



**Manufacturing in Mexico**

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# **Glossary of Terms for Manufacturers**

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## Ally Shoring

A program of sourcing services, goods, and materials with allies, while disengaging from trade relations with China and other countries that don't favor American interests.

## Certificate of Origin

This document verifies the source country of each item being imported. Without a Certificate of Origin, goods will be denied entry. It is especially important to have this document prepared in light of the requirements for the new US-Mexico-Canada Agreement (USMCA).



## Class A Building

These buildings represent the newest and highest quality buildings in their market. They are generally the best-looking buildings with the best construction, and possess high-quality building infrastructure. Class A buildings also are well located, have good access, and are professionally managed. As a result, they attract the highest quality tenants and also command the highest rents.





## Contract Manufacturing

A manufacturer that has an agreement with a company to produce components or entire products for that company. When the contract manufacturer supplies the entire product, they are considered a turnkey supplier. In these cases, the manufacturing is outsourced to the contract manufacturer while the brand name company manages product innovation, design and sales. These types of manufacturers specialize in manufacturing physical but may also assist with design and customization if needed.

## Definitive Information

When manufacturers make an importation of goods or equipment that will remain in the country permanently. Under the IMMEX program, it is typical that the consumables needed in production are imported with a definitive status.



## Fully Burdened Salary

This takes into account all wages, mandatory benefits, competitive market benefits, state tax and federal taxes for an employee. Mexican law requires specific benefits for all workers so a fully burdened salary shows the actual cost of each employee.



## IMMEX Program

First introduced in the 1960s, it was known as the Maquiladora program. It allows foreign companies that operate in Mexico to make temporary imports of equipment and raw materials that will be transformed into finished goods that eventually will be exported out of Mexico.

## Industrial Park

In Mexico, these are gated and secure industrial areas that typically offer the best amenities and industrial buildings for manufacturers.



## Maquiladora

Refers to a factory or manufacturing facility in Mexico that is run by a foreign company that is exporting the goods produced in Mexico. The Maquiladora program was established in Mexico in the 1960s to attract foreign companies to Mexico in exchange for reduced taxes, duties, and tariffs. It's now commonly known as the IMMEX Maquiladora program.



## Mexican Customs Broker

This person is located in Mexico, fills out, and verifies the required forms for importing into Mexico. They are knowledgeable about Mexico trade compliance. Duties include preparing the pedimento, overseeing the process of international trade, and collecting taxes on behalf of the government.

## NAFTA

North American Free Trade agreement, effective January 1, 1994. Trade agreement between the U.S., Canada, and Mexico to eliminate most tariffs on trade between the three countries. One of the goals of NAFTA was to boost economic growth in all three countries while creating new jobs. Different chapters of NAFTA included protection of intellectual property rights, dispute settlement procedures, rules of origin, and customs procedures. Replaced in 2020 by USMCA.



## Nearshoring

The process of a business expanding operations or manufacturing to a nearby country, usually one sharing a border with the business' country. For U.S. manufacturers, nearshoring often refers to setting up manufacturing facilities in Mexico.



## Offshoring

The process of a business outsourcing manufacturing operations to a distant country for specific advantages, mainly cost-related. In the past, U.S. manufacturers have offshored manufacturing to China, Taiwan, Vietnam, and India due to cheaper labor rates and unskilled work.

## Pedimento

The import general manifest that contains information about the goods being shipped. It's only filled out by a Mexican customs broker and must be presented to have goods legally processed and released once cleared through customs in Mexico. Your customs broker must fill it out with the following information: Commercial invoice, Certificate of origin, Certificate of weight and volume and Identification of goods (part numbers, brand information, and/or serial numbers). Filing the pedimento signifies that the imported items have entered Mexico legally.



## Reshoring

The process of U.S. manufacturers bringing manufacturing and supply chain manufacturing back to countries with strong ally relationships, like Mexico.





## Section 321 Program

As defined by the U.S. Customs and Border Protection, Section 321(a)(2)(C) of the Tariff Act of 1930 admits non-sensitive material and products with a retail sales value of \$800 or less free of tax or duty. Those highest in demand are electronics, luxury and high-end products, and furniture. Additionally, manufacturers that benefit from the Section 321 Program also reduce warehouse and labor costs in Mexico (when compared to the U.S.).

## SEMARANT

This is Mexico's counterpart to the U.S. Environmental Protection Agency (EPA).



## Shelter Services

Instead of setting up your own legal entity in Mexico, you can run your manufacturing under one owned by a Mexican company, like IVEMSA. The shelter services provider handles all the permits and licenses, leases your facility, and takes care of administrative responsibilities like HR and accounting.





## Site Selection

The process of choosing the right building in the right location for setting up your manufacturing facility. The site selection process includes more than cost. It also includes proximity to border towns, railroads, suppliers, local skilled labor, natural resources, facility capabilities, etc.

## Standalone Entity

A foreign manufacturer sets up a new business in Mexico by incorporating their legal entity. This means the company will be fully exposed to the Mexican authorities and also will be responsible for compliance. Setting up a standalone entity can be a long process and requires getting all the licenses and permits needed to do business in Mexico, getting compliance in terms of accounting, HR, customs, site management, etc. Many manufacturers choose not to operate as a standalone entity in Mexico, at least for the first few years, due to the amount of expertise and resources needed to do it correctly.



## STPS

This is Mexico's counterpart to the Occupational Safety and Health Administration (OSHA) in the U.S.



## Temporary Importation

A special status assigned to goods under the IMMEX program for components and equipment to be assembled within Mexico as the final products will be exported from Mexico. These components and equipment are exempt from Mexico's VAT if the importer of record has a valid VAT Certification.

## US Customs Broker

This person is located in the US and is knowledgeable about international trade transactions. Serves as the legal authority for both exporters and importers in terms of customs compliance.



## USMCA

United States-Mexico-Canada-Agreement (USMCA), effective July 1, 2020. This free trade agreement between the U.S., Mexico, and Canada focuses on strengthening regional supply chains across several industries, with particular emphasis on automotive. USMCA provisions include increased domestic content, enhanced IP protection, and improved U.S. patents in Mexico. The previous agreement was known as NAFTA.



## VAT

Value-Added Tax. As a U.S. manufacturer operating in Mexico, a 16% VAT tax is applied to all goods, equipment, and machinery temporarily or definitive imported into the country. It's calculated by the price of these materials when they've left the U.S. and is different from customs duties also incurred along the way. Under Mexico's maquiladora program, shelter service operators and their partners are exempt from paying VAT tax on temporary importations as long as the finished goods are eventually exported. In order to get this benefit, manufacturers need to have a valid IMMEXM program with a VAT certification.

## VAT Certification

Companies operating with the IMMEX program are eligible for this certification. With the certification, companies do not need to pay the Value-Added Tax (VAT) on temporary imports as long as the final product is exported. Certification requires reporting certain information to Mexico's governing bodies.





Interested in learning more about nearshoring  
to Mexico or getting an initial cost evaluation?

**CONTACT OUR TEAM OF EXPERTS TODAY.**

**Roberto Durazo**

VP of Business Development

**E-Mail / Correo**

robertod@ivemsa.com

**Business Development Direct Line**

+52 1 (646) 185-1681

**MEX**

Mexicali Office: +52 (686) 561-6741

Tijuana Office: +52 (664) 615-7256

**USA**

1-855-493-1936

**ivemsa.com**