



Decree on Tax stimuli in North and South Border zone.

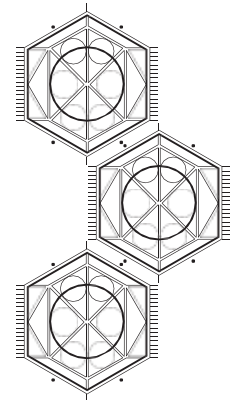
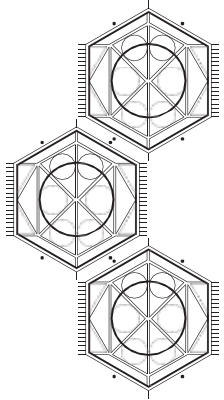


Objective

Analyze the most relevant information of the Decree on Tax stimuli in North & South Border zone Decree.

Agenda

1. Purpose of Tax Stimuli for Border Regions.
2. Cities and counties comprehended in the Northern Border Region.
3. Cities and counties comprehended in the Southern Border Region.
4. Income Tax Benefit.
5. Value Added Tax Benefit.
6. Relevant modifications in force for Fiscal Year 2021 and onwards.
7. Conclusions.





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Purpose of Tax Stimuli for Border Regions

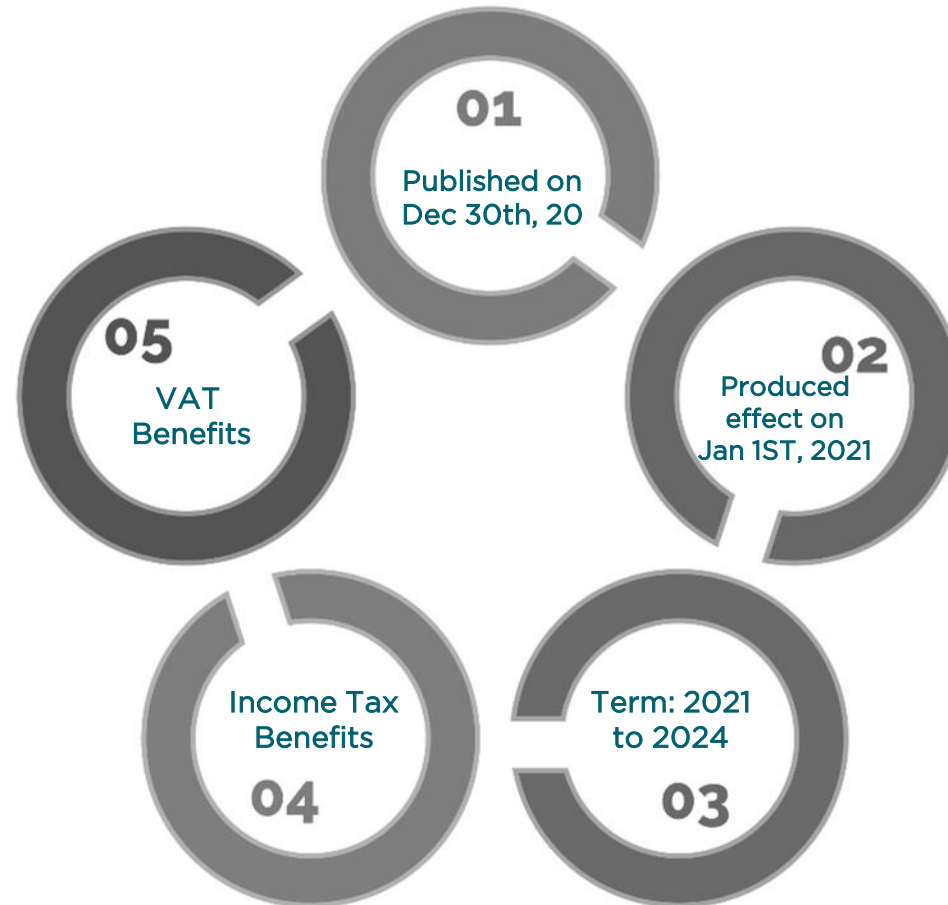


Purpose of Tax Stimuli for Border Regions

- Improve competitiveness of the states located in northern and southern region of the country.
- Increase consumer activity.
- Reactivate Border Mexican economy.
- Raise income.
- Generate Jobs.
- Increase welfare for the population.



