

Mexico Alert: Tax Incentives for Exporters: Nearshoring Decree

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PRACTICES Mexico, Nearshoring, International

On Oct. 11, 2023, a decree was published in the Official Gazette of the Federation of Mexico that grants some tax benefits to certain taxpayers in special sectors of the export industry. Those benefits consist of immediate deductibility of investments in new fixed assets and an additional deduction for training expenses.

The beneficiaries of such incentives are exporting companies (recently incorporated or those already operating) whose estimated income from exports of certain goods¹ during fiscal years 2023 and 2024 represents at least 50% of their total turnover in each such fiscal year, provided that they are engaged in the production, processing, or industrial manufacturing of such goods.

These incentives are intended to optimize nearshoring operations, and promote competition and foreign investment in strategic sectors, to contribute to Mexico's economic growth and strengthen its international market position.

Immediate investment deduction

Taxpayers will be able to apply the deduction for investments in new fixed assets² that are acquired from Oct. 12, 2023, through Dec. 31, 2024. The deduction for each year will be the amount resulting from applying the percentages established in the decree according to the type of asset (which vary from 56% to 89%) to the original amount of the investment, instead of applying the maximum deduction percentages established in the Income Tax Law.

The decree provides a mechanism to allow the deduction to be recognized in the provisional income tax payments of the year in which the investment is made.

Upon the sale of the assets subject to this incentive, the net purchase price will be considered as income; there is a special rule to allow the calculation of the tax on a gross basis.

The assets subject to the incentive must be kept in use for at least two years after the fiscal year in which the deduction is applied.

For purposes of Value Added Tax ("VAT"), this will be considered as a fully deductible expense, thus, generating a 100% VAT credit.

Regarding companies related to the Manufacturing, Maquiladora and Export Service Industry (IMMEX), no special regulation is foreseen, since the stimulus is applicable (having to review its interaction with the IMMEX regime itself, both for the manufacturing company and its suppliers).

Additional deduction for training expenses

Additionally, qualifying taxpayers may deduct 25% of the increase in training expenses³ for workers registered with the IMSS, for annual tax returns for fiscal years 2023, 2024, and 2025. The increase in training expenses is to be calculated as the positive difference between the training expense in the relevant fiscal year and the average training expense incurred for the same concept in the fiscal years 2020, 2021 and 2022.⁴

The taxpayer using these tax benefit incentives must keep specific and detailed records and supporting documentation of both the investments and the training and must strictly comply with the particular requirements established in the decree, as the Tax Administration Service (SAT) may subsequently audit whether the benefits were used correctly.

For more information, please contact any of the attorneys listed below.

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¹Products destined for feeding humans and animals, fertilizers and agrochemicals, raw materials for the pharmaceutical industry and pharmaceutical preparations, electronic components, machinery for watches, measuring, control and navigation instruments and electronic medical equipment for medical use, electrical and electronic equipment for automobiles, ships and aircraft, internal combustion engines, turbines and transmissions for aircraft, among others. The tax incentives are also granted to taxpayers who produce and export cinematographic and audiovisual works that are protected by copyright under applicable law.

²New fixed assets are those that are used for the first time in Mexico during the applicable period.

³ Consisting of training in technical or scientific knowledge related to the taxpayer's activity.

⁴ Note that under recent precedents, training services provided by a foreign resident may trigger income tax withholding.