TAX

NEWSFLASH

RITCH MUELLER

OCTOBER 19, 2023

- Tax benefits to key export sectors aiming at optimizing their operations through nearshoring.
- Accelerated depreciation for new fixed assets, at rates between 56% to 89%, surpassing standard depreciation rates.
- Additional 25% deduction on training expenses for employees, encouraging skill development relevant to key sectors.

Mexico grants tax incentives to boost Nearshoring

On October 11, 2023, the Ministry of Finance published a "Decree to Grant Tax Incentives to Key Sectors of the Export Industry through Accelerated Depreciation for New Fixed Assets and Additional Deductions on Training Expenses" (referred to as the "**Decree**") in the Federal Official Gazette, which took effect the day following its publication.

The Decree's primary objective is to provide tax benefits to companies operating within pivotal sectors of the export industry aiming to enhance their operations through nearshoring. These incentives specifically target taxpayers who (i) engage in the production, processing, or industrial manufacturing of specific goods for export, as specified in the Decree, and (ii) participate in the production of cinematographic or audiovisual works protected by copyright for export.

Key Sectors

The Decree identifies several key sectors, including semiconductors, automotive (especially in electromobility), electrical and electronic industries, medical and pharmaceutical instrument manufacturing, agribusiness, human and animal nutrition, cinematography, and audiovisual sectors. It extends the incentives to taxpayers involved in the production, processing, or manufacturing of the following goods:

I. Dietary products intended for human and animal consumption.
II. Fertilizers and agrochemicals.
III. Raw materials for the pharmaceutical industry and pharmaceutical preparations.

IV. Electronic components, such as simple or loaded cards, circuits, capacitors, condensers, resistors, connectors, semiconductors, coils, transformers, harnesses, and modems for computers and telephones.
V. Machinery for clocks, as well as measuring, control and navigation instruments, and electronic equipment for medical use.
VI. Batteries, accumulators, electric conduction cables, plugs, contacts, fuses, and accessories for electrical installations.
VII. Gasoline, hybrid, and alternative fuel engines for automobiles, vans, and trucks.
VIII.Electrical and electronic equipment, steering systems, suspension, brakes, transmission systems, seats, interior accessories, and stamped metal parts for automobiles, vans, trucks, trains, ships, and aircraft.
IX. Internal combustion engines, turbines, and transmissions for aircraft.
X. Non-electronic equipment for medical, dental, and laboratory use, disposable materials for medical use, and optical articles for ophthalmic use.

ACCELERATED DEPRECIATION OF INVESTMENTS

This incentive allows taxpayers to immediately deduct a portion of their investments in new fixed assets, applying increased percentages specified in the Decree, ranging from 56% to 89% depending on the corresponding fixed asset. This is in contrast to the maximum depreciation percentages established by the Mexican Income Tax Law.

Aplicables Subjects

This incentive is available to:

1. Entities paying taxes under the general tax regime.
2. Entities paying taxes under the Simplified Trust Regime (or "RESICO").
3. Individuals paying taxes under the general regime for business activities and professional services.

Validity

The percentages established for this incentive can be applied to investments in new fixed assets from the effective date of the Decree until December 31, 2024. However, this incentive is only applicable if taxpayers expect that at least 50% of their total invoicing during fiscal years 2023 and 2024 comes from the export of goods.

This tax incentive applies exclusively to investments made by taxpayers for a minimum use period of two years immediately following the fiscal year in which accelerated depreciation is applied. Furthermore, it is only applicable to "new assets," meaning those used for the first time in Mexico.

Obligations

Taxpayers must:

1. Maintain records of the investments for which accelerated depreciation was applied, along with supporting documentation.
2. Specify the type of asset (as long as it falls within the categories listed in the Decree).
3. Describe its relationship with their primary business line or activity.
4. Explain the specific process or activity in which the asset was utilized.
5. Indicate the corresponding depreciation percentage.
6. Specify the fiscal year when the deduction was applied.
7. Indicate the date the asset is disposed of, lost due to an act of force majeure, or ceases to be useful.

Other Considerations

For the purpose of calculating monthly estimated income tax advance payments, taxpayers applying this incentive must include the amount deducted from the application of the incentive in their taxable income or subtract it from tax losses to determine the profit proportion for fiscal years 2023 or 2024. Additionally, the amount deducted from the incentive should be subtracted from the taxable income of the monthly estimated income tax advance payments.

Regarding value-added tax, the Decree states that accelerated depreciation will be considered a fully deductible expense as long as the requirements outlined in the Income Tax Law are met.

TAX
NEWSFLASH

RITCH MUELLER

ADDITIONAL DEDUCTION FOR TRAINING EXPENSES

The second tax incentive involves applying an additional deduction equivalent to a 25% increase in training expenses for each of the taxpayer's employees registered with the Mexican Social Security Institute ("**IMSS**") for fiscal years 2023, 2024, and 2025.

The increase in training expenses is calculated as the positive difference between the amount incurred during the fiscal year in question and the average expense during fiscal years 2020, 2021, and 2022, even if no expenses for training were incurred during those fiscal years. This training should be related to technical or scientific knowledge pertinent to the taxpayer's activity.

Requirements

Taxpayers must:

1. Provide documentation proving the labor relationship between the employee and the taxpayer.
2. Furnish documentation substantiating the employee's registration with the IMSS.
3. Specify the nature of the training.
4. Establish a connection with one of the activities within the key sectors the Decree aims to promote (export).

In general, taxpayers seeking to apply these incentives must comply with standard tax obligations, including registration in the RFC, enabling their taxpayer mailbox, having a positive tax compliance report, and notifying tax authorities of the application of these incentives within 30 calendar days following the month in which the incentive is first applied.

Oscar López Velarde, Partner olopezvelarde@ritch.com.mx | **Santiago LLano Zapatero, Partner** sllano@ritch.com.mx
Juan José Paullada Eguirao, Partner, jpaullada@ritch.com.mx

Torre Virreyes, Av. Pedregal No. 24 piso 10 Molino del Rey, 11040 Ciudad de México
+52 55 9178 7000 | contacto@ritch.com.mx | www.ritch.com.mx