



Outsourcing Reform

The Reform aims to strengthen workers' earnings and social security benefits through increased formality, as well as reduce tax evasion. It came into effect on April 24th and there is a 3-month grace period for firms to formalize their contractual relations with employees, so that it does not affect the economic recovery.

Overview of outsourcing in Mexico

Outsourced workers by sector (Thousands and %)

	2013	2018
Total	3,578 (16.6)	4,685 (17.3)
Services	1,152 (14.1)	1,631 (15.0)
Retail	1,200 (18.8)	1,431 (19.1)
Manufacturing	927 (18.3)	1,165 (17.9)
Transport, mail and storage	140 (18.1)	174 (17.5)
Construction	97 (17.0)	118 (17.4)
Electricity, water and gas	7 (3.3)	91 (42.0)
Mining	46 (27.4)	64 (33.4)
Fishing and aquaculture	9 (4.9)	13 (5.7)

- ❖ According to the latest economic census, **in 2018 there were 4.6 million outsourced employees in Mexico**. This means 17.3% of all workers in the census and represents an increase of 1.1 million compared to 2013.
- ❖ **Most outsourced employees are in services, retail, and manufacturing**. As a percentage of the total, sectors that most depend on outsourcing are electricity, water and gas, mining, and retail.

Source: INEGI, Economic Census 2019.

Percentages of the total are in parenthesis.

Highlights of the Reform

Changes to outsourcing

The reform enhances contractual relations between employers and employees who work at firms' core businesses, while allows the outsourcing of specialized services that are not part of the predominant economic activity. **Outsourcing companies must register at the Ministry of Labor**, giving counterparties the certainty of contracting with firms that comply with their tax and social security obligations. The creation of this registry is in line with the recommendations of non-governmental organizations (e.g., Mexican Institute for Competitiveness).

Avoid tax evasion

To avoid fraud and tax evasion, **the reform standardizes the fiscal criteria** (deductions) of the Tax Code, the Income Tax Law, and the Value Added Tax Law with the Federal Labor Law, **thus avoiding the existence of legal gaps between them**. It is estimated that there are at least 6,000 companies that under the subcontracting scheme evade taxes of up to 21 billion pesos.

Greater profit sharing

The reform is expected to bring the balance between firms' competitiveness and workers' quality of life closer to international standards. **In 2018 the average share of net total value added paid to workers in non-financial sectors among OECD countries (excluding Mexico and Ireland) was 70.8%, while in Mexico it stood at 33.1%. In collaboration with the private sector**, the reform establishes a cap on the participation of workers in profits, which consists of three months of salary or the average of the profit sharing received in the last three years, applying the most favorable amount for the worker and considering industry-specific characteristics.

Additional benefits for workers

A common practice in outsourcing schemes is to register employees with lower wages than they receive. Ending these types of practices will increase social security contributions. For example, the Institute of the National Housing Fund for Workers (Infonavit, for its acronym in Spanish) estimates that the reform will increase contributions by 2.8 billion pesos. **Another common practice is to avoid the accumulation of employee tenure by hiring and firing workers in short periods of time. Under the new legislation companies will have to recognize seniority**, thus guaranteeing access to benefits such as bonuses. **Most of the outsourced workers is in large companies, so informality is not expected to increase.**