

# TAX INCENTIVES FOR KEY SECTORS OF THE EXPORT INDUSTRY

*Decree granting tax incentives for key sectors of the export industry*



On October 11, 2023, the Ministry of Finance and Public Credit ("SHCP") published in the Official Gazette of the Federation a decree granting tax incentives for key sectors of the export industry, consisting of the immediate deduction of the investment in new fixed assets and the additional deduction of training expenses, thus promoting the development of *nearshoring*, as well as competition and economic growth in Mexico.

Such decree is addressed for taxpayers subject to the provisions of Title II (Legal Entities), Title VII, Chapter XII (Simplified Trust Regime), Title IV, Chapter II, Section I (Individuals with Business or Professional Activity) of the Income Tax Law, and who are engaged in production, processing, or industrial manufacture of:

- Products intended for human and animal consumption;
- Fertilizers and agrochemicals;
- Raw materials for the pharmaceutical industry and pharmaceutical preparations;
- Electronic components, such as simple or loaded cards, circuits, capacitors, condensers, resistors, connectors and semiconductors, coils, transformers, harnesses and computer and telephone modems;
- Machinery for clocks, measuring, control and navigation instruments, and electronic medical equipment;
- (i) Batteries, accumulators, cells, power cables, plugs, contacts, fuses and accessories for electrical installations;

- Gasoline, hybrid and alternative fuel engines for automobiles, vans and trucks;
- Electrical and electronic equipment, steering systems, suspension, brakes, transmission systems, seats, interior fittings and stamped metal parts, for automobiles, vans, trucks, trains, ships and aircraft;
- Internal combustion engines, turbines and transmissions, for aircraft; and
- Non-electronic medical, dental and laboratory equipment and apparatus, medical disposables and ophthalmic optics.

On the other hand, to benefit the film industry and commercialization of audiovisual content in Mexico, tax incentives are also granted to those taxpayers engaged in the production of cinematographic or audiovisual works, whose content is protected by copyright and provided that such works are exported<sup>[1]</sup>.

In addition, the decree establishes certain assets that will be excluded, among which are office furniture and equipment, automobiles propelled by internal combustion engines, automobile armoring equipment, or any fixed assets not individually identifiable, or in the case of airplanes other than those used for agricultural aerial spraying.

<sup>[1]</sup> It is understood that a cinematographic or audiovisual work is exported when the producer, in its capacity as holder of the economic rights, licenses or transfers exploitation rights for its distribution abroad.

This tax incentive entails deducting in the year in which the investment is made the percentages set forth in the decree, which vary between 56% and 89% depending on the relevant type of asset, replacing the maximum percentages of authorized deductions established in the Income Tax Law.

Taxpayers may apply the applicable tax incentives, during the fiscal years 2023 and 2024, provided that the amount of income from exports of goods or works represents at least 50% of their total invoicing in each fiscal year. Furthermore, taxpayers engaged in two or more activities may only deduct the percentage that corresponds to the activity in which they have obtained most of their income in the fiscal year in which the immediate deduction of the investment is applied.

Moreover, the tax incentives also include an additional 25% deduction during the fiscal years 2023, 2024 and 2025 for training granted to the beneficiaries' employees in the applicable fiscal year, provided that such training gives technical or scientific knowledge related to the aforementioned activities, as applicable, and will only be granted if such employees are registered before the Mexican Social Security Institute (Instituto Mexicano del Seguro Social).

It is important to note that, (i) in order to apply such tax incentives, the beneficiaries must comply with certain requirements, including, among others, a specific record of the investments for which the immediate deduction was applied; and (ii) in case of noncompliance with such requirements, beneficiaries must pay the tax, the corresponding tax update and surcharges in terms of the applicable tax provisions.

Finally, it should be remarked that the tax incentive will be applicable for investments made from October 12, 2023, and during the 2024 tax year.



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