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Tax Flash 41

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Introduction

Today October 29, the Congress approved the Economic Package and Fiscal Miscellaneous for Fiscal Year 2016, the decree was referred to the Federal Executive for promulgation and publication in the Official Gazette (DOF). This decree contains the following:

- General Criteria of Economic Policy
- Federal Revenues Law
- Income Tax Law
- Federal Tax Code
- Excise Tax Law
- Federal Bill of Rights
- Federal Spending Budget

In general terms, the changes and additions made by the Senate to the Minute that previously was sent by the Chamber of Deputies are:

- The proposed 50% reduction in excise tax (ET) to the fee of MXP 1.00 per liter set out for flavored drinks was not approved by the Senate, so that the fee would remain at MXP 1.00, as is stipulated in the respective law.

- For taxpayers of the Tax Incorporation Regime (RIF) that to conduct transactions with the general public whose proposed amount by the Chamber of Deputies is less than MXP 100.00 for which no obligation to issue the electronic invoice (CFDI) would exist when the purchasers do not request it, issuing an overall CFDI, the Senate increased that amount to MXP 250.00.

  Also, the requirement that expenditures are made by electronic funds transfer, personal check, credit card or debit card, of services or electronic purses would apply to expenditures in excess of MXP 5,000 instead of MXP 2,000.

  100% reduction in value added tax (VAT) and ET for taxed in that Regime proposed by the Chamber of Deputies for those who obtain an income of MXP 250,000, was extended by the Senate to taxpayers who obtain an income up to MXP 300,000.

- In the case of personal deductions established in the Income Tax Law (ITL) for individuals resident in Mexico, for medical expenses resulting from the inabilities that labor law refer to, proposed by the Chamber of Deputies, is expanded by Senators to the concept of disability in terms of the applicable law; and must have the certificate or statement issued by the National Health System.

  Moreover, Senators raised the ceiling of such deductions from 10% to 15% of the total income of the taxpayer, so that the total amount of these deductions may not exceed the amount whichever is lower among five general minimum wages raised per year, or 15% of the total income of the taxpayer.

- The Senate did not approve the proposal of the Chamber of Deputies concerning the requirement to be met by the public accountant who issues an opinion to obtain his registration with the tax authorities for this purpose, to have a graduate degree or certificate on contributions.

Following, in general, are the amendments that, once they are published in the DOF, will be in effect from 1 January 2016, except those expressly stipulated that come into force at an earlier or later date:

Macroeconomic Framework	2015	2016
Growth % real	2.0 – 2.8	2.6 – 3.6
Inflation %	3.0	3.0
Exchange rate	15.6	16.4
Interest rate %	3.1	4.0
Current account %	-2.5	-2.6
Tax deficit %	-1.0	-0.5
Oil (dlls./barrel)	50.0	50.0

Federal Revenues Law

- The same rates of surcharges, tax incentives and exemptions will continue; regarding the crediting of the ET generated by the sale of diesel, it is also applicable to the mining and tourism sectors by acquisitions carried out in the diesel; in the case of crediting of 50% of the costs incurred in the payment of services for the use of toll road infrastructure, taxpayers engaged in the tourism will be able to carry out such crediting.

- Taxpayers of the RIF carrying out transactions with the general public, may pay the VAT and ET for the activities carried out by applying to the considerations collected for such activities, the percentages lower than those of the respective law, established in the corresponding table according to the activity in question. The tax so obtained will be reduced by the percentage established by the respective table, according to the number of years the taxpayer has been paying under such regime, ranging from 100% if the taxpayer has one year paying at the same regime, to 10% if the taxpayer has been in the regime for 10 years.

  For taxpayers whose own income from their business activities obtained within the previous year had not exceeded the amount of MXP 300,000 for each of the years they pay in the RIF and do not exceed the amount of income mentioned, the applicable percentage of reduction will be 100%.

- For purposes of withholding for interest paid to resident individuals in Mexico, withholding would be calculated by applying the 0.53% annual rate on the amount of capital.

Income tax

Overview

- Limitations for the deduction of interest on capital taken on loan when the taxpayer in turn grants loans to third parties, would not apply for multiple purpose regulated financial entities (SOFOM).

- Regarding the payments which, in turn, are income from taxpayers in the regime of agricultural, livestock, forestry and fisheries activities, these will be only deducted when they have been effectively disbursed in the year in question.