Contribute to collection of taxes.





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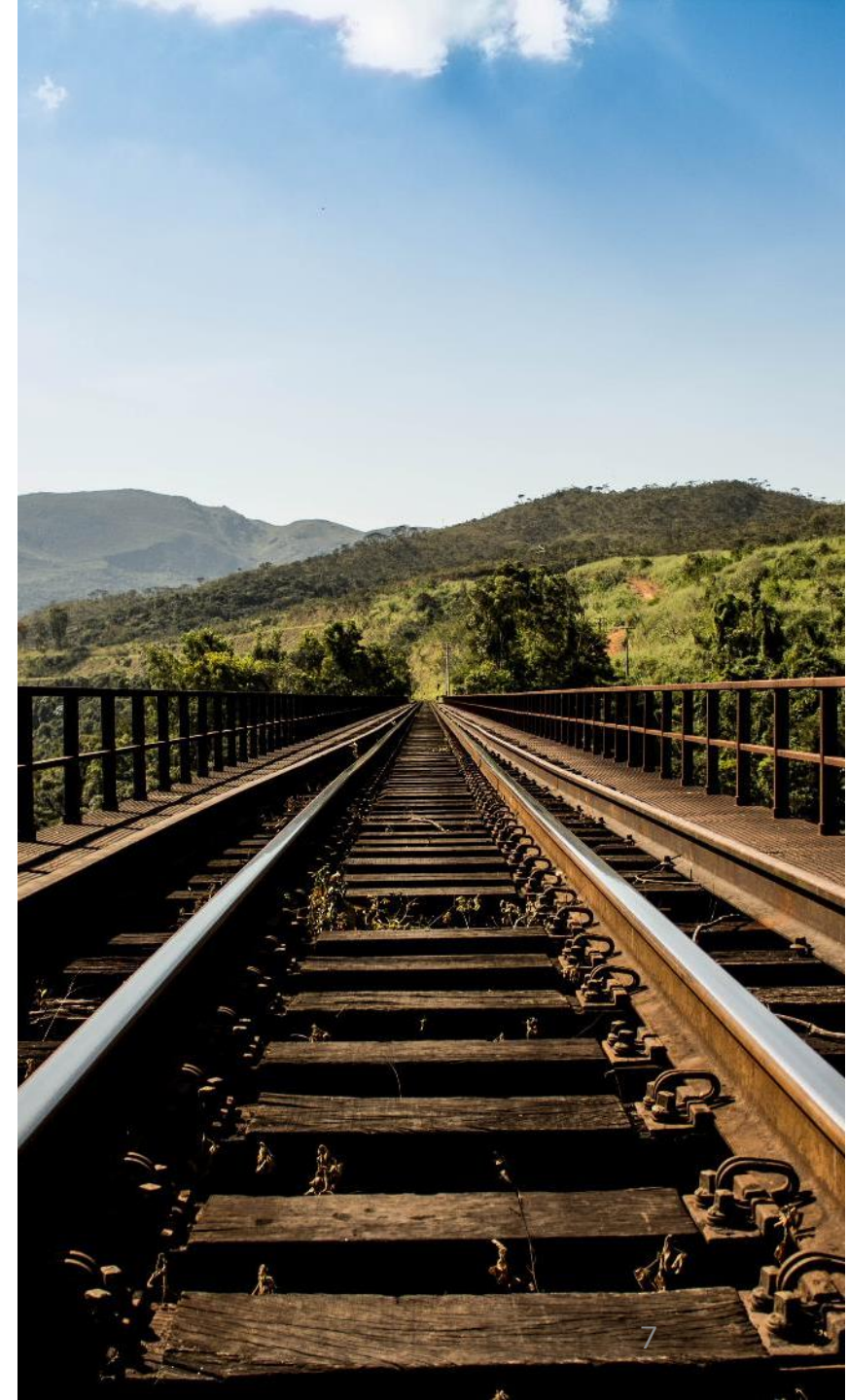
Cities and counties comprehended in
the Northern Border Region



