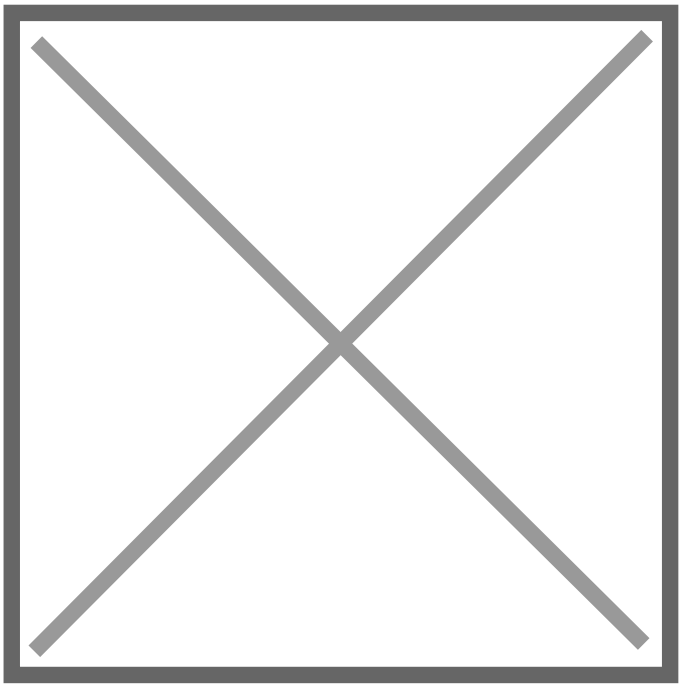


Mexico´s New Tax Reform as it Relates to the Federal Labor Law

A Tax Reform came into force, which includes changes to the treatment of subcontracting regimes under both the Income Tax Law (“ITL”) and the Value Added Tax Law (“VATL”) analyzed jointly with the Federal Labor Law (“FLL”).

1. **Income Tax Law**

The ITL establishes a new requirement to deduct payments made to contractor companies in case of subcontracting in terms of the LFT, whereby the contracting party must (beneficiary of the services) obtain from the contractor company specific documents and information.

In general terms, the fiscal consequence derived from the non-compliance of the aforementioned obligation will result in the non-deductibility of the payments made to third parties providing services.

2. **Value Added Tax Law**

The VATL establishes an additional requirement to apply the credit of transferred VAT, whereby the contracting party who makes payments to contractor companies should obtain the information that evidences the payment of the corresponding VAT to the tax authorities.

In case the contracting party does not request the aforementioned documents or otherwise does not comply with the obligation mentioned in section 1 above, the VAT associated with such services shall not be creditable, in addition to any other legal consequence that may be triggered.

3. **Electronic Payroll Receipts**

Lastly, the SAT announced an additional modification in connection with subcontracting regimes, in terms of which the electronic payroll receipts (CFDI's) that the contractor issues to their employees must contain the Taxpayers' ID of the contracting party and the percentage of time that the employee rendered his/her services to the company that subcontracted him/her.

In case such CFDI does not contain the aforementioned information, it will be considered as non-compliant with tax requirements and; therefore, not deductible for the contracting party.

Although insourcing/outsourcing structures are feasible it is important to verify that such structures are compliant with all of the legal requirements, otherwise, employment or tax liabilities could be triggered.

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