- Regarding the deduction of fringe benefits granted to non-union workers, the requirement of generality to be in arithmetic average in an amount equal to or less than the unionized workers would be eliminated.

- It is eliminated the limitation of ten general minimum wages per year for the amount of the deduction of benefits of fringe benefits, which was contemplated for non-unionized workers.

- The provisions for non-deductible interest by the concept of thin capitalization, regarding the non-inclusion of debts incurred for the construction, operation or maintenance of productive infrastructure for the generation of electricity, shall apply as of 1 January 2014; taxpayers who have paid income tax for fiscal year 2014 considering these debts, may not be included, and in case of obtaining some balance in favor, the same can be compensated without this benefit results in refunds.

- It is extended the limit of the original amount of investments in cars, subject to depreciation, from MXP 130,000 to MXP 175,000.

- By transitional provision it is established that the Service Administration of Taxation (SAT) shall issue general rules to implement a scheme that allows common land, communities and their members regularize the payment of the corresponding taxes, as well as fulfill its formal obligations, by the income received by legal entities or individuals, arising from legal acts these communities or their members have held to enable another company or individual, use, enjoy, or affecting their land, property or rights, including property rights, and communal lands thereof.

- It is added the requirement to consider as coordinated entities, those entities whose members perform activities of trucking cargo or passengers exclusively, provided that not predominantly provide their services to another company resident in the country or abroad, which is considered related party. Also, are considered taxpayers engaged exclusively to the activity of trucking terrestrial cargo or passengers, those whose revenue from such activities represent at least 90% of total revenues, excluding revenues by the disposals of fixed assets and land, owned by them that had been subject to their activity.

  The provisions for the coordinated, in relation to its members or legal entities engaged exclusively in land transportation of cargo or passengers, shall apply as from 1 January 2014, for which they must present to no later than 31 March 2016 the update notice of economic activities and obligations retroactively and, if necessary, amended estimated payments and annual tax returns for the years 2014 and 2015; taxpayers who have paid income tax for these two years in the general regime of legal entities and submit amended tax returns, in case of obtaining some balance in favor it can be compensated without this benefit results in refunds .

- Regarding the exemption that entities who are engaged to perform exclusively activities of agriculture, livestock, forestry or fishery activities, which in its entirety should not exceed 200 times the minimum wage converted to the year, it is established that this limitation shall not be applicable to rural properties and communities; this provision would be applicable from 1 January 2014, so the rural properties and communities that would have paid income tax for the fiscal year 2014, may apply this exemption without the before mentioned limit, and in case of obtaining a favorable balance, it may be offset, in no case this benefit results in a cash refund.

  Also, in the case of the exemption for individuals and corporations that are engaged in such activities whose revenue in the year exceed 20 or 40 times the minimum daily wage converted annually, respectively, such exemption is amended to reverse the order of these revenues, since they would be 40 times the wage for individuals and 20 for entities.

  On the other hand, individuals who obtain revenue by such activities will not pay income tax up to an amount, in the fiscal year of 1 general minimum daily wage converted annually, provided that such revenue represents at least 25% of total revenues for the year, excluding revenues from the sale of fixed assets and land owned by them, that had been used in the aforementioned activities, and also their total revenue in the year do not exceed eight times the general minimum wage converted annually; This provision would be applicable from 1 January 2014, so taxpayers, who would have paid income tax for the fiscal year 2014, may apply this exemption, and in case of obtaining balance in favor, it may be offset, in no case this benefit results in a cash refund.

- Taxpayers who held operations with related parties resident in Mexico or abroad, besides obtaining and keeping the supporting documentation that demonstrate that market values were held and it had submitted the informative return on its tax situation for being in the obligation due to revenue, having placed shares in the public investor, being integrator or integrated, entity state-owned or having a permanent establishment (PE) in

the country, according to the corresponding precept, they shall provide to the tax authorities on 31 December of the year following the fiscal year in question at the latest, the following informative annual returns from related parties: master related parties informative return of the multinational business group, local related informative return and informative return country-by-country of the multinational business group; with information that establishes the new precept.

The amount of consolidated revenues of twelve billion pesos obtained in the immediately preceding fiscal year , as supposed to be required to file the informative return of related parties country-by- country, provided for multinationals controlling entities, may only be amended by Congress for the fiscal year in question in the Federal Revenues Law (FRL); and it may not be reduced by the same for the fiscal year in question in the FRL, or may be increased annually by general rules issued by the SAT as was provided for in the Initiative.