Cities and Counties integrated to the Northern Border Region

Baja California	Sonora	Chihuahua	Coahuila	Nuevo León	Tamaulipas
Ensenada	San Luis Río Colorado	Janos	Ocampo	Anáhuac	Nuevo Laredo
Playas de Rosarito	Puerto Peñasco	Ascensión	Acuña		Guerrero
Tijuana	General Plutarco Elías Calles	Juárez	Zaragoza		Mier
Tecate	Caborca	Praxedis G. Guerrero	Jiménez		Miguel Alemán
Mexicali	Altar	Guadalupe	Piedras Negras		Camargo
	Sáric	Coyame del Sotol	Nava		Gustavo Díaz Ordaz
	Nogales	Ojinaga	Guerrero		Reynosa
	Santa Cruz	Manuel Benavides	Hidalgo		Río Bravo
	Cananea				Valle Hermoso
	Naco				Matamoros
	Agua Prieta				

All these are located within 25 km of the northern border region and some next to these.



Cities and Counties integrated to the Northern Border Region



All these are located within 25 km of the northern border region and some next to these.



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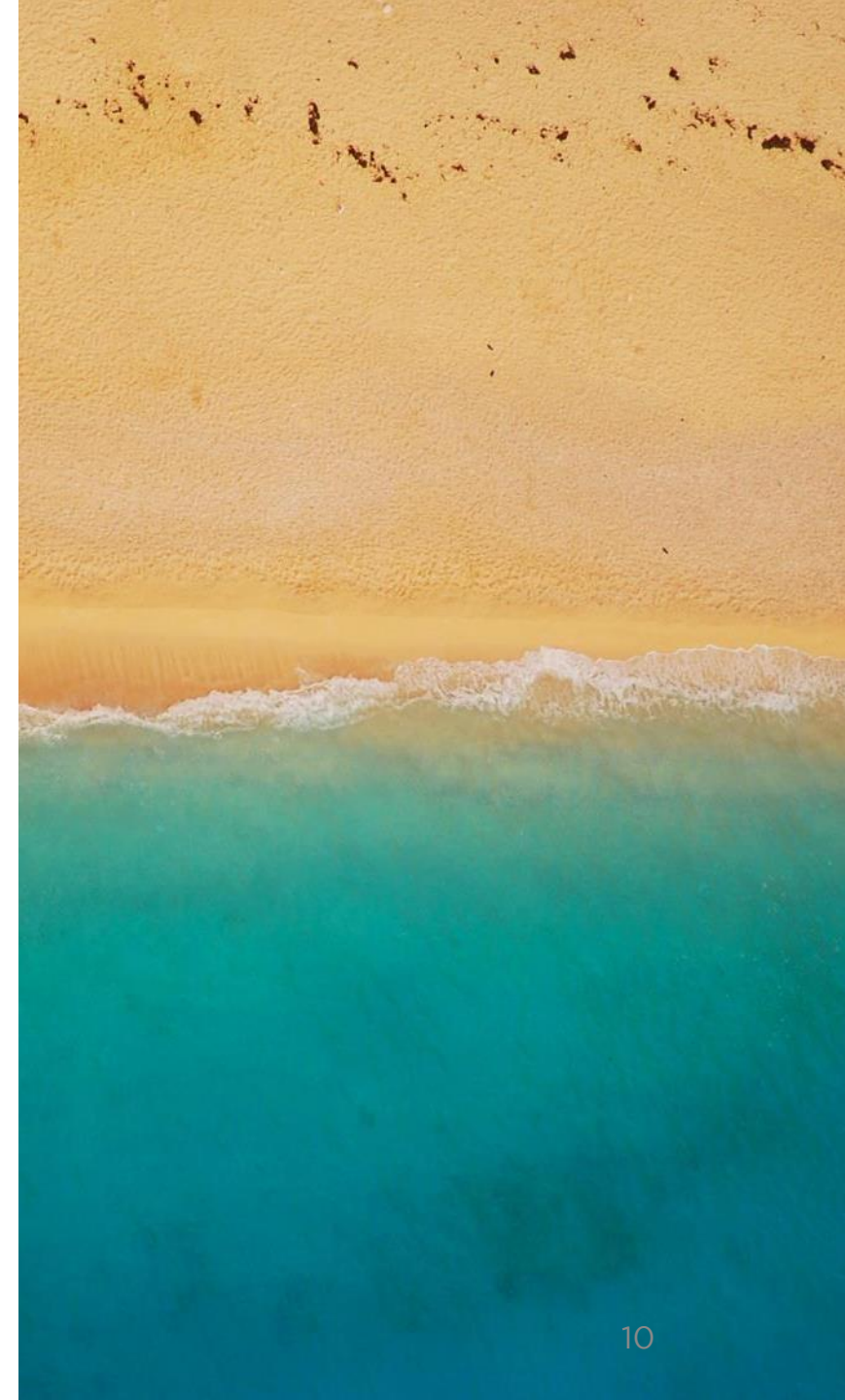
Cities and counties comprehended in
the Southern Border Region



