Main design features of R&D tax incentives in Mexico, 2020

		R&D Tax Credit
Tax incentive		Tax credit
Type of instrument		Incremental
Eligible expenditures[†]		Current and capital
Headline rates (%)		30
Refund		No
Carry-over (years)		10 years (forward)
Thresholds	Base amount	Average R&D expenses in the three previous years
Ceilings	R&D tax relief	MXN* 50 million per taxpayer per financial year

*1 MXN 0.0388 EUR, Q3 2020

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, March 2021.

Key features:

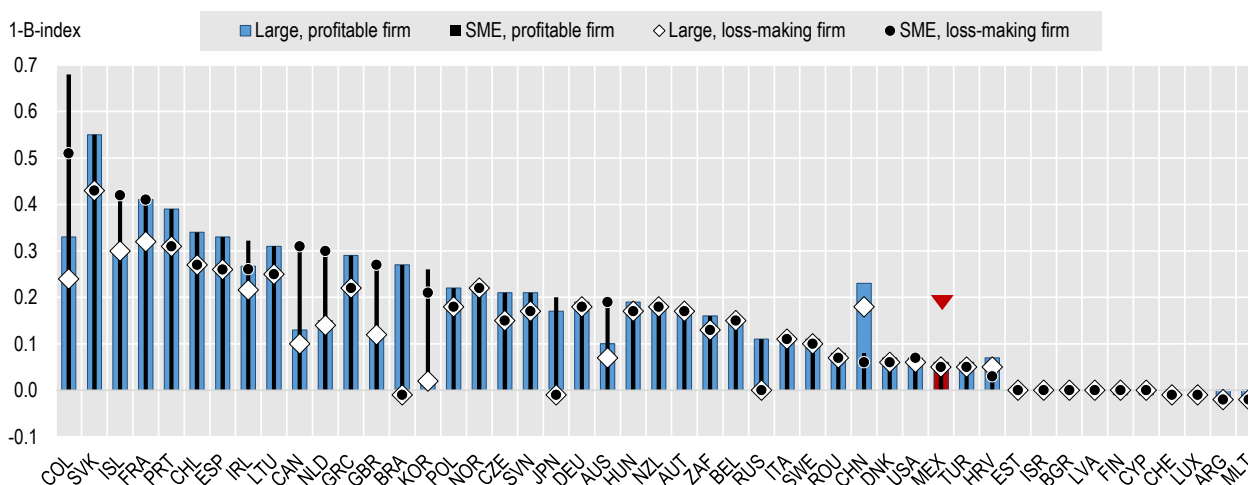
- A tax credit rate of 30% applies to eligible R&D expenditure in excess of the average R&D expenses incurred in the previous three years.
- In case of insufficient tax liability, unused credits can be carried-forward over 10 years.
- A ceiling of MXN 50 million applies to the value of the R&D tax relief provided.

Generosity of R&D tax support in 2020

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2020, the marginal tax subsidy rate for profit-making (loss-making) SMEs in **Mexico** is estimated 0.06 (0.05), well below the OECD median of 0.20 (0.18). The tax subsidy rate for large enterprises equals 0.06 (0.05) in the profit (loss)-making scenario, below the OECD median of 0.17 (0.15).

Figure 1. Implied tax subsidy rates on R&D expenditures: Mexico, 2020

1-B-Index, by firm size and profit scenario



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, March 2021.

Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2020, changes in the availability and scope of R&D tax incentives represented the most frequent type of policy reform ([OECD, 2020](#)), along with adjustments to the headline R&D tax credit/allowance rates and adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts. In response to the COVID-19 pandemic, several countries increased the generosity of R&D tax relief or introduced modifications to the administration of R&D tax incentives to facilitate and accelerate R&D funding.

In 2020, **Mexico** undertook **two changes** in its R&D tax relief provisions:

- The 2020 application reception period has been extended from May 30th to June 12th.
- Projects aligned to any of the Mexican National Strategic Programs have obtained five additional points for the technical evaluation of the R&D tax credit claim.

Both policy changes were taken in response to the COVID-19 crisis.