Regarding the three returns (master, local, and country by country) it is clarified that the SAT may request through general rules additional information and include corresponding media and forms; and on the other hand, require entities resident in national territory that are subsidiaries of a nonresident company, or nonresidents having a PE in the country, the informative return country-by-country, where tax authorities are unable to obtain the relevant information through the information exchange mechanisms established in the international treaties.

By transitional provision, it is established that new related parties informative returns mentioned in the preceding paragraph, corresponding to the fiscal year 2016, must be submitted at the latest on 31 December 2017.

In this respect, it is considered infringement penalized by a fine ranging from MXP 140,540 to MXP 200,090 not to provide the information of such returns, or submit it incomplete, with errors, inconsistencies or other than stated in the tax provisions.

Other penalty established for breach of these new returns on transfer pricing, is that taxpayers who had the obligation to file and the term has expired and was not filed, these taxpayers, in no case may contract acquisitions, leases, services or public works with the Federal Public Administration, Centralized and State-owned, as well as the Attorney General's Office.

- It is added a provision that allows to create a taxable income account for investment in renewable energy, which would be calculated on the same terms as the Net Taxable Income Account (CUFIN), to the entities exclusively engaged in the generation of energy from renewable sources or cogeneration systems of efficient electricity, whose revenue from such activities represent at least 90% of total revenues, excluding revenues from the sale of fixed assets or fixed assets and land owned by them, that had been used in their activity, in the period they apply the deduction for depreciation at 100% of machinery and equipment.

  It is considered taxable income on investment in renewable energies of the year, the amount obtained from subtracting the income tax from the tax result of the same period, both determined in accordance with a certain procedure, and the non-deductible items.

  It will not be subject to the payment of income tax the dividends or earnings that are distributed from the taxable income account for investment in renewable energies, except for the final additional 10% income tax that will have to pay, through withholding made by the entities who pays the dividends, individuals resident in Mexico, residents abroad and PEs in the country of residents abroad, for the dividends or refunds they distribute, or send to their head office or any of its establishments abroad, as appropriate.

  It is established that from the year in which balance is generated in the CUFIN account may not distribute the remaining undistributed that, if any, have the income account by investing in renewable energy.

  By transitory provision, it is stated that the taxable income account for investment in renewable energy, will be updated as the same as CUFIN, and for purposes of the first update shall be considered as the month in which the latest update was carried out, the month in which that account is created.

- In the case of the RIF, taxpayers may apply provisions of this regime, when besides obtaining wages and interest, they also receive income from leasing and generally for granting the use or temporary enjoyment of property, provided that the total revenue obtained in the period immediately preceding by the above-mentioned activities, as a whole, do not exceed two million pesos.

  It added that in the case of transactions with the general public whose amount is less than MXP 250 there will not be obligation to issue the corresponding CFDI, when the purchasers of the goods or recipient of services do not request such services, an overall receipt should be issued by transactions carried out with the general public, according to the general rules for that purpose issued by the SAT.

  It is also added that the SAT will issue during January of the year in question, populations or rural areas without financial services, freeing taxpayers of the obligation to pay the expenses through financial means set forth in the corresponding provision, when they are registered in those towns or rural areas.

  It is reduced on three occasions and for a six-year period or twice consecutively, the causal of abandonment of RIF for not bimonthly filing the tax return with the data from the proceeds obtained and expenditures made, including investments and information of transactions with suppliers in the previous two-month period.

  It is added that the circumstance of not paying under the RIF will not apply to the purchaser of the whole negotiation or assets, deferred charges and expenses thereof, when present before the SAT, within fifteen days following of the date of the operation, a notice to bring the date of acquisition of the negotiation and the years in which the transferor paid in the RIF; in this case, the purchaser may only pay in the RIF for the missing years of the transferor and apply the corresponding tax reductions.

  Through transitory provision, it is provided that for income tax, VAT, and ET purposes, the SAT shall issue, during the first two months of 2016, by general rules, a procedure of tax withholding that can be applied by state-owned controlling entities of the Federal Public Administration for the distribution of products that corresponds to the basic basket that benefits only beneficiaries of federal programs, performed by individuals who are registered in the RIF.

  In this case, RIF taxpayers to whom the withholding had been made, will deem satisfied the obligations of registry on electronic media or systems of their income, expenses, investments and deductions; delivery of CFDI to their clients; bimonthly tax returns; and report on these returns of income earned and disbursements made, including investments and information of transactions with their suppliers.