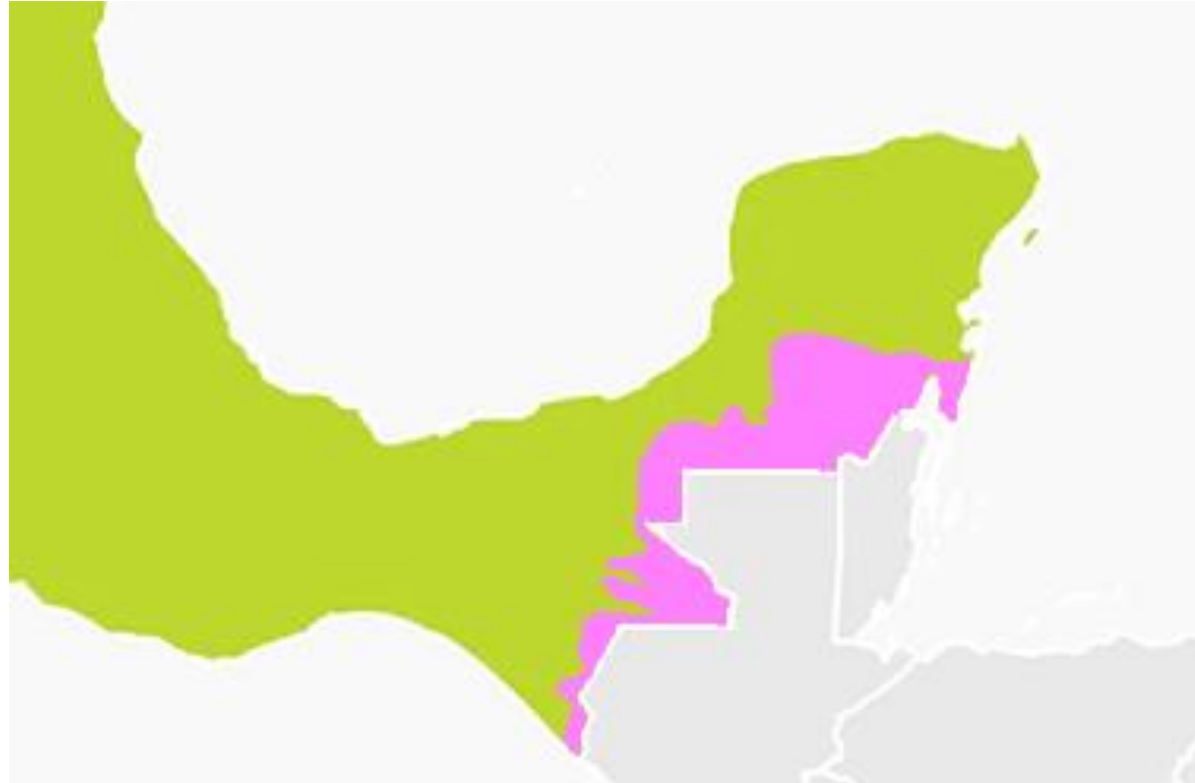
Cities and Counties integrated to the Southern Border Region

