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Decree of Tax Incentives to Support the "Mexico Plan"

On January 21, 2025, a "Decree granting tax incentives was published in the Mexican Official Gazette of the Federation ("DOF", per its acronym in Spanish) to support the national strategy called 'Mexico Plan', to promote new investments, encourage dual training programs, and drive innovation" (the "Decree").

I. Immediate Deduction of Investment in New Fixed Assets

Through the Decree, accelerated depreciation deductions are granted to Mexican resident corporations ("Legal Entities") or corporations taxed under a Simplified regime of the Mexican Income Tax Law ("MITL"), and to individuals with a trade or business (the "Tax Incentives Recipients").

The Decree allows for the full deduction of investments in fixed assets, newly acquired starting January 22, 2025, through September 30, 2030, deducting in the fiscal year in which the investment is made the amount resulting from applying the percentages established in the Decree to the original amount of the investment.

Below are some relevant considerations applicable to the incentives:

i. Meeting *Requisites:* Taxpayers applying the Decree must meet specific requisites outlined in the Decree, including submitting an investment project to an Evaluation Committee, obtaining a compliance certificate issued by this body, and adhering to the guidelines issued by the Committee.

ii. Investment *Holding Period:* The benefits are only applicable with respect to investments that taxpayers keep in use for a minimum of two years immediately following the fiscal year in which the immediate deduction is made, except in certain cases.

iii. Exclusion *of Certain Asset Classes:* The incentives does not apply to all fixed assets; for example, it does not include office furniture and equipment, and automobiles powered by internal combustion engines.

iv. Monthly *Advanced Payments:* The monthly corporate income tax advanced payments for the fiscal years 2025 to 2030 must consider the aforementioned accelerated depreciation, particularly when computing the taxable year's profit coefficient and the taxable income for the corresponding advanced payment.

II. Additional Deduction for Worker Training or Innovation Expenses

Through the Decree, a tax incentive is granted to the Tax Incentives Recipients, consisting of an additional deduction equivalent to 25% of the excess of **(i)** the expenses incurred in the fiscal year in connection to employee training in technical or scientific knowledge related to the taxpayer's activity, or **(ii)** the expenses incurred for innovation, over the average expense incurred by the taxpayer in connection to these items concepts in the three previous fiscal years.

Below are some relevant considerations applicable to the incentives:

i. *Registration of Workers before IMSS:* The additional deduction will only be applicable for employee training provided by taxpayers to their active workers registered before the Mexican Social Security Institute ("IMSS", per its acronym in Spanish).

ii. *Loss of Right to Apply Incentive:* Taxpayers who do not apply the additional deduction in the fiscal year in which the expense is incurred will lose the right to do so in subsequent fiscal years.

iii. Registration *with Evaluation Committee:* Taxpayers must register the expenses they intend to incur with the Evaluation Committee.

III. Additional Considerations

- The Decree establishes certain conditions under which taxpayers will not be able to apply or will lose the application of the benefits, including: **(i)** having tax deficiency assessments which can be enforced, tax deficiency assessments which are unsecured, or qualified as not being as located; **(ii)** having issued tax invoices without having the assets, personnel, or infrastructure to provide the services or deliver the goods covered by such receipts (known as "EFOS"); or **(iii)** being in the process of temporary restriction of the use of digital invoice stamp or having it canceled.
- From the entry into force of the Decree, the "Decree granting tax incentives to key sectors of the export industry, consisting of the immediate deduction of investment in new fixed assets and the additional deduction of training expenses," published in the DOF on October 11, 2023, as well as its subsequent modification, will be rendered ineffective. Taxpayers who have applied the Decree continue to have the right to continue applying it until its full conclusion.

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