R&D Tax Incentives: Mexico, 2019

Design features

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.

- 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.

### Table 1. Main design features of R&D tax incentives in Mexico, 2019

<table>
<thead>
<tr>
<th>Design feature</th>
<th>Mexico, 2019</th>
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</thead>
<tbody>
<tr>
<td><strong>R&amp;D Tax Credit</strong></td>
<td><strong>Tax credit</strong></td>
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<tr>
<td><strong>Type of instrument</strong></td>
<td>Incremental</td>
</tr>
<tr>
<td><strong>Eligible expenditures</strong></td>
<td>Current and capital</td>
</tr>
<tr>
<td><strong>Headline rates (%)</strong></td>
<td>30</td>
</tr>
<tr>
<td><strong>Refund</strong></td>
<td>No</td>
</tr>
<tr>
<td><strong>Carry-over (years)</strong></td>
<td>10 years (forward)</td>
</tr>
<tr>
<td><strong>Thresholds</strong></td>
<td>Base amount Average R&amp;D expenses in the three previous years</td>
</tr>
<tr>
<td><strong>Ceilings</strong></td>
<td>R&amp;D tax relief MXN* 50 million per taxpayer per financial year</td>
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</table>

*1 MXN 0.046 EUR, Q3 2019


Recent developments and trends

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 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Mexico is estimated 0.06 (0.04), well below the OECD median of 0.19 (0.17). The tax subsidy rate for large enterprises equals 0.06 (0.04) in the profit (loss)-making scenario, below the OECD median of 0.14 (0.10).

The availability and generosity of R&D tax incentives has experienced significant changes in Mexico over the 2000-19 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 four scenarios. 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 1. Implied tax subsidy rates on R&D expenditures: Mexico, 2000-19**

![Figure 1. Implied tax subsidy rates on R&D expenditures: Mexico, 2000-19](http://oe.cd/rdtax)

Source OECD, R&D Tax Incentive Database, [http://oe.cd/rdtax](http://oe.cd/rdtax), December 2019

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

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Public support for business R&D: the policy mix

Mexico is 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 0.05% of GDP in 2016 (latest figure available).

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)
As a percentage of GDP


- From 2007 to 2016, government support for BERD as a percentage of GDP decreased by 0.01 pp in Mexico, while the OECD median (2006-2017) increased by 0.015 pp.
- During this period, business R&D intensity in the Mexico decreased from 0.18% to 0.15%.
- In 2016, Mexico provided government support for BERD entirely through direct funding. R&D tax incentives were reintroduced in 2017.

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 as an incremental R&D tax credit in 2017.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, Mexico, 2000-16
As a percentage of GDP, 2010 prices (right-hand scale)


- The cost of R&D tax support rose (in 2010 prices) from MXN 573 million in 2000 to MXN 5 762 in 2007, dropping to MXN 5 316 million in 2008 before the discontinuation of the R&D tax credit in 2009.
- As a percentage of GDP, R&D tax support was equivalent to 0.04% of GDP in 2008 and accounts for 0.003% of GDP in 2017 (not displayed in chart data on direct funding of BERD are available up to 2016).
- Direct funding of BERD has steadily increased in Mexico over the 2000-16 period, particular in more recent years, rising from 0.03% of GDP in 2012 to 0.05% of GDP in 2016.
- The share of R&D tax incentives in total government support rose from 37% in 2000 to 67% in 2008.


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