Quintana Roo	Chiapas		Campeche	Tabasco
Othón P. Blanco	Palenque	Ocosingo	Calakmul	Balacán
	Benemérito de las Américas	Marqués de Comillas	Candelaria	Tenosique
	Maravilla Tenejapa	Las Margaritas		
	La Trinitaria	Frontera Comalapa		
	Amatenango de la Frontera	Mazaá de Madero		
	Motozintla	Tapachula		
	Cacahoatán	Unión Juárez		
	Tuxtla Chico	Metapa		
	Frontera Hidalgo	Suchiate		

All these are located within 25 km of the southern border region and some next to these.



Cities and Counties integrated to the Southern Border Region



All these are located within 25 km of the southern border region and some next to these.



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Income Tax Benefit



Overview

INCOME TAX

Tax credit equal to **a third** of the Income Tax (IT) generated in the fiscal year or in interim payments to be applied against the IT generated during the fiscal year or in interim payments for the same fiscal year in *proportion to the income represented by the income for the border zone of the total taxpayers' income* for the fiscal year.

Upon applying the stimulus, IT could decrease from 30% up to 20% rate.

	Without Incentive	With Incentive
Income	2,500,000	2,500,000
(-) Deductions	1,500,000	1,500,000
(=) Tax profit	1,000,000	1,000,000
(*) Tax Rate	30%	30%
(=) Tax	300,000	300,000
(-) Tax incentive	N/A	100,000
(=) Payable tax	300,000	200,000
Difference		\$100,000

Overview

1

Individuals and companies residing in Mexico, as residents abroad with a permanent establishment in Mexico

2a

For taxpayers established before the tax stimuli, must have the domicile for at least 18 months on the border region

2b

For taxpayers initiating activities, they must demonstrate that the business operation is within the region, and use new assets

3

Sales of goods, rendering services or granting the use or enjoyment of establishments within the border region

4

The applied stimulus is not considered accruable income

5

Taxpayers are relieved from the obligation to file the notice on the crediting of tax stimulus



Demonstration of Tax Address

For taxpayers to apply for the benefit of this Decree, they must:

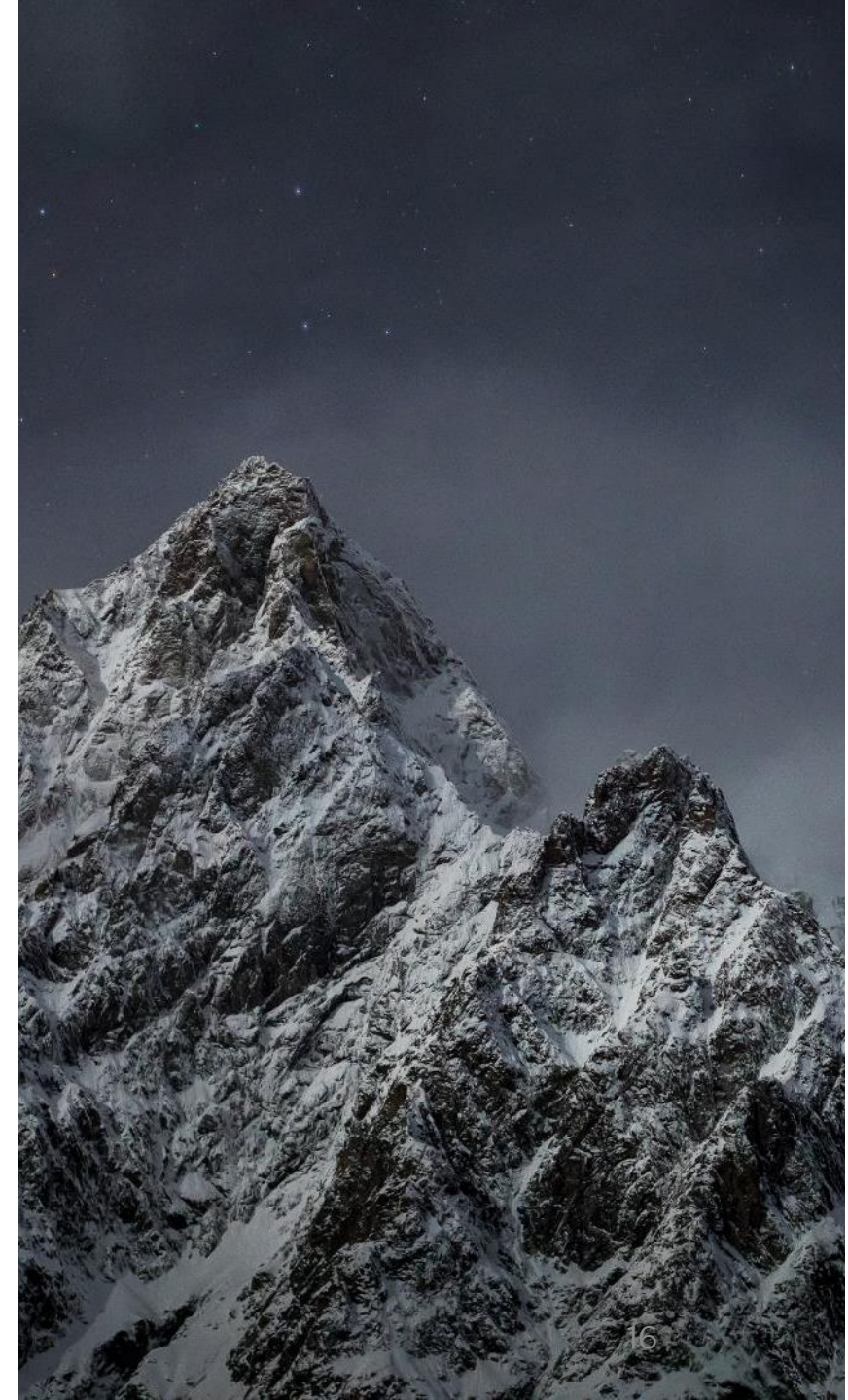
- a) If they tax address is registered before the Decree was published:
 - File documentation that states or proves the occupation in the border region for the last 18 months. For example: bank statements, bills, payment receipts for property taxes; documents presented shall be in the taxpayer's name, showing the tax address or the address of the branch office, agency or establishment.

- b) For taxpayers that initiate activities in the Border Region:
 - Demonstrate economic capacity to carry such activities within the northern border region,
 - Using new fixed assets, in order to demonstrate this, have the invoice for such asset, bank statement that sates the wire transfer for such acquisition and be registered in the accounting records.
 - Estimate that the total income for the year in said region will account for at least the 90% of their total revenue for the year,

Establishments

For the taxpayers that may have different situation regarding their location, such as branch, agency or other establishment within the Border region, the Decree considers the following:

- a) **Taxpayers established solely within the border region**
 - Such taxpayers may apply directly through the procedure mentioned before, in which all the revenue may be subject to such tax benefit.
- b) **Taxpayers who have a branch, agency or other establishment within the border region**
 - Such taxpayers may be eligible for the benefit, in that sense they must prove that said establishment has been registered there for at least 18 months prior to the date of enrollment, and only in the proportion of the total revenue that the branch, agency or other establishment attributable to the registered tax address in the border region represents.
- c) **Taxpayers but with a branches, agencies or other establishment outside the border region**
 - They must demonstrate that their registered tax address has been in the border region for at least 18 months prior to the date of applying the tax benefit, and only in the proportion of the total revenue that the branch, agency or other attributable to the registered tax address in the border region represents,