- In the case of the personal deductions of individuals, it is stated that also will be deductible the payments strictly necessary for medical, dental and nursing fees, for analysis, clinical studies or prostheses, hospital expenses, purchase or rental of equipment for the establishment or rehabilitation of the patient, resulting from the inabilities referred to in the provision of the labor law or arising from a disability under the terms of the applicable law, when they have the certificate or proof of inability or disability issued by the National Health System.

  Such deductions shall not be subject to lower limit of five minimum wages per year (see next paragraph) and 15% of the total income of the taxpayer; in the case of temporary inability or permanent partial inability, the deduction will only apply when it is equal to or greater than 50% of normal capacity; and CFDI must contain the specification of the expenses covered in it are directly related to the care of inability or disability in question.

  The limit of personal deductions is extended for individuals to five minimum wages per year or 15 % of total revenues of the employee, whichever is less.

  Excluded from this limit are the deductions relating to deposits, payments or acquisitions in savings personal accounts, premium payments for insurance contracts or purchases of shares of mutual funds, respectively, and additional retirement contributions made directly on the subaccount of additional retirement contributions under

the terms of the System Retirement Savings Law (SAR) or personal accounts retirement plans, as well as voluntary.

- In the case of trusts engaged in the acquisition or construction of real estate (FIBRAS) and the incentive to promote investment in venture capital of the country, is added to the requirement that the trust must be a credit institution resident in Mexico authorized to act as such in the country, it also be a brokerage houses resident in Mexico authorized to act as such in the country.

  In the case of the incentive to promote investment in venture capital of the country, it is eliminated the requirement that the trust that is comprised for such purposes will have a maximum duration of 10 years.

  In the case of the incentive to promote investment in venture capital in the country, it is stated through transitory provision, that taxpayers who had deducted the amount from the deposits, payments, or acquisitions, in the accounts, premiums or shares, respectively, in their annual return during 2014 or 2015, must consider as taxable revenue in the return corresponding to the calendar years in which they are received or withdrawn from their special personal account for savings, the contract of insurance in question or the company or mutual fund from which the shares had been acquired, those amounts which had been considered as deductible in terms of the aforementioned Law during the years 2014 and 2015, at the time of the deposit, payment, or corresponding acquisition.

- By a transitory provision, it is stated that the rate of 4.9% will continue for the interest paid to foreign banks, provided that the beneficial owner of that interest is a resident in a country with which Mexico has a treaty to avoid double taxation and that the requirements provided in this treaty are fulfilled to apply the rates within the same treaty applicable for this kind of interests.

Tax deconsolidation

- Taxpayers who calculated their deferred tax in terms of the ITL or rules in force on 31 December 2013, through an amendment return for the year 2013, as well as for those who applied the schedule procedure established in that law, may choose to apply a credit against 50% of deferred income tax determined by the concept of tax losses that on the occasion of the deconsolidation is pending of payment as of 1 January 2016, which shall be determined by multiplying the 0.15 factor by the amount of the updated individual tax losses from previous years of the entities which had had the status of controlled or the holding, which have been considered in the determination of income tax by deconsolidation and that as of 1 January 2016 the company which generated those losses has them pending of decrease, provided that:

  1. The holding keeps in the controlled concerned a consolidating equity equal or higher than it had at the time of the deconsolidation.
  2. The tax loss is considered in the same consolidating equity that was used at the time of the deconsolidation.
  3. The losses for sale of capital stock are not considered for this credit.
  4. Tax losses are not deducted from the tax earnings of 2016 and subsequent years by any taxpayer, whether he generated them or are transferred by spin-off or another legal act.
  5. The 50% remnants of deferred income tax must be continued to be paid according to the table of payments which had chosen the corporation that had the capacity of holding.
  6. The holding company files a notice using the official form published by the SAT.
  7. The holding company or any company had paid deferred Income tax for tax losses derived from mergers, spin-offs or liquidation of corporations.
  8. As of 1 January 2016, the ex-holding and ex-controlled corporations are up-to-date with tax obligations and as tax withholder.
  9. During a mandatory period of five years, corporations which integrated the consolidation group as of 31 December 2013, collaborate on a quarterly basis with authority, by participating in the verification program in real time that has implemented the General Administration of Large Taxpayers of the SAT.
  10. Do not participate in the Optional Regime for Groups of Corporations.
  11. Withdraw any means of defense interposed against the amendments on tax consolidation.

