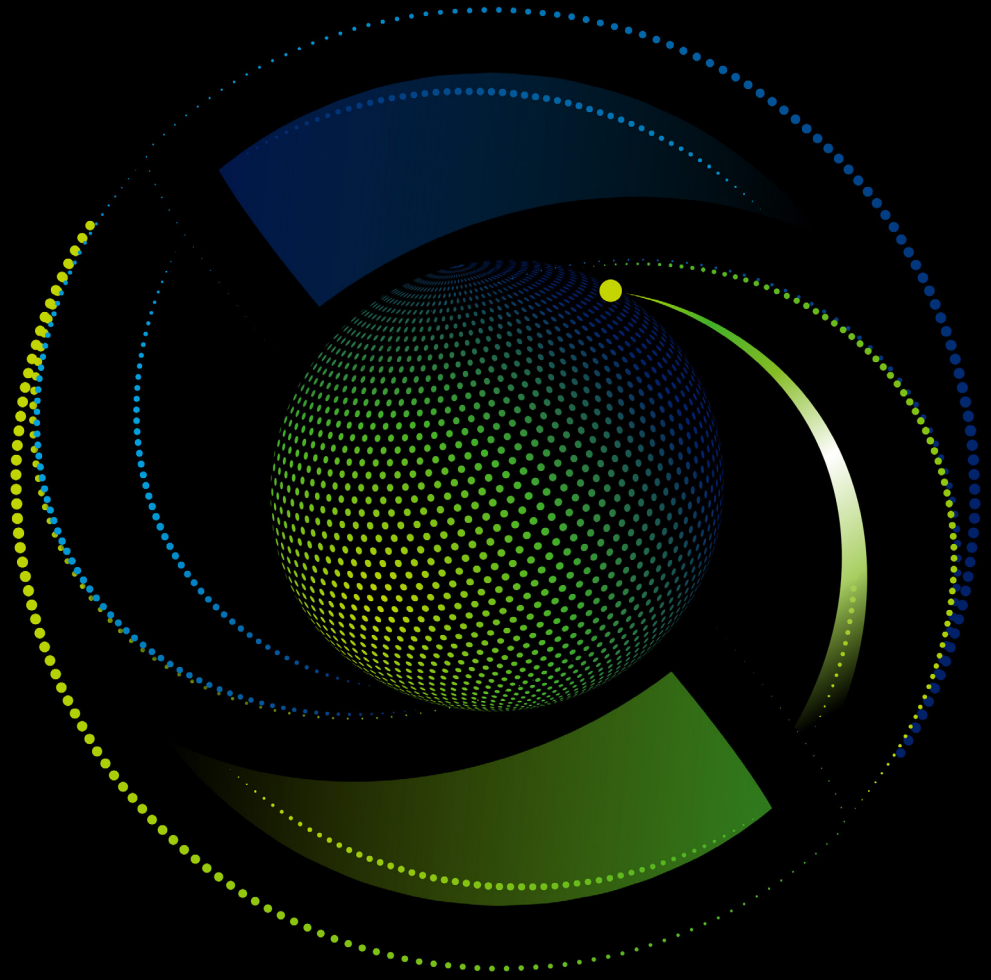
Deloitte.



Tax and Legal Services

Economic Package and Tax Reforms 2022

September 9th, 2021

Economic Package and Tax Reforms 2022

On September 8, the Federal Executive Branch submitted the 2022 Economic Package and Tax Reforms, which is composed by the General Economic Policy Criteria, Federal Revenue Law, Federal Expenditure Budget Proposal, Income Tax Law (LISR), Value-Added Tax Law (LIVA), Excise Tax Law (LIEPS), Federal Tax Code (CFF) and Federal Fees Law, which were submitted to the Chamber of Deputies for review. If approved by Congress, these amendments will be effective as of January 1, 2022, albeit with the exception of certain provisions that would take effect on the day following their publication in the Federal Official Gazette or on another date.

A summary of the most relevant bills is detailed below.

Macro economic framework

The proposed economic variables are as follows:

	Estimate 2021	Estimate 2022
Actual growth %	6.3	4.1
Inflation %	5.7	3.4
Exchange rate	20.2	20.4
Interest rate %	4.8	5.3
Oil (dollars/barrel)	60.6	55.1

Federal Revenue Law

The same surcharge rates will remain in effect, as follows:

1. Tax liability payment extensions would incur the following surcharges:

- A monthly rate of 0.98 percent on outstanding balances which, when applying the provisions of the CFF, would represent a 50% increase to remain at 1.47%.

- When, in conformity with the CFF, installment payments are authorized, outstanding balances would incur the following surcharge rates during the period in question:
  - In the case of installment payments authorized for a period of up to 12

months, the monthly surcharge rate would be 1.26.

- In the case of installment payments authorized for a period of more than 12 months, the monthly surcharge rate would be 1.53 percent.

- In the case of installment payments authorized for a period of more than 24 months and deferred payments, the monthly surcharge rate would be 1.82 percent.

2. The same tax incentives and exemptions would remain in effect:

- Of the IEPS for diesel and biodiesel and their blends that are imported or acquired, as well as the credit against the ISR of the expenses for the use of the toll highway infrastructure up to 50%
- As regards the IEPS payable by the buyers of fossil fuels.
- As regards the crediting of the special mining duty for taxpayers with revenues of less than 50 million pesos.
- The above incentives will consider the accruable income determined for income tax (ISR) purposes when these amounts are effectively credited.
- A tax incentive for individuals and companies engaged in the sale of books, which is composed by an additional deduction equal to 8% of the cost of the books in question. This tax is not accruable for ISR purposes.
- An exemption as regards the payment of customs processing fees derived from natural gas imports.

3. As regards interest paid to individuals resident in Mexico, the respective tax withholding would be calculated by applying the annual 0.08% rate to the principal amount.

Income Tax Law

General provisions

The exchange loss and gain could not be lower than or exceed, respectively, the amount obtained by considering the exchange rate established by the Bank of Mexico on the day on which the gain or loss is obtained. Until 2021, the provision only made reference to the exchange loss.

Companies

1. The following amounts would be creditable against annual tax in the order detailed below:

- The amount of estimated tax payments made during the calendar year
- The amount of ISR paid abroad

2. Financing operations other than those previously covered by this provision and which generate interest payable by companies or the permanent establishments in Mexico of foreign residents would also be treated as back-to-back loans whenever these operations lack a business reason.

3. The consolidation of bare title and usufruct of a good would be considered as part of taxable income under the terms that would be established by the new provision. In the case of goods for which only usufruct or bare title is sold, the gain would be determined by subtracting the original investment amount from the obtained price by utilizing the procedure that would be included in the new provision.