Trends in the generosity of R&D tax support

The availability and generosity of R&D tax incentives has experienced significant changes in **Mexico** over the 2000-20 period. During 2000-01, **Mexico** offered an incremental tax credit which was replaced by a more generous volume-based tax credit in 2002. This led to a marked increase in the implied R&D tax subsidy rate across the four scenarios considered.

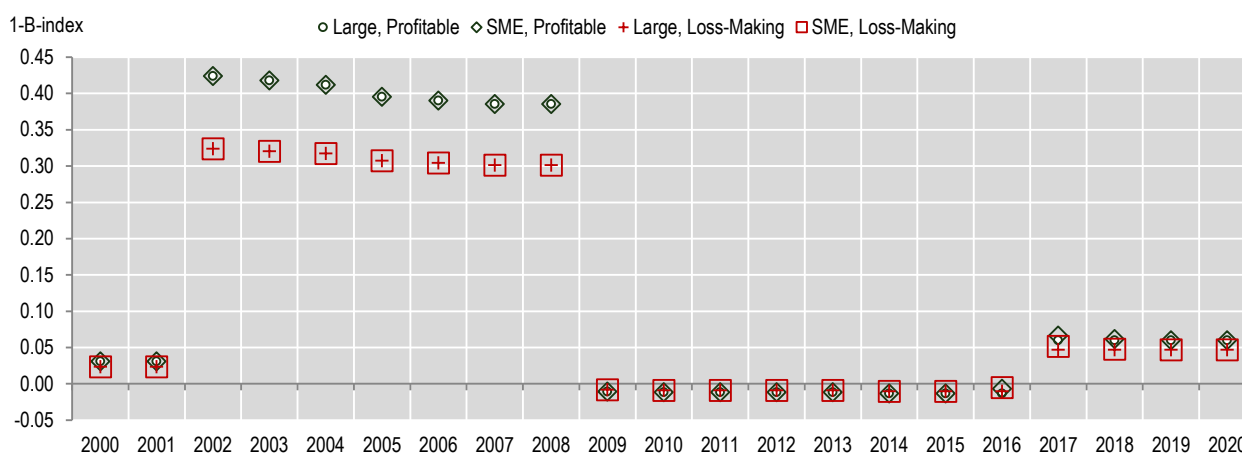
With a 10-year carry-over option, loss-making firms faced a lower R&D tax subsidy rate than profit-making firms during the 2000-08 period. A slight decline in implied tax subsidy rates is also noticeable in 2005 – connected to a reduction of the CIT rate. This R&D tax incentive was abolished in 2008.

In 2017, **Mexico** launched an incremental R&D tax credit. This credit, offered at a rate of 30%, is more generous than the previous incremental scheme in place until 2001, but significantly less so than the volume-based tax credit available from 2002 to 2008.

Changes in the rate of accelerated depreciation for R&D capital expenditure (machinery and equipment and buildings) led to some smaller variations in implied R&D tax subsidy rates over the years 2002-13 and 2016-18 (in the latter period accelerated depreciation was only available to SMEs).

Figure 2. Implied tax subsidy rates on R&D expenditures: Mexico, 2000-20

1-B-Index, by firm size and profit scenario



Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

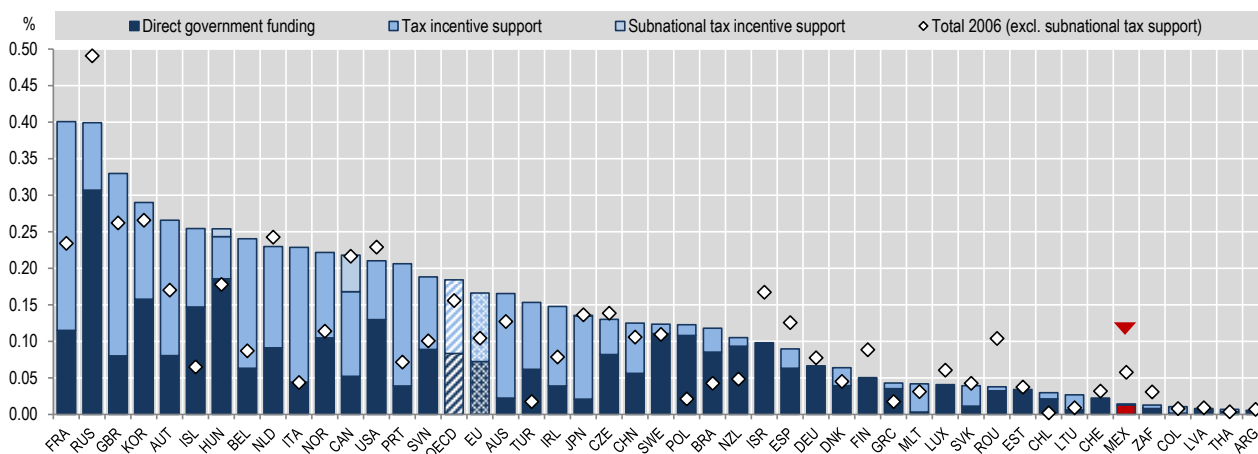
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Policy support for business R&D: the policy mix