12. The holding company in the determination of deferred tax of the tax years from 2008 to 2013, has considered the amount of losses on sale of capital stock issued by its controlled entities that have been decreased in the determination of its result or tax loss consolidated corresponding to the same years, or either corrects its tax situation for the non-payment of deferred income tax for such losses in the terms that are discussed later.
13. The holding company and those that have had the capacity of controlled for which were considered their tax losses to determine the 50% credit of the deferred income tax, submit amended annual return for the year 2015, on which decrease the balance of tax loss carryforwards from prior years pending of apply with the amount of losses that were used to determine the credit. Likewise, the holding company must cancel in its accounting books the deferred income tax from tax losses used to pay it.

- Corporations which had the status of holding, that had deducted losses for the sale of capital stock of their controlled corporations, in the determination of the consolidated result or tax loss from any of the tax years from 2008 to 2013, and that they had not considered these losses in the determination of deferred income tax for deconsolidation, may choose to pay the deferred tax liabilities to correct this situation, in 10 annual installments under the scheme stated in the transitory provision (from 31 March 2016 - 3 annuities-; and from the fourth to the tenth from 31 March 2017, and up to 31 March 2023), with update and surcharges.

  Corporations that had the status of holding, that did not pay the deferred income tax in the deconsolidation as of 1 January 2014, for the years of 2008-2013, in respect of tax losses for the disposal of shares in its subsidiaries, to choose to pay the tax in 10 annual payments with restatement and surcharges, the first three no later than 31 March 31 2016 and the other seven from 31 March 2017, must submit a notice in writing to the SAT no later than January 2016.

  Those corporations that are paying the taxes corresponding to the deferred income tax for these losses, with respect to the outstanding balance as of 1 January 2016, may choose to pay in equal installments according to the dates specified in the referenced scheme of payments.

  Differences in tax liabilities should be shown in the amended tax return of the corresponding year, which must be filed at the latest on March 2016.

  It is established that the implementation of this scheme of payments will depend on the fact that the corporation that had the holding status had correctly determined the average cost per share in accordance with the ITL in force until 31 December 2013. Alternatively, if it did not do so, it should correct its tax situation before applying this payment scheme and desist of any means of defense filed against the amendments on tax consolidation.

  Finally, in case the corporation that had the holding status decreases the loss for the sale of capital stock in any period subsequent to 2015, it should liquidate all of the unpaid deferred tax on the date that the corporation has the obligation to make the subsequent immediate partial payment.

- It is noted that corporations which had the Holding status may credit Income Tax they have incurred on the occasion of the deconsolidation from 1 January 2014, on dividends or earnings in cash or goods, that corporations that consolidated had paid each other, and that have not come from CUFIN or reinvested net income tax account (CUFINRE), against the deferred tax incurred by this same concept that is unpaid as of 1 January 2016, and up to the amount of the latter. Such crediting shall not give rise to any refund or compensation, by being subject to the corporation receiving the dividend or earning does not increase its CUFIN with the amount of such dividends or earnings, and the one that had the controlling capacity do not increase the balance of the consolidated net taxable profits account incurred as of 31 December 2013.

- Finally, it is established that the provisions in the previous topics of this section of deconsolidation, shall apply to those taxpayers that are still consolidating in accordance with the rules provided until 2013 for being within the mandatory regime of five years, for which the unpaid deferred income tax shall be considered on the occasion of the deconsolidation as of 1 January of the immediate year subsequent to that in which they should deconsolidate. Also, the tax losses will be pending to decrease at the same date.

Repatriation of capital

The individuals and entities resident in Mexico and nonresidents with PE in the country who have obtained revenues from direct and indirect investments, which have remained abroad until 31 December 2014, may choose to pay taxes they are obliged to in accordance to the provisions of the ITL. Only the revenues and investments held abroad that return to the country, will fall within the benefit, provided they fulfill, among other requirements with the following.