4. As regards the authorization of the sale of shares at their tax cost when restructuring companies incorporated in Mexico and belonging to the same group, the requirements established for indicating, among other items, the accounting value of the shares subject to this authorization would be extended to the organization chart, direct and indirect shareholding structure before and after the restructuring process, while also indicating all the relevant transactions performed with regard to the restructuring process for which authorization is requested, within the five years immediately preceding the filing of the authorization request. These transactions, among others, would be understood as the transfer of ownership, the use or enjoyment of the shares or voting or veto rights in the decisions of the issuing company, the buyer or vendor company, the favorable vote needed for the decision-making process in these companies or the reduction or increase of more than 30% of the accounting value of the shares of the issuing company.

5. The requirements established for deducting the acquisition of fuels would be extended in those cases in which the tax receipt is composed by the information contained in the current permit, issued according to the terms of the Hydrocarbons Law to the fuel supplier, and as long as this permit has not been suspended when issuing the respective tax receipt.

6. The deduction requirements currently established for technical assistance, technology transfer or royalties specify that confirmation whereby the knowledge provider possesses the necessary technical elements must be submitted to the tax authorities. Likewise, these services must be provided directly and not through third parties, except in those cases in which payments are made to Mexican residents and when the respective contract specifies that the services will be provided through

an authorized third party. It must also be demonstrated that this assistance is more than simply the possibility of obtaining it and is composed by services that are effectively provided.

The proposed amendment specifies that the services must be provided directly and not through third parties, except when fulfilling the assumptions established for the outsourcing of specialized services or the performance of specialized work that does not form part of the corporate purpose or main economic activity of the service beneficiary.

Please note that the exception established for those cases in which payments were made to Mexican residents and when the respective contract specifies that the services would be provided through an authorized third party was eliminated.

7. The Law allows the deduction of bad debts when credits, the principal of which at the maturity date exceeds 30 thousand investment units, when the creditor has filed suit with the legal authorities to obtain payment or an agreed arbitration proceeding has been initiated for collection purposes, and when other requirements are fulfilled.

   The proposed amendment would specify the deduction of credits, the principal of which at the maturity date exceeds 30 thousand investment units, when the creditor has obtained a definitive verdict issued by the competent authority to demonstrate the exhaustion of all possible collection measures or, if applicable, that a favorable verdict was unenforceable.

   To date, in the case of credit institutions, it is established that the practical impossibility of collecting the credit portfolio is demonstrated when this portfolio is written-off according to the provisions established by the National Banking and Securities Commission. The amendment would add that this would be applicable as long as the same information submitted as the primary database controlled by credit bureaus, as referred to by the Law on Credit Bureaus, is also provided to the tax authorities when conducting an inspection.

8. In the case of nondeductible interest accrued by a taxpayer's debts exceeding three times their stockholders' equity derived from debts contracted with foreign related parties (thin capitalization), the following items would be amended:

   A. In order to determine the option of considering stockholders' equity of the year, tax loss carryforwards would be deducted

from the opening and closing CUCA, CUFIN and CUFINRE balances and the result subsequently divided by two.

B. This option would not be applicable whenever the result of the above operation exceeds the stockholders' equity of the year in question by more than 20%.

C. The exception of not applying the thin capitalization rule established by Law for the financial system would not be applicable in the case of unregulated multiple purpose financing companies which, in order to attain their corporate purpose, primarily perform activities with their Mexican or foreign related parties.

9. In the case of investments, the definition of the original investment amount would be extended in such a way that, aside from the expenses presently considered, it would also include those incurred to prepare the physical location, installation, assembly, management, delivery, customs brokers' fees and those resulting from services contracted to ensure the operation of the investment.

Whenever a good ceases to be useful or is sold, the obligation to file a notice with the tax authorities would be added.

The acquisition of a usufruct right to real property would be considered as a fixed asset.

Expenses incurred during the pre-operating period would not include those related to intangible assets used for the exploration or exploitation of public assets, which would be treated as a deferred expense.

The 5% deduction would be applicable to installations, additions, repairs, improvements, adaptations and any other construction created on a mining property according to article 12 of the Mining Law. It would also be applicable to a usufruct right involving real property.

10. The Law currently establishes that, when the cost of goods exceeds their market price or replacement value, the appropriate value, whether the replacement or net realizable value may be used, although this situation must be detailed in the tax audit report whenever the taxpayer has opted or to do or when it is obligated to do when filing information on its tax situation.

In accordance with the reform, whereby filing a tax audit report is of mandatory, the proposed amendment would also establish the obligation to include the information detailed in the above paragraph in this report.

11. In the case of a corporate spin-off, tax loss carryforwards must be divided between the original and spun-off entities. The proposed amendment would require these entities to be engaged in the same line of business, a situation that would have to be certified if the authorities conduct an inspection.

12. The Law currently establishes that the surviving company may only apply its tax loss carryforwards when the merger takes place, with a charge to the tax income derived from the exploitation of the same lines of business that initially generated the loss.

    Likewise, when the partners or stockholders holding a controlling interest in a company with tax loss carryforwards change and when the sum of its revenues of the previous three years has been lower than the restated amount of these losses at the end of the final year before the change of partners or stockholders, the company may only apply these losses to the tax income derived from the same lines of business that originally generated the losses.

    As regards the change of stockholders' control, a substantial modification of assumptions has been proposed, as follows:

    A change of partners or stockholders holding a controlling interest in a company is deemed to exist when one or more of the acts performed within a three-year period as of the date on which the merger takes place results in:

    i. A change of the direct or indirect holders of more than 50% of the shares or business interests with voting rights of the company in question.

    ii. A change of the direct or indirect holders of any of the rights to make decisions, appoint or remove board members, direct management, etc.

    iii. Following the merger, the company in question and its partner or stockholder, which must be an entity, cease to consolidate their financial statements in conformity with the provisions regulating taxpayers for accounting and financial purposes or which it is obligated to apply.

    In the case of condition precedents or term, this change would be deemed to take place as of the moment when the act in question is performed.

    The amendment would also add that the change of partners or stockholders would be inapplicable when resulting from an inheritance, donation or corporate restructuring, merger or

spin-off that is not considered as a sale according to the terms of the CFF, albeit subject to the fulfillment of the respective requirements.

13. Tax obligations would be substantially modified for the agricultural, livestock, forestry and fishery regime, while also eliminating some of the exemptions currently applicable by taxpayers engaged in these activities.

14. In the case of the support documentation prepared by taxpayers to demonstrate that transactions performed with related parties reflect market values, the requirement whereby this documentation need only be obtained and conserved for transactions performed with foreign related parties would be eliminated, thereby extending this obligation to transactions performed with related parties resident in Mexico.

