CREEL GARCÍA-CUÉLLAR AIZA Y ENRÍQUEZ

TAX REFORM FOR 2027

On November 13, 2026, two decrees were published in the Federal Official Gazette: (i) the Decree amending, adding, and repealing various provisions of the Mexican Income Tax Law ("MITL") and enacting temporary provisions ("MITL Reform"), and (ii) the Decree enacting the Federal Revenue Law for Fiscal Year 2027 ("2027 FRL"). Most provisions will enter into force on January 1, 2027.

The most relevant aspects of the reform are outlined below:

I. MITL Reform:

- **Limitation on allowable deductions and net operating losses:** A limitation is introduced for Mexican resident legal entities with taxable income exceeding MXN 50 million that report a taxable profit for the fiscal year, as follows: (i) when allowable deductions are equal to or less than 96.67% of taxable income, deductions will be capped at 99% of their amount, and when they exceed that percentage, the cap will be 96.67% of taxable income; (ii) net operating losses ("NOLs") from prior fiscal years may be offset only up to 50% of the taxable profit for the fiscal year, determined after applying the deduction cap, which limit also applies to advance income tax payments; and (iii) deductions and NOLs not applied may be carried forward for the following 20 fiscal years. For 2027 advance income tax payments, the profit ratio will be multiplied by a factor of 1.0658 if, in the last annual tax return filed, allowable deductions were equal to or less than 96.67% of taxable income, or by 2.6162 if they exceeded that percentage.

  Certain taxpayers are excluded from this limitation, including those: (i) taxed under the coordinated regime or the regime for agricultural, livestock, forestry, and fishing activities; (ii) carrying out maquila operations (except for income from the sale of goods in Mexico), as well as certain taxpayers engaged in vehicle assembly and manufacturing under a bonded warehouse authorization; (iii) that are insurance companies; (iv) registered with the Federal Taxpayers' Registry for fewer than five fiscal years; (v) applying the immediate deduction of investments or the additional deduction for training, initial certification, utility model, or patent expenses (only with respect to such benefit); and (vi) engaged in the retail sale, distribution, or marketing of gasoline and diesel.

- **Net interest:** The cap on the deduction of net interest is reduced from 30% to 20%. Starting in 2027, net interest exceeding 20% of adjusted taxable profit, which generally corresponds to the taxpayer's taxable profit before interest, depreciation, and amortization, will not be deductible.

- **Payments to non-residents:** Payments to non-residents will be deductible only in the fiscal year in which the consideration is paid and the corresponding withholding tax is remitted. In addition, the withholding agent must remit the tax on the date the payment becomes due, accrues, or is made, whichever occurs first, and amounts in foreign currency must be converted into Mexican pesos at the time the tax is withheld.

- **Contributed capital account ("CUCA") and tax basis of shares:** In capital contributions arising from debt capitalizations, accrued but unpaid interest and the related value added tax ("VAT") will not be included in the CUCA or in the tax basis of the shares. In-kind contributions consisting of accounts receivable, assignments of collection rights, or negotiable instruments will be added to the CUCA balance only when and to the extent they are collected in cash. It is also clarified that the rules applicable to capital redemptions and reductions also apply to the absorption of losses, regardless of whether shares are cancelled.

- **Net after-tax profit account ("CUFIN"):** Article 77 of the MITL is amended to clarify that, when determining the net after-tax profit for the fiscal year, expenses that do not meet the applicable tax requirements must also be subtracted from the tax result.

- **Repeal of the Optional Tax Regime for Groups of Companies:** The regime that allowed corporate groups to defer part of their income tax ("ISR") is repealed.

- **Prepayments:** Prepayments for services or for the temporary use of assets will be deductible only in the fiscal year in which the service is actually rendered or the corresponding period of use elapses.

II. 2027 FRL:

- **ISR withholding on interest:** For 2027, the annual ISR withholding rate that banks and other financial institutions apply on the principal amount generating interest will be 0.68%.

- **Tax incentive for initial public offerings:** For fiscal year 2027, a tax incentive is granted to Mexican resident individuals and to non-residents without a permanent establishment in Mexico. The incentive consists of a 10% ISR rate (or 0% in certain cases) on capital gains from the sale of shares in the initial public offering of a Mexican company carried out on licensed Mexican stock exchanges, including offerings conducted simultaneously on recognized foreign markets, in which case the benefit is limited to the portion of the offering carried out on Mexican exchanges. Among other requirements, the shares must be effectively offered and placed among the general investing public. If the issuer's market value exceeds MXN 50 billion, the incentive applies only to a proportional part of the gain. If a person or group of persons sells more than 25% of the issuer's paid-in shares, the gain attributable to the excess is taxed under the progressive rate table set forth in Article 152 of the MITL.

- **Repatriation of funds:** Taxpayers may once again elect to pay ISR at a 7.5% rate, without deductions, on funds of lawful origin held abroad as of September 8, 2026, that are repatriated to Mexico no later than December 31, 2027. The funds must remain invested in Mexico for at least three years, and dividends or capital redemptions attributable to such funds during that period will be subject to a 10% ISR withholding tax.

- **Relief on penalties, late-payment surcharges, and enforcement costs:** 100% of penalties, late-payment surcharges, and enforcement costs are waived for taxpayers that: (i) have tax liabilities for fiscal year 2025 or earlier and pay them in a single payment no later than December 31, 2027; (ii) are under a tax audit and self-correct their tax position no later than December 31, 2027; or (iii) have final, unchallenged tax assessments, or withdraw the corresponding appeal. In all cases, a request must be filed with the Tax Administration Service no later than October 31, 2027.

- **Security in administrative appeals:** Taxpayers filing an administrative appeal on or after January 1, 2027, will have up to six months to post security for the tax liability, and will not be required to do so when filing the merits-only administrative appeal.

- **Real estate investment trusts ("FIBRAs"):** The minimum percentage of the tax result that must be distributed is adjusted by multiplying 95% by the ratio of the tax result determined without applying the deduction cap to the tax result determined applying such cap.

- **Tax incentive on the sale of books:** A new tax incentive is granted, consisting of applying the 0% VAT rate to the sale of books, newspapers, and magazines by taxpayers other than publishers (e.g., bookstores and distributors) whose income from such sales in the immediately preceding year represents at least 90% of their total income. These taxpayers may credit the VAT on expenses strictly indispensable for such sales.

The comments included herein are for guidance purposes only and should not be construed as applicable to specific cases, as they derive from a conceptual analysis of the provisions, and their impact must be analyzed on a case-by-case basis.

For further information, please contact **Omar Zúñiga, Jorge Correa, Eduardo Brandt, Luis Salinas, Andrés Sánchez** and **Susana Avalos**.