

Decree promoting investment for taxpayers who carry out economic activities within the Development Poles in the Isthmus of Tehuantepec

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On June 5, the Ministry of Finance and Public Credit (SHCP) published in the Official Gazette of the Federation (DOF) the Decree by which investment is promoted for taxpayers who carry out manufacturing economic activities within the Welfare Development Poles of the Isthmus of Tehuantepec.

Background

On August 4, 2020, the Program for the Development of the Isthmus of Tehuantepec for 2020-2024 was published in the DOF. One of the main objectives of the program is to promote a new economic growth model that benefits the entire population of the Isthmus of Tehuantepec.

The decree aims to attract new investments in industrial activities to the Isthmus of Tehuantepec, encourage investment in the construction of new manufacturing plants within the Welfare Development Poles that will trigger economic growth in the region and create permanent sources of employment.

The program's overall goal is to boost competitiveness and facilitate liquidity in taxpayers' operations.

Tax benefits

The economic activities within the Welfare Development Poles that will be subject to the benefits established in the decree are as follows:

1. Electrical and electronics.
2. Semiconductors.
3. Automotive (electromobility).
4. Autoparts and transportation equipment.
5. Medical devices.
6. Pharmaceuticals.
7. Agro-industries.
8. Electric power generation and distribution equipment (clean energies).
9. Machinery and equipment.
10. Information and communication technology.
11. Metals and petrochemicals.
12. Any other activity not included in the previous categories, as determined by the Governing Board of the Tehuantepec Isthmus Interoceanic Corridor for the Welfare Development Poles, in accordance with the applicable legal provisions.

The tax incentives considered in the decree include:

- ▶ Tax credit equivalent to 100% of income tax payable. This benefit will be granted to both individuals and corporations who are residents of Mexico, as well as to residents abroad with a permanent establishment in Mexico that pay taxes pursuant to Title II, Title IV, Chapter II, Section I, or Title VII, Chapter XII of the Income Tax Law. The tax credit will consist of a 100% refund over three fiscal years counted from the year in which the taxpayers obtain the certificate issued by the Ministry of Finance and Public Credit (SHCP) certifying compliance with the requirements established in the decree. The refund will be reduced to 50% for the subsequent three fiscal years, or can be up to 90% if the minimum levels of employment established in the guidelines are exceeded.
- ▶ Immediate deduction of 100% of the original amount of the investment in new fixed assets used in the Welfare Development Poles. The deduction will be effective for six fiscal years, starting from the year in which the certificate is obtained from the SHCP.
- ▶ Tax credit equivalent to 100% of value added tax payable. This incentive will be granted for four years, starting from the effective date of the decree, to taxpayers who engage in economic activities within the Welfare Development Poles, selling goods, providing independent services or granting the temporary use or enjoyment of goods to entities that engage in economic activities within the same Welfare Development Pole or in a different Pole. The tax credit will be applied against the tax payable on the aforementioned activities.

This incentive shall only be applicable as long as no value added tax is transferred to the buyer and the goods or services are used by the purchasers within the Welfare Development Poles.

Taxpayers engaging in the aforementioned economic activities who are interested in obtaining the tax benefits and administrative facilities set forth in the decree must comply with the following requirements, among others:

1. Have no current outstanding tax obligations.
2. Have a valid concession title or own land within a Welfare Development Pole.
3. Submit, if applicable, the investment project for which the aforementioned concession title was granted.
4. Have a tax address within the Welfare Development Pole where they carry out their economic activities.

It is important to emphasize that the Interoceanic Corridor of the Isthmus of Tehuantepec will enable promotion of various actions before federal and municipal entities with the aim of enabling administrative facilities and tax incentives for taxpayers who carry out manufacturing economic activities within the Development Poles.

We hope that these incentives will aid the states that are part of the Isthmus of Tehuantepec in attracting new investments by fostering the establishment of new companies. This will contribute to the accomplishment of the objective outlined by the Federal Government in the 2019-2024 National Development Plan, which aims to enhance the growth of the regional economy and enable competitiveness in global markets in the transportation of goods “through the combined use of various means of transportation”.

Consequently, it will be essential to consider whether the Tax Administration Service will include in the general rules issued for the proper application of the tax incentives and administrative facilities the possibility of simplifying tax compliance from an administrative perspective (e.g., waybill supplement, information returns, etc.) for new taxpayers engaged in the aforementioned activities, with the sole purpose of effectively complying with the objective of competing in world markets. Lastly, it is equally important to incorporate logistics and supply chain aspects as part of a comprehensive fiscal-operational analysis before potentially restructuring a transaction in order to qualify for the aforementioned benefits.

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