    The following items would be added as regards the data that must be included in this support documentation:

- Information on the functions or activities, assets utilized and risks assumed by the taxpayer and related party or parties with which transactions are performed, for each transaction type.

- Information and documentation on transactions performed with related parties and their amounts, for each related party and each transaction type, according to its classification, together with comparability data and elements.

- The method applied, including information and documentation on comparable transactions or companies for each transaction type, as well as details on the application of any applied adjustments.

15. The Law currently establishes that information on the transactions performed with foreign related parties during the immediately preceding calendar year must be filed together with the tax return of the year.

    This information would have to be filed no later than May 15 of the year immediately following the fiscal year in question. Furthermore, based on the proposed amendment, this requirement would be applicable for transactions performed with both related parties resident in Mexico and abroad.

16. The obligation would be added to file information with the tax authorities, through the media and forms established for this purpose and contained in the general rules issued by the Tax Administration Service (SAT), on the sale of shares or securities representing the ownership of goods

issued by the taxpayer, performed between foreign residents without a permanent establishment (PE) in Mexico, which must be filed no later than the month following the date on which the transaction takes place, and must contain at least the data specified by the provision.

17. It has been proposed that the local informative return on related parties should be filed no later than May 15 of the year immediately following the fiscal year in question, instead of December 31.

Individuals

1. When giving the service beneficiary written notification of their decision to pay tax as though salaried employees, persons who receive fees or income in exchange for services mainly provided to a single beneficiary, from companies or individuals with business activities, will be informed that, when exceeding the amount of 75 million pesos, they must pay tax according to the Regime established for Income derived from Business and Professional Activities, the proposal would add that, if this tax is not paid, the tax authority will restate the taxpayer's economic activities and obligations based on the respective regime. Taxpayers that disagree with this restatement may file a procedure to request clarification from the SAT according to its general rules.

2. The Tax Incorporation Regime would be eliminated and replaced by the new Simplified Trust Regime, which would basically be applicable to individual taxpayers who only perform a business or professional activity or activities, or grant the temporary use or enjoyment of goods, as long as the total income derived from the performance of these activities during the immediately preceding year did not exceed the amount of $3.5 million pesos.

   The following table indicates the rates applicable to estimated tax payments:

Amount of effectively collected income covered by tax receipts, without value-added tax (monthly amounts in pesos)	Applicable rate
Up to 25,000.00	1.00%
Up to 50,000.00	1.10%
Up to 83,333.33	1.50%
Up to 208,333.33	2.00%
Up to 3,500,000.00	2.50%

The following table is applicable to annual payments:

Amount of effectively collected income covered by tax receipts, without value-added tax (monthly amounts in pesos)	Applicable rate
Up to 300,000.00	1.00%
Up to 600,000.00	1.10%
Up to 1,000,000.00	1.50%
Up to 2,500,000.00	2.00%
Up to 3,500,000.00	2.50%

The provisions of the Simplified Trust Regime will not be applicable by individuals who fulfill the following assumptions:

i. Are the partners, stockholders or members of companies, or when they are considered as related parties by Law.

ii. Are foreign residents with one or more PEs in Mexico.

iii. Obtain income subject to preferential tax regimes.

iv. Receive income treated as salaries or provide written notification of their decision to utilize this alternative.

When these taxpayers perform business or professional activities, or grant the temporary use or enjoyment

of goods to companies, the latter must withhold as a monthly payment the amount obtained by applying the 1.25% rate to the payment amount, without considering value-added tax (IVA). Similarly, companies must provide taxpayers with a tax receipt indicating the amount of withheld tax, which must be paid by the company no later than the 17th day of the month immediately following that for which the payment is made. The withheld tax will be considered as the monthly payment that must be filed by each individual.

A temporary provision would specify that individual taxpayers who, until the enactment of the Simplified Trust Regime, paid tax according to the Agricultural and Coordinated Regime, individuals with business activities and service providers paying tax under the Tax Incorporation Regime and the real property lease regime, and which opt to pay tax according to the Simplified Trust Regime, must apply any creditable amounts and deductions, and request the refund of any recoverable balances within a six-month period following the enactment of the Decree.

A temporary provision would specify that, during 2022, the provisions of article 113-I of the LISR would not be applicable (taxpayers who fail to make three or more consecutive monthly payments during a calendar year or not, or file their annual tax return, will cease to pay tax according to the terms of this Section and must do so pursuant to Title IV, Chapter II, Section I or Chapter III of the Law, as the case may be), by individual taxpayers who pay tax according to the new Simplified Trust Regime and fail to file monthly tax returns, as long as they file an annual tax return in which they calculate and pay tax for the entire year.

3. In the case of personal deductions related to complementary retirement contributions made directly in the complementary retirement contributions subaccount and voluntary contributions with a deduction amount of up to 10% of the taxpayer's accruable income of the year, albeit without these contributions exceeding the equivalent of five minimum wages, including comprehensive investment fund share distribution companies, as long as they and other entities mentioned in the provision fulfill the requirements and conditions established for maintaining their validity, according to the terms established by the general rules issued by this decentralized entity.

4. It would be established that the total amount of personal deductions applicable by individual taxpayers must not exceed the lower amount of five times the Measurement and Restatement Unit (UMA) or 15% of the taxpayer's total income, including amounts on which tax is not paid.

   Based on the above modification, the UMA value limit would be applicable instead of the reference to minimum wages, while also eliminating the exception established for donations and complementary or voluntary retirement contributions.

Foreign residents

1. A new paragraph would be added to the effect that foreign residents with a source of wealth in Mexico must determine the revenues, gains, profits and, if applicable, deductions derived from the performance of transactions with related parties, while considering the prices, payment amounts or profit margins that would have been utilized or obtained with or between independent parties in comparable transactions.

2. In the case of income obtained by a foreign resident through the acquisition of real property, when the tax authorities perform an appraisal and this income exceeds the agreed sales price by more than 10%, the resulting tax would have to be paid by the vendor resident in Mexico or a foreign resident with a PE in that country. Otherwise, the taxpayer (buyer) must pay the resulting tax by filing a tax return with an authorized office within 15 days following the notification issued by the tax authorities. Whoever pays this tax will effectively assume the taxpayer's payment obligation.

   Tax must be currently paid by the real property buyer.

3. In order to opt to pay ISR at the 35% rate on the gain obtained from the sale of shares, when transactions are performed between related parties, the public accountant's report must indicate the accounting value of the sold shares, while also describing the manner in which the items referred to by Law were considered when determining the sales price of the sold shares.

