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Global Tax Alert

News from EY Americas Tax

Mexico postpones legislative action on outsourcing bill to 2021

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On 9 December 2020, Mexican President Andrés Manuel López Obrador announced to the public an agreement among the Mexican Government, the business sector and labor sector to postpone until February 2021 further discussion and legislative action on the outsourcing bill proposed on 12 November 2020. Although the Government has announced this agreement, it is not clear that all private sector (labor and business) organizations agree. The proposed outsourcing bill would prohibit individuals and entities from outsourcing services. For more information on the bill, see EY Global Tax Alert, [Mexico introduces bill to amend labor and tax laws to prohibit outsourcing](#), dated 16 November 2020.

Under the agreement, the parties have committed to address the current abuses that exist with outsourcing of personnel. The agreement acknowledges that the disallowance of outsourcing arrangements gives rise to concerns around profit-sharing and that more time is needed to properly address these concerns. Specifically, the parties acknowledge that time is needed to make sure the system for profit-sharing is just, equitable and avoids discretion in payment (i.e., profit-sharing is based on the law).

The agreement also establishes that the Mexican Social Security Institute and Mexican Tax Administration will examine personnel service companies; if any irregularities or possible crimes are detected, they will proceed administratively or criminally.

Although the legislative action on the bill is suspended until February 2021, there is no indication at this time that the bill will not be enacted. As such, businesses should continue evaluating how their operations would be affected by the bill. As stated in a previous Tax Alert, restructuring may be required for taxpayers to comply with the new rules. It's unclear when the bill could enter into force once the discussions are held next February.

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