Mexico is placed among the lower tier of OECD and partner economies in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.01% of GDP in 2018.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2018 (nearest year)

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

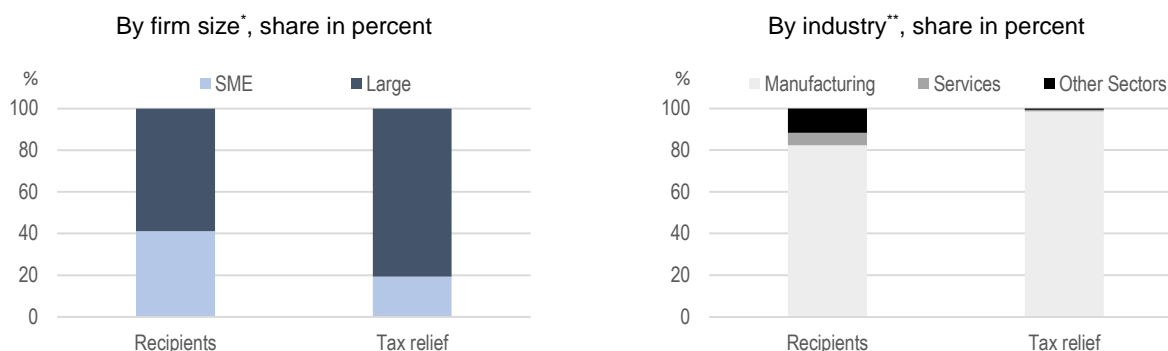
Key points:

- From 2006 to 2018, government support for BERD as a percentage of GDP decreased in **Mexico** by 0.04 percentage point (pp), while the OECD average increased by 0.03 pp.
- During this period, business R&D intensity in **Mexico** decreased from 0.18% to 0.06%.
- R&D tax incentives were reintroduced in 2017. In 2018, R&D tax incentives accounted for 10% of total government support for BERD in **Mexico**.

Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2018



Note: Figures refer to the incremental R&D tax credit introduced in 2017. *SMEs are defined as firms with 1-249 employees. **Economic activity is classified based on SCIAN (Sistema de Clasificación Industrial de América del Norte).

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

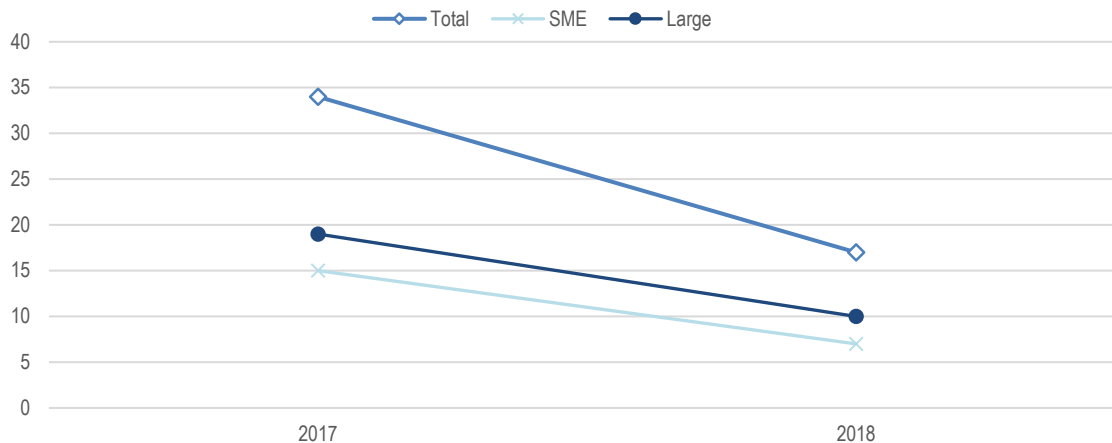
Key points:

- In **Mexico**, SMEs accounted for 41% of R&D tax relief recipients in 2018, while the share of R&D tax support accounted for by SMEs amounted to around 19% in this year. 81% of R&D tax benefits were allocated to large firms, comprising 59% of the population of R&D tax relief recipients in 2018.
- In 2018, firms in manufacturing represented around 82% of R&D tax relief recipients in **Mexico**, followed by firms in other sectors with a share of 12%. The share of R&D tax benefits accounted for by the latter amounted to 1% in that year, while this share amounted to 98% in the case of firms in manufacturing.

Trends in the uptake of R&D tax incentives

In 2017, the year in which R&D tax incentives were reintroduced in Mexico, close to 35 companies were benefitted from R&D tax support, this number dropping to around 20 in 2018. Large companies accounted for the majority of R&D tax relief recipients with a share of 55% in 2017 and close to 60% in 2018.

Figure 5. Number of R&D tax relief recipients, Mexico, 2017-2018



Note: Figures refer to the incremental R&D tax credit introduced in 2017.

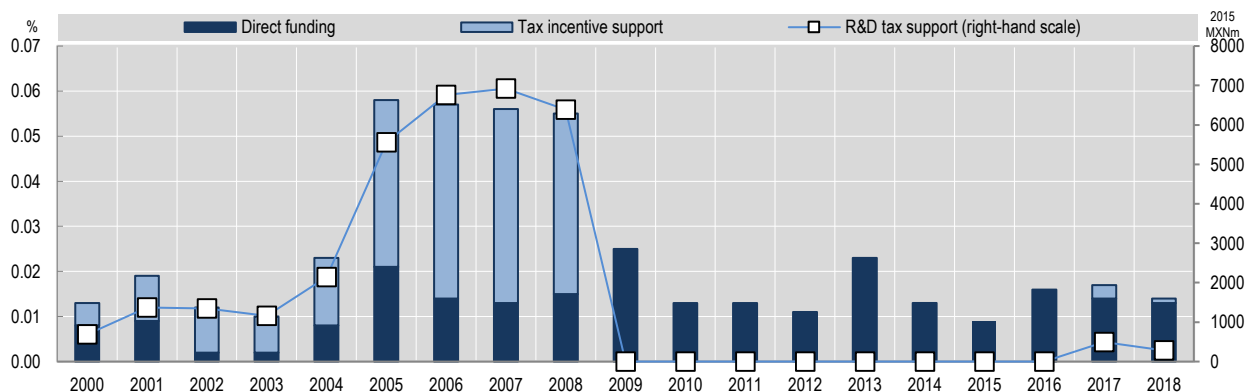
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

Trends in government support for business R&D

Mexico offered an R&D tax credit over the 2000-2008 period which was replaced by direct assistance in 2009. Mexico relied entirely on direct funding in promoting BERD from 2009 to 2016. R&D tax incentives were reintroduced in form of an incremental R&D tax credit in 2017.

Figure 6. Direct funding of business R&D and tax incentives for R&D, Mexico, 2000-18

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, March 2021.

- The cost of government tax relief for R&D rose (in 2015 prices) from MXN 688 million in 2000 to MXN 6 921 in 2007, dropping to MXN 6 385 million in 2008 before the discontinuation of the R&D tax credit in 2009. In 2017 when R&D tax incentives were reintroduced, the cost of R&D tax support amounted to MXN 492 million, dropping to MXN 280 million in 2018.
- As a percentage of GDP, R&D tax support was equivalent to 0.04% of GDP in 2008 and accounted for 0.001% of GDP in 2018.
- Direct funding of BERD has slightly increased in Mexico over the 2000-18 period, particular in more recent years, rising from 0.011% of GDP in 2012 to 0.013% of GDP in 2018.
- The share of R&D tax incentives in total government support decreased from 37% in 2000 to 10% in 2018, with a peak in 2002 (85%).

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