   The proposed amendment to the preceding paragraph would specify that, in the case of transactions performed between related parties, the public accountant's report must indicate the accounting value of the sold shares and submit support documentation to demonstrate that the sales price of the sold shares reflects the price that would have been utilized by independent parties in comparable transactions.

4. As regards the 10% tax withholding applicable to the gain derived from the sale of shares issued by Mexican companies through concessioned stock markets or those recognized according to the Stock Market Law, as long as the shares in question are offered to investors, through its general rules, the SAT would be able to determine those cases in which the withholding applied by the stock market intermediary would be inapplicable.

5. In the case of the restructuring of group companies, in which the tax authorities authorize the deferral of tax incurred by the gain derived from the sale of shares within the group, whereby tax becomes payable following a subsequent sale of shares outside the group, the proposal would also add that shares are deemed to be outside the group when the issuing company and the entity acquiring the shares cease to consolidate their financial statements according to the provisions that regulate taxpayers for accounting and financial purposes, which the latter must apply.

6. As regards authorizations granted prior to the restructuring process and provided the payment derived from the sale only involves the exchange of shares issued by the company acquiring the transferred shares, the proposal would specify that the authorization issued for this purpose would become invalid when, during an inspection, the authorities discover that the restructuring or, if applicable, the relevant transactions related to the restructuring performed within the immediately preceding five years and those performed with the immediately subsequent five years after the date on which the authorization in question is granted did not have a business reason, or when the exchange of shares generated income subject to a preferential tax regime. Similarly, these authorizations may be subject to the fulfillment of requirements contained in rulings issued by the tax authorities.

7. Furthermore, when a relevant transaction is performed within five years following the restructuring, the company acquiring the shares or the legal representative appointed for this purpose must file the information referred to by the CFF according to the terms detailed in this provision. Relevant transactions will be understood as those indicated in the LISR.

   A temporary provision would establish that taxpayers which, as of December 31, 2021, have obtained valid authorization to defer the payment of ISR and, as of January 1, 2022, perform any of the relevant transactions referred to by article 24, fourth

paragraph of the Law, must notify the tax authority by filing the return referred to by article 31-A, first paragraph, numeral d) of the CFF. In these cases, the five-year period referred to by article 161, eighth paragraph of the Law shall be calculated as of the enactment of this Decree.

8. The proposal would also add the requirement whereby, in the case of these restructuring processes, in which a legal representative is appointed, a report must be filed to confirm that the tax calculation was performed according to tax provisions and the lines of business of the issuing company and acquiring entity, while also certifying that these entities consolidate their financial statements pursuant to the provisions regulating accounting and financial issues and which they must apply.

9. In the case of other taxable income obtained by a foreign resident, a requirement would be added whereby, whenever a verdict or arbitration ruling orders the payment of compensation, regardless of whether this payment is made for damages or lost profits, the individual or entity making the payment must withhold the ISR calculated according to the total compensation amount paid to the foreign resident. In this case, the foreign resident may request the refund of any excess withheld tax when involving damage compensation, as long as it demonstrates which part of the payment represents damage compensation and which part involves compensation paid for lost profits.

10. The proposal would establish that the legal representative of the foreign resident must voluntarily assume joint and several liability, which may not exceed the amount of taxes payable by the foreign resident. It must also have sufficient goods to enable it to act as joint obligor in conformity with the general rules issued for this purpose by the SAT.

Multinational entities

1. Preferential tax regimes (REFIPRES) in which income is not taxed abroad or subject to an ISR rate of less than 75% of Mexico's ISR rate, would not consider exchange gains or losses derived from the fluctuation of foreign currencies as regards their national currency and the annual adjustment for inflation.

2. The tax result of a foreign entity subject to a REFIPRE would not include exchange gains or losses derived from the fluctuation of foreign currencies as regards its national currency and the annual adjustment for inflation.

Transactions with related parties

1. As regards transactions performed between related parties, the proposed changes are as follows:

- Obligations would be applicable to related

parties resident in Mexico and abroad.

- Profit margins would be considered for these transactions.
- Information on comparable transactions would only have to be considered for the year under analysis when business cycles or the commercial acceptance of a product pertaining to the taxpayer cover more than one year; information on comparable transactions of two or more preceding or subsequent years could be considered.

2. Ranges would be adjusted by applying statistical methods based on the interquartile method established by the Regulations of the Law for the method agreed within the framework of the Mutual Agreement Procedure contained in the tax treaties signed by Mexico or the method authorized according to the general rules issued for this purpose by the SAT.

Maquiladoras

1. In the case of companies engaged in the performance of maquila operations and when the foreign residents on whose behalf they act do not have a PE in Mexico, the obligation whereby Mexican residents opting to apply the "safe harbor" provision must file a document with the tax authorities to declare that their tax income of the year represented at least the higher amount obtained from applying the terms of this provision, would be eliminated.

2. Companies with a maquila program would have to file an informative return with the tax authorities no later than the month of June of the year in question detailing their maquila operations and declaring that their tax income of the year represented at least the higher amount obtained from applying the terms of this provision according to the general rules established by the SAT. If this informative return is not filed or does not fulfill the terms of this paragraph, the terms contained in the provision would be inapplicable.

3. The proposal would eliminate the provision indicating that an individual or entity resident in the country may obtain a specific ruling under the terms of the CFF ("APA") to confirm its compliance with established methods and transfer pricing. This situation would also be applicable to companies with a maquila program granted under the shelter modality.

Tax incentives

1. The proposal would establish that the incentive involving deposits in special personal savings accounts, among others, indicated by the provision would be applicable as long as credit institutions, in the case of deposits in special personal savings accounts; insurance institutions, in

the case of payments made for insurance contract premiums based on pension plans associated with age or retirement; together with financial intermediaries, as regards the acquisition of investment fund shares, must be enrolled with the Registry created by the SAT, in conformity with the general rules issued by the latter for this purpose.

2. In the case of incentives granted for cinematographic production and distribution; theatrical production, the visual arts, dance and other elements; technological research and development; high-performance sports and investments in equipment for powering electrical vehicles, the proposal would establish that, when the credit exceeds the ISR payable during the fiscal year in which the incentive is applied, taxpayers may credit the resulting difference against their payable ISR, after having credited the amount of estimated payments made during the calendar year and creditable tax calculated according the terms of the Law, within the ten following years, until depleted.

3. Chapter VIII "On the accrual of income by companies" would be eliminated from Title VII of the LISR. This Chapter specifies that companies exclusively incorporated by individuals, which pay tax according to Title II of the Law and whose total income obtained during the immediately preceding year did not exceed the amount of five million pesos, could opt to apply this regime.

