

R&D Tax Incentives: Mexico, 2021

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, 2021

		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 0.0425 EUR, Q3 2021

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/rdtax>, December 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 2021

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 2021, 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, 2021

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>, December 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 2021, **Mexico** did not undertake any **changes** in its R&D tax relief provisions. The latest change in the administration of the R&D tax credit in Mexico occurred in 2020:

- The 2020 application reception period was extended from May 30th to June 12th.
- Projects aligned to any of the Mexican National Strategic Programs 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 2000-21 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.

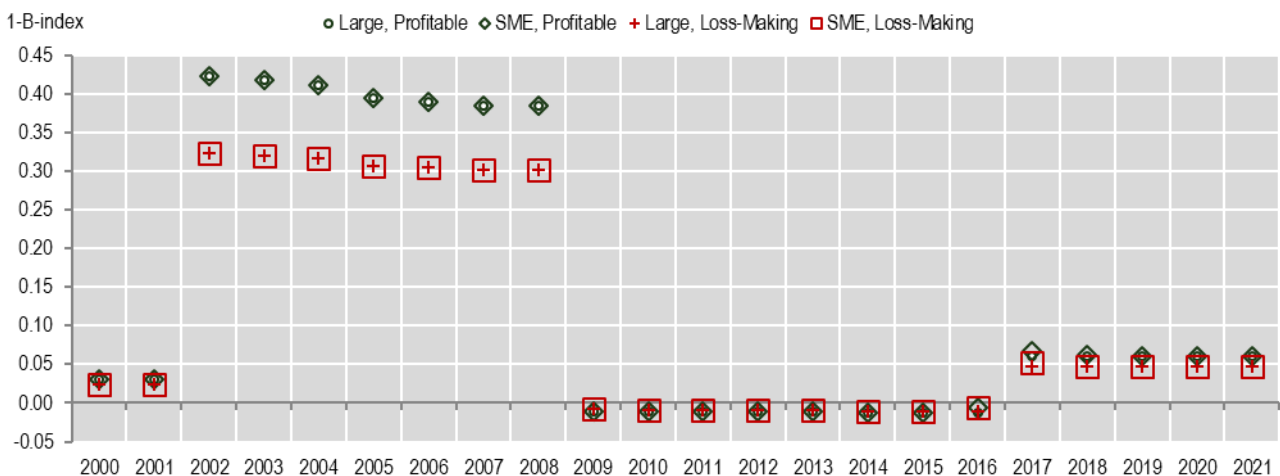
With a 10-year carry-over option, loss-making firms faced a lower R&D tax subsidy rate than profit-making firms during the 2000-08 period. A slight decline in implied tax subsidy rates is also noticeable in 2005 – connected to a reduction of the CIT rate. This R&D tax incentive was abolished in 2008.

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, 2000-21

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.

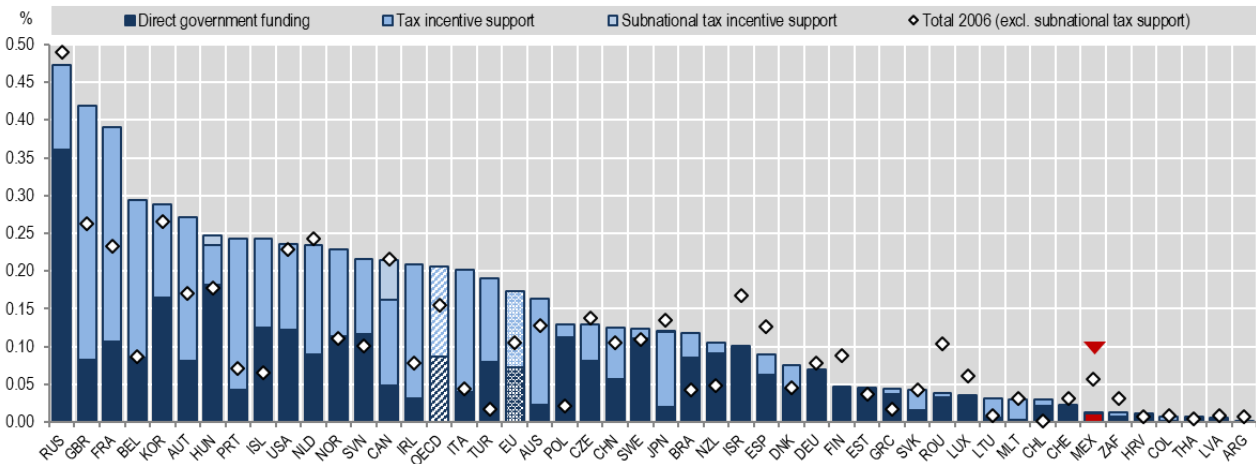
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

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 2019.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2019 (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>, December 2021.

