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Mexico Tax Alert

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Tax reform presented to congress

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Mexico's president submitted a broad tax reform package to the congress on 8 September 2013. The proposals—part of the 2014 budget—contain a number of measures that would affect companies doing business in the country; if enacted, the reform would apply as from 1 January 2014.

The most important income and flat tax measures in the proposed reform are as follows:

- The business flat tax would be eliminated.
- The five-year deferral of the payment of tax under the tax consolidation regime would be abolished and a new regime would be introduced for groups of Mexican legal entities.
- An additional 10% income tax would be introduced on dividends paid to Mexican individuals and nonresidents (both legal entities and individuals). The total income tax rate would be 40%.
- Maquilas would be entitled to income tax benefits only if they export 90% or more of their production.
- Permanent establishment (PE) protection would continue for industrial maquilas. However, nonresidents operating through a "shelter" maquila in Mexico would be granted PE protection only for the first three years of operations.
- The immediate deduction incentive for new investment would be abolished.
- Items of income that are exempt for employees would be deductible by employers up to 41%.
- The 100% first-year deduction for equipment for conversion of natural gas, equipment for electricity generation when using renewable sources, equipment for controlling and preventing pollution, etc. would be reduced.
- Expenses paid to foreign related parties that are not taxed abroad or that pay income tax paid abroad at a rate of less than 22.5% would not be deductible for tax purposes.
- The individual income tax rate applicable to Mexican individuals with annual taxable income exceeding MXN 500,000 would be increased from 30% to 32%.
- Several incentives would be abolished (e.g. investment incentives for real estate investment companies and estimated cost deduction for real estate developers, among others).

The reform package also would increase the VAT rate in border zones from 11% to 16%, and changes would be made to the VAT treatment of goods imported on a temporary basis for use in maquila operations or for exports. Changes also would be made to the computation of the tax base for purposes of employee profit sharing.

The proposals will now be discussed by the House of Representatives and Senate and the final version of the bill should be approved before year end.