Simplified Trust Regime for Companies

1. The proposal would establish that this regime is applicable to companies resident in Mexico that are only incorporated by individuals, whose total income during the immediately preceding year did not exceed the amount of $35 million pesos, or companies resident in Mexico that are only incorporated by individuals that start operations and consider that their total income will not exceed the above amount. Income is deemed to be accruable when effectively earned.

2. Tax will not be paid according to this chapter by the following:

   i. Companies, when one or more of their partners, stockholders or members hold a controlling interest in other business corporations, are able to control their management or when they are classified as related parties pursuant to article 90 of this Law.

   For the purposes of the above paragraph, control will be understood as existing when one of the parties has effective control over the other party or its management, to the extent that it is able to decide when to distribute

income, profits or dividends, whether directly or through an intermediary.

ii. Taxpayers that perform their activities through a trust or joint venture.

iii. Those paying tax according to Chapters IV, VI, VII and VIII of Title II and Title III of this Law.

iv. Those paying tax according to Chapter VII of Title VII of this Law.

v. Taxpayers that cease to pay tax according to the terms of this Chapter.

3. Taxpayers must calculate their payable tax of the year according to article 9 of the Law; i.e., by applying the 30% ISR rate to their tax income of the year.

   The following items may be credited against annual tax:

   - The amount of estimated tax payments made during the calendar year.
   - The creditable tax determined according to articles 5 and 10 of the Law.

4. In general terms, taxpayers that apply the Simplified Trust Regime utilized by companies will be able to apply provisions that are similar to those established for taxpayers that pay tax according to Title II of the LISR.

5. Through temporary provisions, the proposal would specify that taxpayers that pay tax according to Title II or under the regime utilized before adopting the income accrual regime for companies and which fulfill the requirements of the new Simplified Trust Regime, must file a restatement notice on their economic activities and obligations with the SAT no later than January 31, 2022. If taxpayers fail to file this notice, the tax authority may restate their economic activities and obligations without the need for the taxpayer to file this notice.

   These taxpayers would not accrue the income effectively earned during 2022 as long as this amount was accrued until December 31, 2021, in conformity with the aforementioned Title II.

   Likewise, taxpayers that applied the deductions permitted according to the aforementioned Title II, may not once again apply them under the terms of Chapter XII (Simplified Trust Regime) and must continue to apply the maximum investment deduction percentages based on the time elapsed for investments made until December 31, 2021. Taxpayers which, as of December 31, 2021 hold inventories of goods, raw materials,

semi-finished or finished goods which have not been deducted at that date, must continue to apply the terms of Title II, Section III of the LISR in their annual tax return until this inventory is depleted. The provisions of this new regime will be applicable to any raw materials, semi-finished or finished goods acquired as of January 1, 2022.

A temporary provision would establish that companies that must pay tax under this regime as of 2022 may apply an additional deduction, both when determining the tax of the year of 2022 and the estimated tax payments of that year, for investments acquired during the period from September 1 through December 31, 2021. In this case, they would apply the maximum authorized percentages based on the proportion represented by the number of months of the year during which the goods in question were utilized by the taxpayer, as long as they fulfill the terms of this provision and this deduction does not imply the application of an amount exceeding 100% of the investment amount.

Value-Added Tax Law

1. The proposal would establish the 0% IVA rate for products intended for human and animal foodstuffs, as well as sanitary towels, tampons and cups used for menstrual purposes.

2. A new requirement would be added for IVA crediting purposes, which establishes that, when goods are imported, the customs declaration must be in the name of the taxpayer and certify payment of the respective IVA.

3. A new provision would be included to define the meaning of acts or activities not subject to the tax as those which the taxpayer does not perform in Mexico, as well as those differing from the acts or activities detailed in article 1 of the Law and performed in Mexico. This would be applicable when, in the cases mentioned in the new provision, the taxpayer obtains income or payments, for which purpose it incurs expenses or makes investments through which IVA was transferred to it or which it would have paid to import goods. When this Law refers to the value of the acts or activities contained in this new provision, this value will be equal to the amount of income or payments obtained by the taxpayer based on its performance of these acts or activities during the month in question.

4. The proposal would establish that, when IVA is payable or when the 0% rate is only applicable to a portion of the activities performed by the taxpayer, it must include any activities not subject to the payment of tax, while considering the different

assumptions established by the provision to determine creditable IVA.

5. In the case of the IVA adjustment for expenses and investments made during the pre-operating period, the proposal would add the requirement whereby, in order to identify the month in which this adjustment must take place, taxpayers must inform the tax authority of the month in which they begin their activities, in conformity with the general rules issued for that purpose by the SAT.

6. The proposal would add that noncompliance with obligations to provide information regarding the number of services or transactions performed during each month of the calendar year with service recipients located in Mexico, classified by service or transaction type and price, as well of the number of recipients, and the failure to maintain records based on the filed information, would result in the temporary suspension of access to the digital service of the digital services provider that failed to fulfill these obligations. This suspension would be implemented by the concession holders of a public telecommunications network in Mexico, until such time as this resident fulfills its outstanding obligations. Likewise, in the case of this informative return, the duration of this penalty for two consecutive quarterly periods would be eliminated.

7. It would be modified that it is understood that the temporary use or enjoyment of a tangible good is granted in national territory, when its use or enjoyment is carried out there, regardless of the place where the good is found at the time of its material delivery or of the celebration of the legal act that gives rise to who is going to make its use or enjoyment.

Federal Tax Code

Corporate mergers and spin-offs

1. It would be stipulated that a corporate spin-off or merger will be treated as a sale when, following the transfer of all or part of the respective assets, liabilities and capital, the stockholders' equity of the merged entity or entities, the surviving company, original or spun-off companies contains an item or entry, regardless of its name, the amount of which was not recorded or recognized in any of the stockholders' equity accounts contained in the statement of changes in financial position prepared and approved by the general meeting of the partners or stockholders that resolved to perform the merger or spin-off the company in question.

2. The proposal would also add that if, when conducting an inspection, the tax authority discovers that a corporate merger or spin-off lacks a business reason or does not fulfill

any of the requirements referred to by this article, it will determine the tax incurred by the sale, while considering the gain derived from the merger or spin-off as accruable income, if applicable.

3. It would also be added that, in order to verify whether the corporate merger or spin-off has a business reason, the tax authority may consider the relevant transactions related to the merger or spin-off that took place within the five years immediately preceding and following its performance. Relevant transactions will be understood as any act, regardless of the legal form utilized, through which, among other assumptions, the ownership, use or enjoyment of shares, voting or veto rights involving the decisions of the surviving company, the original company, the spun-off company, as the case may be, or the favorable vote needed for the decision-making process, and which reduce or increase the accounting value of the shares of the surviving company, the original company, the spun-off company, as the case may be, by more than 30%, as regards the value determined for them at the date of the corporate merger or spin-off and which was included in the report established by this provision.