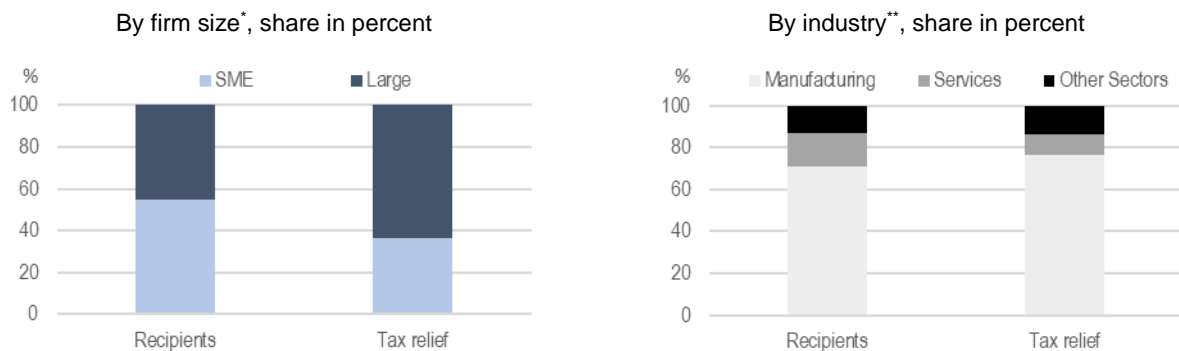
Key points:

- From 2006 to 2019, government support for BERD as a percentage of GDP decreased in **Mexico** by 0.04 percentage point (pp), while the OECD average increased by 0.05 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 2019, R&D tax incentives accounted for 13% 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, 2019



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>, December 2021.

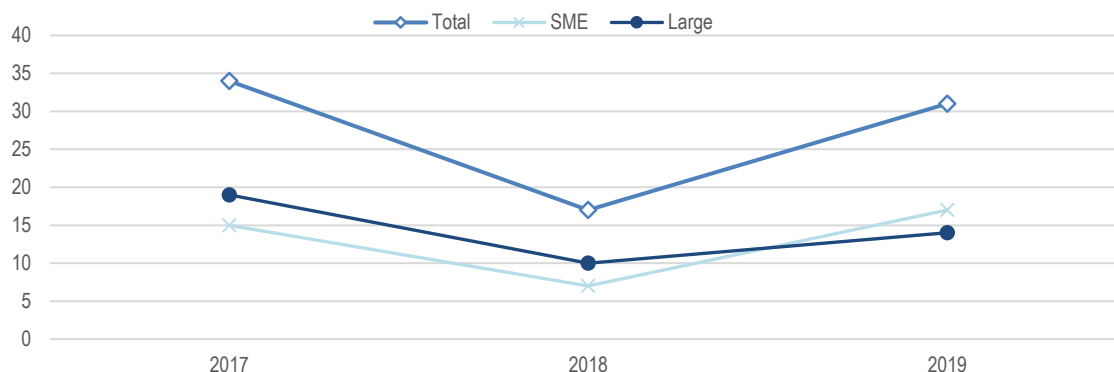
Key points:

- In **Mexico**, SMEs accounted for 55% of R&D tax relief recipients in 2019, while the share of R&D tax support accounted for by SMEs amounted to around 36% in this year. 64% of R&D tax benefits were allocated to large firms, comprising 45% of the population of R&D tax relief recipients in 2019.
- In 2019, firms in manufacturing represented around 71% of R&D tax relief recipients in **Mexico**, followed by firms in services with a share of 16%. The share of R&D tax benefits accounted for by the latter amounted to 10% in that year, while this share amounted to 76% 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, 34 companies benefitted from R&D tax support. This number dropped to around 20 in 2018 to revert back and reach 31 in 2019. While large companies accounted for the majority (55%-60%) of R&D tax relief recipients Mexico in 2017 and 2018, SMEs constituted 55% of R&D tax relief recipients in 2019.

Figure 5. Number of R&D tax relief recipients, Mexico, 2017-2019



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

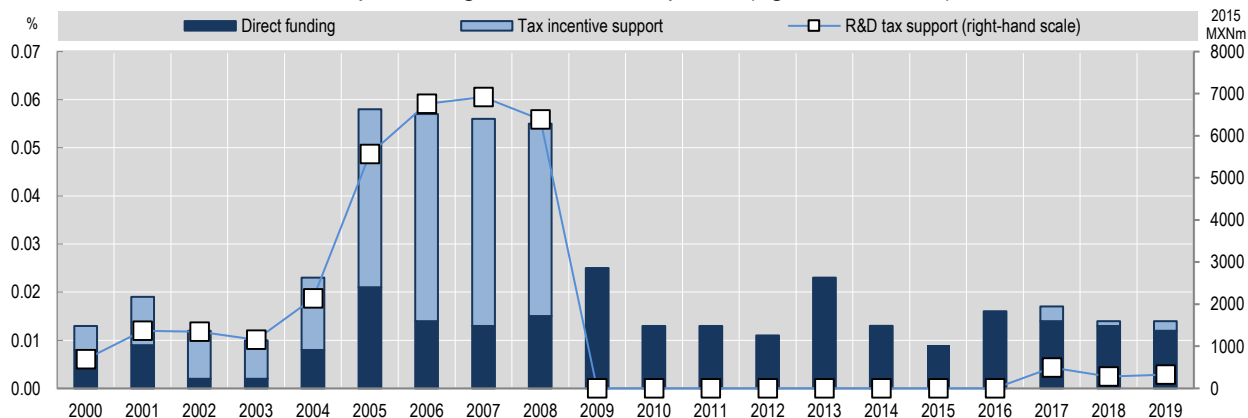
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

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, 2000-19

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



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 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 this support amounted to MXN 492 million, dropped to MXN 280 million in 2018 and reverted back to reach MXN 330 million in 2019.
- As a percentage of GDP, R&D tax support was equivalent to 0.04% of GDP in 2008 and accounted for 0.002% of GDP in 2019.
- Direct funding of BERD has fluctuated in Mexico over the 2000-19 period, and declined slightly in more recent years, from 0.016% of GDP in 2016 to 0.012% of GDP in 2019.
- The share of R&D tax incentives in total government support declined from 37% in 2000 to 12% in 2019, with a peak in 2002 (85%).

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