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Payroll Cost Impact for FY 2023-Part 2

Payroll cost impact for fiscal year 2023 - Part 2

On December 14, 2022, the “Dignified Vacation” initiative was approved, which includes an increase in the number of vacation days applicable as of fiscal year 2023.

Background

This reform was proposed to allow workers to i) have more time for family life, ii) exercise their right to rest, leisure and/or personal growth.

This approved initiative is related to the opinion of the World Health Organization (WHO), which recognizes that work-related stress is one of the main problems for the health of workers and for the proper functioning of the entities for which they work.

Additionally, other conditions have been considered, such as burnout or “burnout syndrome” officially recognized by the same organization in the International Statistical Classification of Diseases and Related Health Problems (ICD- 11), approved in 2018 and whose entry into force had been set for January 1, 2022.

Because of this, in October 2018 the Federal Government issued the Official Mexican Standard **NOM-035-STPS-2018**, on Psychosocial risk factors at work identification, analysis and prevention, whose objective is to establish the elements to identify, analyze and prevent psychosocial risk factors, as well as to promote a favorable organizational environment in workplaces.

However, some specialists in the field have pointed out that one of the reasons for this risk has to do with the short vacation periods guaranteed by law.

During their vacation period, workers can perform activities that are not possible during their working days.

Vacations must include the payment of both salary and vacation premium, equivalent to at least 25% of the employee’s salary during the vacation period, in accordance with Article 80 of the Federal Labor Law (LFT).

In view of the foregoing, the amendments to articles 76 and 78 of the LFT were approved as follows:

Article 76.- *Workers with more than one year of service shall enjoy an annual period of paid vacation, which in no case may be less than **twelve** working **days**, and which shall increase by two working days, until reaching twenty, for each subsequent year of service.*

*Beginning in the **sixth year**, the vacation period will increase by two days for every five days of service.*

Article 78.- *Employees shall **continuously** enjoy at least **twelve days of vacation**. Said period, at the discretion of the employee, may be distributed in the manner and time required.*

Comparative of days

Fiscal year 2022	
Years of service	Days
Year 1	6
Year 2	8
Year 3	10
Year 4	12
From 5 to 9 years	14
From 10 to 14 years	16
From 15 to 19 years	18
From 20 to 24 years	20
From 25 to 29 years	22
From 30 to 34 years	24

Fiscal year 2023	
Years of service	Days
Year 1	12
Year 2	14
Year 3	16
Year 4	18
Year 5	20
From 6 to 10 years	22
From 11 to 15 years	24
From 16 to 20 years	26
From 21 to 25 years	28
From 26 to 30 years	30
From 31 to 35 years	32

Increase of the integration factor in the Basic Contribution Base Salary (SBC)

In accordance with the provisions of the Social Security Law, the contribution base salary is determined by considering the salary plus fixed, variable and mixed benefits according to the type of salary agreed upon.

For this reason, in the determination of the fixed portions it is important to determine the effect on the increase of this integration factor as follows:

Fiscal year 2022				
Years of service	Days	25% PV	Annual Bonus	Integration Factor
Year 1	6	1.50	15	0.045
Year 2	8	2.00	15	0.047
Year 3	10	2.50	15	0.048
Year 4	12	3.00	15	0.049

Fiscal year 2023					
Years of service	Days	25% PV	Annual Bonus	Integration Factor	Increase
Year 1	12	3.00	15	0.049	9.1%
Year 2	14	3.50	15	0.051	8.8%
Year 3	16	4.00	15	0.052	8.6%
Year 4	18	4.50	15	0.053	8.3%

Validity

This amendment will become effective on January 1, 2023 or the day after its publication in the Official Gazette of the Federation, if this is in the year 2023.

Impact on payroll cost 2023

If we summarize the main changes for fiscal year 2023, we will find some data that could modify the payroll cost budget:

1. Increase in the minimum wage to \$207.44
2. Increase in vacation days, first year of service 12 days
3. Increase in the percentage of the employer's contribution in the Severance and Old Age branch according to the SBC.

The increase in payroll costs can be exemplified as follows:

Daily rate	\$500.00
Years of service	3 years
Benefits of Law	

	Fiscal year 2022	Fiscal year 2023	Increase
Vacations	10	16	
Vacation bonus (days)	2.5	4	
Annual bonus	15	15	
Integration factor	0.048	0.052	8.56%
Base salary of contribution	\$523.95	\$526.00	
Pension and Old Age Contribution	3.150%	4.241%	
Amount of quota	16.50	22.31	35.16%
	Amount	Amount	
Salaries	\$177,500.00	\$174,500.00	
Vacations	\$5,000.00	\$8,000.00	
Vacation bonus	\$1,250.00	\$2,000.00	
Annual bonus	\$7,500.00	\$7,500.00	
	\$191,250.00	\$192,000.00	0.39%

In this example, it would appear that the increase is minimal; however, there are employers that grant benefits in excess of those required by law, so we suggest evaluating the economic impact.

Recommendations

Therefore, it is important to review:

1. In the case of having general minimum wage workers, the adjustment should be made to \$207.44.
2. The seniority of the employees, in order to recalculate the vacation days to which they will be entitled.
3. For purposes of creating the vacation bonus provision, the calculation must be made with the new vacation days.
4. Determine the contribution percentage that, according to the Base Contribution Salary, the employer must pay in the Unemployment and Old Age branch, without forgetting that there are inconsistencies in the percentage table, which we hope will be rectified in the next few days.

If you require advice, do not hesitate to contact the **Taxpertise** team of professionals who will be able to provide you with personalized assistance.

This document is only intended to provide general information on the subject.



Contact us:

Gil A. Lara Morales

Email: gil.lara@taxpertise.mx

Phone: +52 (55) 2121.1555

Mobile: +52 (55) 5434.8624

Oswaldo Méndez Álvarez

Email: oswaldo.mendez@taxpertise.mx

Phone: +52 (55) 2121.1555

Mobile: +52 (55) 5434.6173

Verónica Luis Mojica

Email: veronica.luis@taxpertise.mx

Phone: +52 (55) 2121.1555

Mobile: +52 (55) 1068.0491

José Antonio Reynoso Rodríguez

Email: antonio.reynoso@taxpertise.mx

Phone: +52 (55) 2121.1555

Mobile: +52 (55) 4061.6896

Rafael Torres Raba

Email: rafael.torres@taxpertise.mx

Phone: +52 (55) 2121.1555

Mobile: +52 (55) 3223.5603

Ricardo Ortega Quintanar

Email: ricardo.ortega@taxpertise.mx

Phone: +52 (55) 2121.1555

Mobile: +52 (55) 6511 8717

José Luis Velasco Verdugo

Email: joseluis.velasco@taxpertise.mx

Phone: +52 (55) 2121.1555

Mobile: +52 (55) 6111.5635



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