Royalties

The proposal would specify that image rights imply the use or concession of a copyright to a literary, artistic or scientific work, which would be considered as a royalty.

Digital documents

The proposal would specify that the SAT would refuse to grant an advanced electronic signature and digital stamp certificates when discovering that the company requesting this signature or certificate has a partner or stockholder that holds effective control over the requesting entity and has not regularized its tax situation, or when said partner or stockholder has effective control over another company that fulfills the assumptions detailed in this provision and has not corrected its tax situation. This partner or stockholder is deemed to hold effective control when fulfilling any of the assumptions included in the provision.

Invalid certificates

In those cases in which certificates are invalidated due to conducts that cannot be materially rectified or challenged and when the possibility of obtaining a new certificate exists, this will be inapplicable when taxpayers have exhausted the procedure established in the new paragraph, but have not rectified or challenged the irregularities detected by the authority. In this case, the authority need only give notification of its decision to cancel the digital stamp certificate within the specified deadline. When the tax authority has issued a ruling in relation to the definitive tax situation of taxpayers derived from another procedure contained in this law, said taxpayers may only perform the procedure

established for obtaining a new certificate if they have previously regularized their tax situation.

Temporary restriction of the use of digital stamp certificates to issue CFDIs

The proposal would add that, in the case of taxpayers that pay tax according to the new Simplified Trust Regime, the temporary restriction would be applied when the authority discovers that they have failed to make three or more monthly payments during a calendar year, whether consecutive or otherwise, or did not file their annual tax return. Likewise, the situation would be applicable when the authority determines that the taxpayer engaged in one or more of these conducts, among others, by resisting the performance of an inspection visit at its fiscal domicile, failing to provide accounting records or indicate the content of safe deposit boxes. This will only be applicable once the tax authorities have previously notified the taxpayer of the fine imposed for its repeated conduct.

Please note that the temporary restriction applicable to the use of digital stamp certificates has been significantly modified. Accordingly, the bill must be consulted in order to determine which other cases fulfill this assumption.

Self-correction by applying recoverable balances

The addition of different paragraphs has been proposed as regards the provisions that regulates compensations, so as to establish an option for taxpayers subject to inspections to regularize their tax situation by applying the amounts they are entitled to receive from the tax authorities for any reason against the unpaid taxes and ancillary government charges determined by the tax authority. This would be possible even when involving different taxes. The proposal specifies that the taxpayer would file a request with the tax authority and establishes an enabling clause to allow the SAT to regulate the procedure and respective requirements through its general provisions.

The inclusion of a temporary provision has also been proposed to enable the facility described in the preceding paragraph to take effect as of January 1, 2023.

Joint liability

1. In the case of the joint liability assumed by taxpayers in relation to the buyers of business interests as regards the taxes incurred when these interests belong to another individual or entity, a condition would be added whereby the acquisition of business interests is deemed to exist, unless proven otherwise, when the tax authorities detect that the individuals or entities transferring and acquiring a group of goods, rights or obligations, among other items, fulfill any of the following assumptions: the partial or total transfer, through any legal act, of assets or liabilities between these

individuals or entities, when partners or stockholders hold effective control and when workers, trademarks and patents, intellectual property rights, fixed assets, installations or the infrastructure used to perform the company's activities are partially or totally identified.

2. Joint liability with taxpayers would be extended to the representatives, regardless of the name given to them, of individuals or entities that are not resident in Mexico or are resident abroad, with whose intervention activities subject to the payment of tax are performed, for up to the amount of these taxes. This situation also applies to persons appointed in conformity with tax obligations as well as those appointed for tax purposes, for up to the amount of taxes or ancillary government charges referred to by applicable provisions.

3. Furthermore, companies that have not filed information on the sale of shares or securities issued by the taxpayer representing the ownership of goods, performed between foreign residents without a PE in Mexico, will assume joint and several liability with taxpayers.

Federal Taxpayer Registry

1. The proposal would add that the notice filed with the Federal Taxpayers' Registry (RFC), through which companies report the names and federal taxpayer registration numbers of their partners, stockholders or associates, would have to indicate the equity held by each, the company's corporate purpose and those holding effective control according to the general rules issued by the SAT. Similarly, companies whose shares are offered to investors would have to file the information referred to by this provision on the individuals or entities holding control, significant influence or power within the company, together with the names of its representatives, their federal taxpayer registration numbers and the percentage represented as regards the total number of shares issued by the company. Control will be understood as significant influence or authority, as detailed in the general rules issued for this purpose by the SAT.

2. The tax authorities' powers would enable it to cancel or suspend the RFC when its systems or the information provided by other authorities or third parties confirm that the taxpayer did not perform any activities during the previous five years. Likewise, it did not issue tax receipts, has no outstanding obligations or due to the death of the individual in question, and has also fulfilled the other requirements established by the SAT through its general rules.

3. The proposal would establish that taxpayers

that file an RFC cancellation notice due to the complete liquidation of their assets, the total conclusion of operations or based on a corporate merger, must fulfill the requirement of obtaining a positive opinion on their compliance with social security obligations, except when the RFC cancellation procedure is performed due to a corporate merger.

Digital tax receipts issued via the Internet

1. Taxpayers that export goods that are not intended for sale or when they are sold under gratuitous title, must provide a digital tax receipt issued via the Internet (CFDI) to support the transaction.

2. It would be specified that CFDIs must fulfill the requirements contained in article 29-A of this Code and those established for this purpose by the SAT through its general rules, including the supplementary items to the digital tax receipt issued via the Internet, which will be published on the SAT website. Likewise, they must validate the fulfillment of the requirements detailed in this provision and those contained in the supplementary items to the CFDIs, which the SAT establishes through its general rules.

3. The proposal would add that CFDIs must be issued for sales returns, discounts or rebates. If receipts are issued to support expenses without the support documentation needed to justify sales returns, discounts or rebates before the tax authorities, these items would be nondeductible as regards the taxpayer's tax income, a situation that could be verified by the authorities when exercising the inspection powers conferred by this Code.

CFDI requirements

1. It would also be necessary for CFDIs to indicate the tax code applicable to the use given to the tax receipt by the recipient.