1. Revenues from investments held abroad for which may exercise the option provided for, are the taxable in terms of the ITL, except those that correspond to concepts that have been deducted by a resident in national territory or a nonresident with a PE in the country.
2. Income tax is paid within the 15 days following to the repatriation date.
3. They will not pay the fines and surcharges and may take a foreign income tax credit for taxes paid abroad.
4. When investments constitute concepts for which income tax should had been paid, the payment of tax is proved.
5. The return on investment and revenues should be within a period not exceeding six months from 1 January 2016 and invest during 2016 in fixed assets without being able to dispose over a period of three years from the date of acquisition; in research and development; and for the payment of liabilities that have been contracted with independent parties. The return must be made through transactions made with credit institutions or brokerage houses in the country.
6. No tax authorities' inspection are commenced or have not filed a defense motion, except if they withdraw, for revenues and investments repatriated.
7. They will consider as fulfilled the formal obligations for such revenue.
8. They shall calculate taxable income corresponding to the total amount of funds repatriated, which will decrease with the income tax paid. The result will be added to the balance of the CUFIN.
9. This income will be considered to determine the employees profit sharing (PTU)
10. The resources that return to national territory will not be considered for purposes of the tax discrepancy of individuals (expenses higher than the income reported in the year in which they return).

When the return of resources is performed through transactions between credit institutions or brokerage firms in the country and abroad, the sender must coincide with the beneficiary of the resources or when they are related parties in terms of tax law of the country.

The requirement that taxpayers would not be initiated inspection powers must be before the date on which resources from abroad will return to the country.

Moreover, repatriation of capital will not be applicable in the case of revenues resulting from an illegal activity or when they can be used for such activities, which is defined as income product of an illegal activity as indicated in the Federal Penal Code; and that the general rules to that effect issued by the SAT for the proper and correct application of that provision, will include those to prevent resources from or may be used for illegal activities.

Definitive 10% of income tax on distributed dividends

- Tax credit is granted to individual taxpayers, residents in Mexico, equivalent to the amount resulting from applying the corresponding percentage according to the year of distribution under the table provided in the precept, to the dividends or earnings distributed, generated in 2014, 2015 and 2016, while they are reinvested by the entity that generated them, which is creditable only against Income Tax that must be withheld for the same purpose, and shall not be considered taxable income.

  This benefit will apply only if the dividends or earnings are reinvested and distributed by entities and also meet the ID requirements and submit information to the SAT.

  Those entities whose shares are NOT placed in a stock exchange on concession in the terms of the Securities Market Act, shall choose for an opinion on their financial statements in accordance with the Federal Tax Code (FTC).

The percentage of the incentive in 2017 will be 1% on the dividend distributed; 2% for 2018; and 5% 2019 onwards.

Moreover, the legal entities distributing dividends or profits in respect of shares placed among the investing public, shall identify and inform brokerage firms, credit institutions, operating entities of investment entities, people carrying out the distribution of shares of investment entities, institutions for the deposit of securities held in custody and administration of shares mentioned, or any other broker in the securities market, the years from which the dividends come so that these brokers carry out the corresponding withholding.

Immediate deduction

- It would apply to taxpayers with revenues reported in the immediately preceding year up to 100 million pesos and for those taxpayers who initiate activities and estimate they are going to obtain those revenues; for those who make investments in the construction and expansion of transport infrastructure, such as road , roads and bridges; and for those who make investments in activities provided in the article 2, fractions II, III, IV, and V of the Hydrocarbon Law, and in the equipment for the generation, transmission, distribution and supply of energy.

- The incentive consists on making the immediate deduction of new fixed assets, by deducting in the year in which they are acquired, the amount resulting from applying to the original amount of investment the percentages established in the table for 2016 and 2017, that in the case of 2016 are very similar to those established in the ITL in force until 2013 (discount rate of 3%), and for 2017 are lower due to the discount rate at present value of 6% used; the portion not deducted would be deductible under two other tables, depending on the type of taxpayer, similar to that provided until 2013, when the assets are sold or ceased to be useful.

- Taxpayers may apply immediate deduction for investments made between 1 September and 31 December 2015, under the terms provided for the year 2016, when submitting the annual return for fiscal year 2015.

- For purposes of the estimated payments of 2018, taxpayers who apply immediate deduction in 2017, must calculate their coefficient of profit, adding to the taxable profit or reducing the tax loss of 2017, as applicable, with the amount of the deduction.

- For purposes of VAT, the immediate deduction is considered fully deductible expenditure, provided that the requirements of the VAT Law are met.

Federal Tax Code (FTC)

1. It is incorporated to the FTC an article on the implementation of the Common Standard Report, referred to in the recommendation adopted by the Organization for Economic Cooperation and Development (OECD) Council on 15 July 2014, so that financial institutions report information in accordance with the referred Standard.

