



Decrees for Declaration of the Special Economic Zones of Lázaro Cárdenas-La Unión; Puerto Chiapas and Coatzacoalcos

On September 29th, 2017, the decrees of reference were published in the Federal Official Gazette and entered into force on September 30th, 2017. In this sense, Integral Administrators and Investors that carry out Economic Productive Activities in the mentioned zones, are granted with a number of tax benefits and incentives, according to the following:

Income Tax

During the first ten fiscal years as of the date in which the Authorization to carry out activities in the Special Economic Zone is granted, Integral Administrators and

Investors will have a 100% reduction of their income tax, for the income earned within the Special Economic Zone; and for the following five years after the tenth fiscal year mentioned, a reduction of 50%.

Taxpayers who apply the income tax reduction referred to in this Decree must maintain at least the same number of insured employees registered under the obligatory regime before the Mexican social security authorities (IMSS) in all the fiscal years in which they apply the benefit, and these workers must render their services exclusively in the establishments, agencies,

branches or any place of business of the taxpayers that is located in the Special Economic Zone.

Mexican residents that establish in the Special Economic Zone may credit against the income tax, the income tax that they have paid abroad, applying to such tax, a discount similar to the one received corresponding to their activities in the Zones.

These benefits will not be applicable to the optional integration tax regime and, in the case of the Maquila Regime, taxpayers will

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be able to apply the benefits of this Decree, without them being added to the benefits established in the Mexican Income Tax Law (i.e., benefits derived from operating under the maquiladora regime).

The taxpayers of the Special Economic Zones would be able to apply a tax incentive consisting of an additional deduction applicable against the income generated in the Special Economic Zones, equivalent to 25% of the expense actually incurred for the training received by each of their employees.

Taxpayers who have an establishment, agency, branch or any place of business in the Special Economic Zones are granted with a tax credit during the first ten fiscal years in which they carry out activities within said Zones, applicable against the income tax equivalent to 50% of the employer's contribution of the insurance for illnesses and maternity, and equivalent to 25% of said contribution during the following five years. When the tax credit is greater than the income tax in a given fiscal year, taxpayers may file a refund request or may offset such balance against other taxes.

Rights

Integral Administrators are exempt from the payment of rights for the use or enjoyment of assets of the public domain of the Federation.

Value Added Tax

The sale of goods, the provision of services and the granting of the temporary use or enjoyment of tangible assets by taxpayers located outside the Zones, which are provided or granted to the Integral Administrator or Investors to be used or taken advantage of within the Zones and that are directly related to the construction, management or maintenance of the Zones or for carrying out Economic Productive Activities established in the Special Economic Zones Law, will be subject to a 0% value added tax (VAT) rate.

The introduction to the Special Economic Zones of goods coming from abroad; the acquisition of intangible assets by residents of the Zone and sold by non-Mexican residents; the temporary use or enjoyment

of intangible assets in the Zone provided by nonresidents of the country; the use or temporary enjoyment of tangible assets in the Zone which physical delivery occurred outside of Mexico, and the use of services in the Zone when rendered by nonresidents in the country, would not be considered as an importation for purposes of the VAT, so they will not be subject to the payment of such tax.

In the event that the Integral Administrator or the Investors introduce to the Zone goods that were acquired outside of the Zone and for which they were charged with the corresponding VAT, they will be able to recover such tax by requesting its refund before the Mexican tax authorities, provided that they had only carried out acts or activities within the Special Economic Zone, or by crediting it, when they perform, also, acts or activities in establishments located in the rest of the country.

The extraction of goods of the Zone to be introduced to the rest of Mexico, would be subject to VAT.

The extraction of goods from the Zone to be exported or to be returned abroad, will not have VAT consequences.

In the case of the extraction of goods from the Special Economic Zone to be introduced to the rest of the country, it is established that: i) when the introduction occurs as a result of a sale, the tax will be caused only for the introduction and not for the sale; ii) the tax basis will be the one established by the VAT Law for the sale, when there is one and, when there is no sale, it will be the price of the good that corresponds to the prices or amounts of considerations that would have been used with or between independent parties in comparable operations in terms of the Mexican Income Tax Law; iii) the payment of the tax will be made at the time the goods are presented for their introduction to the rest of Mexico, and iv) the credit of the tax paid for the introduction of goods to the rest of the country will be made in terms of VAT Law, in a similar way to the tax paid on the importation.

The extraction of goods from a Special Economic Zone to be introduced to the rest of Mexico may be carried out for purposes other than sale, such as the extraction of goods for personal use, machinery and equipment to be repaired or maintained, tangible goods leased to Integral Administrators and Investors of the Zone and goods to be destined to the temporary importation regime in the Maquila or export programs. It is established that in these cases no VAT would be triggered at time of introduction to the rest of Mexico.

Transactions carried out within the Zone would not be considered as taxable for VAT purposes, nor will those who make them would be considered as taxpayers of it, in respect of such transactions.

Acts or activities carried out by an Integral Administrator or an Investor with another Integral Administrator or Investor, residing in a Special Economic Zone, will be deemed not subject to VAT, as long as the control requirements that ensure that such acts or activities will be used within a Special Economic Zone are fulfilled.

The extraction of goods from a Special Economic Zone made by an Integral Administrator or an Investor to be introduced by them to an establishment of their property located in another Special Economic Zone, will not be subject to VAT, as long as certain control measures are fulfilled.

Customs Regime

The Integral Administrator and Investors that introduce goods into the Zone under the corresponding customs regime would be granted with the following tax benefits: reduction in the payment of Customs Processing Fee pursuant to the Federal Fees Law; the payment of import duties will be triggered in the extraction of goods from the Zone; and it will be possible to choose the lowest import duty rate between the rate applicable to raw materials and the one applicable to the goods after having been processed, transformed or repaired within the zone.

Various administrative benefits are granted,

such as the possibility of introducing goods into the Zone through consolidated customs declarations (“pedimentos”); transfer of goods between Investors located in the same or different Zone; temporary extraction of machinery and equipment for repair or maintenance; carry out the introduction of goods without complying with the non tariff regulations and restrictions, nor the Mexican Official Norms determined by the Ministry of Economy, among others.

Since the Federal Law on Special Economic Zones does not establish any treatment for said Zones in the field of excise tax on production and services, said tax must be applied in accordance with the applicable Law.

Rules are laid down to neutralize the customs regime in the field of excise tax, consisting of:

01. The introduction into Mexico of the goods under said customs regime will have the character of permanent importation;
02. Customs operations resulting from the transfer of goods between Investors shall not be considered as exportation or importation, as appropriate;
03. That the extraction of goods from the Special Economic Zone for introduction into the rest of Mexico will not trigger the excise tax on the permanent importation for customs purposes; and
04. Operations covered by documents proving the introduction of the goods to the Special Economic Zone shall not be considered as exports.

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