2. Likewise, unless tax provisions specify a shorter period, CFDIs may only be canceled during the year of their issuance and provided the individual or entity to which they are issued accepts their cancellation. Similarly, through its general rules, the SAT will establish the form and means through which this acceptance can be confirmed, together with the characteristics of the CFDIs or digital documents, in the case of transactions performed with foreign residents without a PE in Mexico. When taxpayers cancel income-related CFDIs, they must justify the reason for this cancellation and provide the necessary support documentation, which may be verified by the tax authorities when exercising the inspection powers conferred by this Code.

Conservation of ledgers and documents

The proposal would add that the information and documentation of foreign residents and data related to the Standard for Automatic Exchange

of Financial Account Information in Tax Matters, must be conserved for a six-year period as of the date on which the respective information and documentation was or should have been generated, or as of the date on which the related tax returns were or should have been filed, as the case may be.

Information on relevant transactions

The proposal would add that taxpayers must file information on corporate reorganization and restructuring processes, on relevant transactions related to corporate mergers and spin-offs, as established by the CFF, and on restructuring processes, in conformity with the LISR.

Mandatory tax audit report

The proposal would establish that companies that pay tax according to Title II of the LISR must have their financial statements audited by a registered public accountant when, in the immediately preceding fiscal year, their regular tax returns reported accruable income for ISR purposes equal to or higher than the amount of $876,171,996.50, as well as those which, at the immediately preceding year close, listed their shares on the stock market.

The option of auditing the financial statements would be maintained, but must be declared in the tax return of the year.

The report must be filed no later than May 15 of the year immediately following the end of the fiscal year in question.

Standard for Automatic Exchange of Financial Account Information in Tax Matters and Regulation of controlling persons

1. In relation to this Standard, the proposal would strengthen the current compliance framework to make it more robust and convincing as regards the obligation of financial institutions to report the information that must be exchanged within the framework of the broad information exchange agreements signed by Mexico and which authorize the automatic exchange of financial information in tax matters, as well as the interinstitutional agreements signed in this regard, thereby ensuring fulfillment of this internationally assumed commitment.

   Likewise, a specific system of infringement and penalties would be established for these matters, which are currently regulated through the penalization framework applicable to other obligations, such as the obligation to maintain an accounting system or file notices, tax returns, documentation and information, which could result in inaccuracies that cause legal uncertainty.

2. The CFF would be amended to add articles 32-B 3rd, 32-B 4th and 32-B 5th and establish an obligation whereby companies, trustees, trustors or beneficiaries, in the

case of trusts, together with contracting parties or members, in the case of any other legal figure, must obtain and conserve, complete, reliable and updated information on controlling persons, which must be filed with the SAT.

Filing information on a company's tax situation

1. The assumption established for filing information on a company's tax situation (ISSIF) as regards accruable information and when offering shares to investors, because of the mandatory filing of the tax audit report, would be eliminated.

2. It would be added as an assumption to present the ISSIF to taxpayers that are related parties of the entity that must file the tax audit report.

Determination of the simulation of legal acts for tax purposes

A new provision would be added whereby, after performing an inspection, the tax authorities would be able to determine the simulation of legal acts exclusively for tax purposes. This determination must be duly justified and grounded in law within the inspection procedure; the existence of such acts must be detailed in the report on the taxpayer's tax situation, as long as they involve transactions between related parties.

Public accountants' reports

A new obligation would be added whereby if, after preparing their report, the registered public accountant has knowledge to the effect that the taxpayer has not complied with tax and customs provisions or has engaged in a form of conduct constituting a tax offense, they must report this situation to the tax authorities in conformity with the general rules established for this purpose by the SAT.

Apocryphal receipts and nonexistent transactions

The proposal would also add that the nonexistence of transactions supported by tax receipts would be presumed when the tax authority discovers that a taxpayer has issued tax receipts to support transactions performed by another taxpayer during the period in which the latter's use of digital stamp certificates has either been terminated or temporarily restricted, without it having corrected the irregularities detected by the tax authorities, or when receipts are issued to support transactions performed with the assets, personnel, infrastructure or material capacity of that person.

Conclusive agreement

The proposal would add that a conclusive agreement procedure must not exceed a 12-month period as of the date on which the taxpayer files a request with the Tax Ombudsman.

A temporary provision establishes that conclusive agreements requested before January 1, 2022 and which, on the date when this Decree becomes effective, are still pending with the Tax Ombudsman, must be concluded within a deadline not exceeding 12 months as of that date.

Reduction of fines and surcharges
The proposal would add that fines related to rulings issued to resolve disputes according to the terms of the tax treaties signed by Mexico could be lawfully reduced, a situation that would also be applicable to fines determined by the taxpayer.

Full debt forgiveness
The proposal would add that fines related to rulings issued to resolve disputes according to the terms of the tax treaties signed by Mexico could be fully forgiven.

Nonpayment of taxes, fines
The proposal would add that, in the case of integrating and integrated companies that apply the optional regime for corporate groups that declared tax losses in excess of those actually obtained, the applicable fine will be from 60% to 80% of the difference between the declared loss and that actually obtained, regardless of whether the company in question has totally or partially subtracted this amount from its tax income.

Infringements and fines

1. The proposal would establish that the failure to cancel CFDIs issued for income would constitute an infringement whenever these receipts are issued mistakenly, without a justifiable reason or canceled outside the established deadline, thereby resulting in a fine of between 5% to 10% of the amount of each tax receipt.

2. The proposal would also establish that the use of receipts issued by a third party for tax purposes would also constitute an infringement whenever the tax authorities perform an inspection and determine that these tax receipts support nonexistent or simulated transactions because the taxpayer using them failed to demonstrate their performance during the inspection year. This would be applicable unless the taxpayer has corrected its tax situation and would result in a fine of between 55% and 75% of the amount of each tax receipt.

Concealment of tax offenses
The proposal would add that, without a prior agreement and following the occurrence of the offense, the registered public accountant is deemed to be responsible for concealing tax offenses when following the preparation of the report on the financial statements, they have knowledge to the effect that an act classified as a legal offense occurred, without having reported it pursuant to article 52, section III, third paragraph of the CFF.

Presumption of smuggling
It would be added that the presumption of smuggling would be applicable when:

A. Goods or merchandise are transferred by any means of transportation without the respective CFDI indicating the type of income or transfer, as the case may be, to which the Customs Transit Declaration is attached.

B. Hydrocarbons, oil or petrochemical products are transferred by any means of transportation without the respective CFDI indicating the type of income or transfer, as the case may be, to which the Customs Transit Declaration is attached, together with the supplemental documents of the digital receipt issued by the Internet for the goods in question.

The fulfillment of the above assumptions a) and b) would be subject to a prison term of between three to six years.