   To these effects the FTC states that entities and legal figures, which are financial institutions and resident in Mexico or resident abroad with a branch in Mexico, according to the Standard for the Automatic Exchange of Information on Financial Accounts on Tax Matters, referred to in the recommendation adopted by the Organization for Economic Co-operation and Development Council on 15 July 2014, as published after the adoption of the recommendation or the latest update, shall be required to effectively implement and comply with that Standard, therefore, they will be subject to what is stated in this new provision on existing and new accounts, for identification procedures, the special register, reportable accounts of high and low value, to the dates for their report and infringements established for it, in the FTC.

2. It is added that the power of inspection to verify the origin of the refund will be made through the exercise of the powers established in the FTC, including: requiring taxpayers, jointly liable parties or third parties related to them, to exhibit at their domicile, establishments, at the offices of the authorities themselves or within the tax mailbox, depending on how the requirement was made, the accounting, and provide the data, other documents or reports that are required in order to conduct its review; or practice visits to taxpayers, those jointly responsible

or third parties related to them and check their accounting, goods and merchandise; in this case the authority may exercise the powers of verification for each request for reimbursement submitted by the taxpayer, even if it is referred to the same contributions, exploitation and periods, according to certain rules, as follows:

- Conclude within a maximum period of 90 days, in case of requiring information to third parties will be 180 days, at the end of this period the proceedings shall expire and the authorities must issue an statement on the refund application with the documentation they have.

- The power of inspection will be exercised only to verify the origin of the balance in favor.

- At the end of the period shall issue the corresponding resolution and shall notify the taxpayer within a period not exceeding 10 working days. If favorable shall make the refund within ten days of notification of the respective resolution. If it is made out of time, corresponding interest will be paid.

3. It is amended the precept which establishes the manner in which the authorities inform in exercising its power of inspection, to the taxpayer, his legal representative or its management bodies, of the detection of acts or omissions which may involve a failure in the payment of contributions, which must be informed by the tax mailbox, within a period of at least 10 business days prior to the last partial lifting of the act, the letter of observations or the final decision in the case of electronic reviews, to exercise their rights they have to go to the offices that are performing the procedure in question, to know the facts and omissions that they have detected.

4. In the case of the sequential examination of the opinion, it is added a case in which there is no need to observe the order established in the precept, to require the taxpayer primarily, concerning that for every operation, no to provide information of Relevant Transactions or provide it incomplete, with errors, inconsistencies or different than stated on the tax provisions.

5. An infringement is added related to the entry of information through the website of the SAT, such as: not providing information of Relevant Operations; and do not provide the accounting information via the SAT website being obligated to it, enter it after the deadline, or not provide it under the rules, and provide it with modifications that avoid reading it. The fine in the first case will be from MXP 140,540 to MXP 200,090; in the case of accounting information will be from MXP 5,000 to MXP 15,000.

6. Finally, the SAT, within a period not exceeding thirty calendar days from 1 January 2016, shall issue general rules, implement an optional scheme of facility for payment of income tax and VAT for individuals that produce handicrafts, which expressly contains, among others, that the subjects of the scheme should be individuals that produce handicrafts, with annual revenues in the immediately preceding year up to MXP 250,000 and come at least 90% from the sale of handicrafts.

Excise Tax

- A transitory provision establishes that tax to the sale of gasoline and diesel made in December 2015 and which have been delivered in that month be collected at the latest on 10 January 2016, it will be determined and paid under the provisions in force until 31 December 2015, that is, by application of variable monthly rates and no fixed fees as foreseen from 2016, for which taxpayers who are in this case must submit the SAT a report from disposals of the above-mentioned fuels, made in December 2015 and collected in that period.

- The band applicable of minimum and maximum values for the maximum prices for gasoline and diesel lower, equal or greater than 92 octane, applicable in fiscal year 2016 shall be published no later than 31 December 2015 in the Official Gazette and the applicable band for the fiscal year 2017 shall be published no later than 31 December 2016.

- During fiscal year 2016, the scheme defined in the transitory provision should provide that the maximum prices for gasoline and diesel may increase or decrease from the maximum price in force in October 2015, as a maximum in the proportion of inflation expected accordance with the general criteria of economic policy for 2016, which is 3%.

- The export of foods with high caloric density is considered as taxable at the rate of 0%, in order to be able to credit the tax that has been transferred to them.

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