Northern Border Tax Incentives

With the objective of strengthening the economy of the northern border of Mexico, a Presidential Decree was published today in the Official Gazette, through which a tax incentive was granted for 2019 and 2020 consisting of the reduction, via a tax credit, of one third of the income tax liability, to entities, individuals conducting business and professional activities, and non-Mexican residents with permanent establishments located herein, whose income from business activities carried out on that border, represent at least 90% of their total income.

The municipalities of the States of Sonora, Chihuahua, Coahuila, Tamaulipas, and Baja California, that are in border with the United States of America are considered as “border zone” for purposes of the incentive. In the case of the State of Baja California, all its municipalities, although not physically at the border, are considered part of the “border zone”.

Taxpayers must submit by March 31 an application for registration in the corresponding registry of beneficiaries and prove that they meet all the formal requirements, such as having an electronic signature, a favorable opinion of their compliance with tax obligations, a tax inbox and their acceptance to collaborate semiannually with the tax administration in its verification program in real time.

It must also be proven that the taxpayer's tax domicile or one of its branches is located within that border zone at least during the 18 months prior to the filing of the application. In case of newly incorporated taxpayers, certain alternatives for compliance of this requirement are provided.

This incentive may not be applied by taxpayers of the financial system, who carry out primary-industry activities, activities through FIBRAS, or other business activities through trusts, or those who determine their taxable profit under the maquiladora regime, among other cases.

Likewise, those taxpayers who submit notice during the month of January will also be able to access an incentive consisting in the reduction of 50% of the value added tax for the provision of independent services, alienation or lease of goods, whose material delivery or service provision is performed in the “border zone”. The incentive will not be applicable to the alienation of real estate or intangibles, or the supply of digital content.

Both the income tax incentive and the value added tax incentive cannot be exercised by taxpayers who have been included, or their shareholders, in any of the listings referring to the execution of nonexistent operations.