Smuggling penalties

The proposal would add that, in the case of unpaid taxes, such as the IEPS applicable to automotive fuels under the terms of the LIEPS, registration with the importers' roll of specific sectors established by the Customs Law would be definitively canceled, together with the customs broker's license to perform customs clearance procedures for the goods in question.

Qualified tax fraud

The offense of qualified tax fraud would be added, whenever derived from:

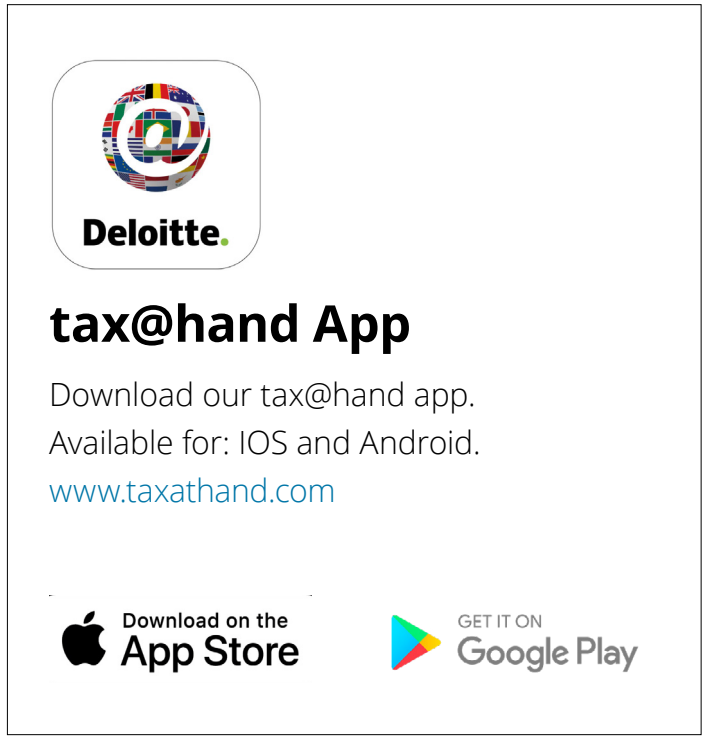
A. Simulating the provision of the independent personal services referred to by the Simplified Trust Regime of the LISR with regard to the taxpayer's workers.

B. Deducting, crediting, applying a tax incentive or benefit, or in any way obtaining a tax benefit in relation to expenses incurred in breach of anticorruption laws, including expenses involving the act of giving, whether directly or through an intermediary, money, goods or services to public servants or third parties, whether Mexican or foreign, in contravention of legal provisions.

We invite you to read the full Economic Package document by clicking on the following link.

Contact:

Eduardo Revilla
Tax and Legal Partner
erevilla@deloittemx.com
Tel. 55 5080 6081



Aguascalientes
Universidad 1001, piso 12-1
Bosques del Prado
20127 Aguascalientes, Ags.
Tel: +52 (449) 910 8600
Fax: +52 (449) 910 8601

Cancún
Avenida Bonampak SM 6, M 1, lote 1,
piso 10, 77500 Cancún, Q. Roo
Tel: +52 (998) 872 9230
Fax: +52 (998) 892 3677

Chihuahua
Av. Valle Escondido 5500
Fracc. Des. El Saucito E-2, piso 1,
31125 Chihuahua, Chih.
Tel: +52 (614) 180 1100
Fax: +52 (614) 180 1110

Ciudad Juárez
Baudelio Pelayo No. 8450
Parque Industrial Antonio J. Bermúdez
32400 Ciudad Juárez, Chih.
Tel: +52 (656) 688 6500
Fax: +52 (656) 688 6536

Culiacán
Insurgentes 847 Sur, Local 103
Colonia Centro Sinaloa
80128 Culiacán, Sin.
Tel: +52 (33) 1454 2000

Guadalajara
Avenida López Mateos Norte 2405, piso 29
Colonia Italia Providencia
44648 Guadalajara, Jal.
Tel: +52 (33) 3669 0404
Fax: +52 (33) 3669 0469

Hermosillo
Blvd. Eusebio Francisco Kino No. 315
Piso 8, Suite 804, Colonia Lomas del Pitic
83010 Hermosillo, Son.
Tel: +52 (662) 109 1400
Fax: +52 (662) 109 1414

León
Paseo de los Insurgentes 303, piso 1
Colonia Los Paraísos
37320 León, Gto.
Tel: +52 (477) 214 1400
Fax: +52 (477) 214 1405 y 1407

Mérida
Calle 56 B 485 Prol. Montejo Piso 2
Colonia Itzimna
97100 Mérida, Yuc.
Tel: +52 (999) 913 4032
Fax: +52 (999) 913 4052

Mexicali
Calzada Francisco López Montejano 1342
Piso 7 Torre Sur
Fracc. Esteban Cantú
21320 Mexicali, B.C.
Tel: +52 (686) 905 5200
Fax: +52 (686) 905 5231 y 5232

Ciudad de México
Paseo de la Reforma 505, piso 28
Colonia Cuauhtémoc
06500 México, D.F.
Tel: +52 (55) 5080 6000

Monclova
Blvd. Harold R. Pape # 307-C
Colonia Guadalupe
25750 Monclova, Coah.
Tel: +52 (866) 190 9550
Fax: +52 (866) 190 9553

Monterrey
Av. Juárez 1102, piso 40
Centro
64000 Monterrey, N.L.
Tel: +52 (81) 8133 7300

Puebla
Edificio Deloitte, Vía Atlixcayotl 5506, piso 4 Zona Angelópolis
72190 Puebla, Pue.
Tel: +52 (222) 303 1000
Fax: +52 (222) 303 1001

Querétaro
Avenida Tecnológico 100-901
Colonia San Ángel
76030 Querétaro, Qro.
Tel: +52 (442) 238 2900
Fax: +52 (442) 238 2975 y 2968

Reynosa
Carr. Monterrey-Reynosa 210-B, PA
Fracc. Portal San Miguel
88730 Reynosa, Tamps.
Tel: + 52 (899) 921 2460
Fax: +52 (899) 921 2462

San Luis Potosí
Av. Salvador Nava Martínez 3125, 3-A
Fracc. Colinas del Parque
78294 San Luis Potosí, S.L.P.
Tel: +52 (444) 102 5300
Fax: +52 (444) 102 5301

Tijuana
Misión de San Javier 10643, Piso 8
Zona Urbana Río Tijuana.
Tijuana B.C., 22010
Tel: +52 (664) 622 7878
Fax: +52 (664) 681 7813

Torreón
Independencia 1819-B Oriente
Colonia San Isidro
27100 Torreón, Coah.
Tel: +52 (871) 747 4400
Fax: +52 (871) 747 4409

Deloitte.