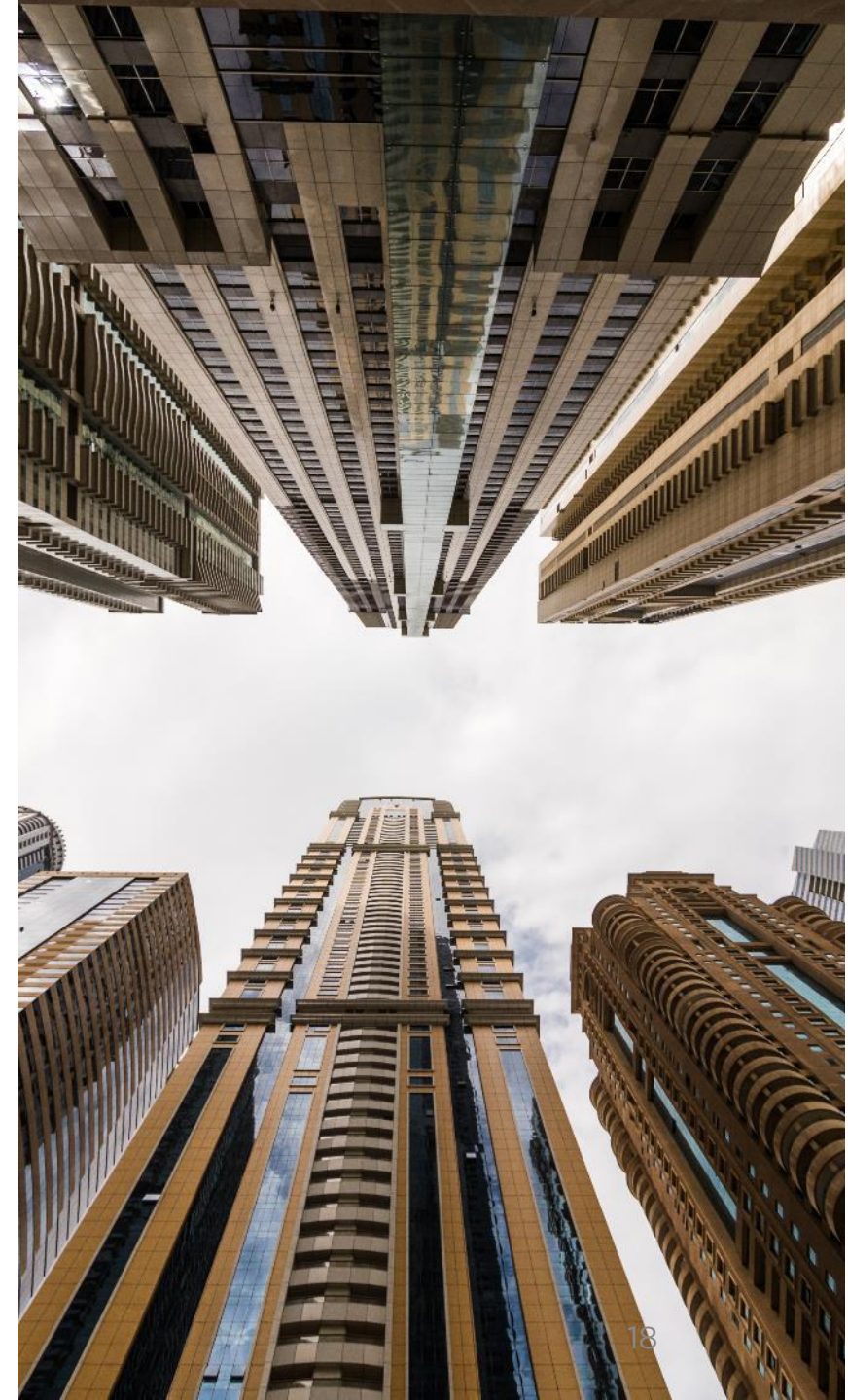
Conditions

- Taxpayers who have not applied this tax credit and who could have done so, will lose the right to apply it in the tax year in question and up to the amount in which it could have been applied.
- The application of the IT benefit shall not give rise to any refund or compensation other than that which would be the case if these benefits were not applied.

Taxpayers not subject to the tax benefit

Taxpayers not subject to the IT benefit:

- i. Financial institutions,
- ii. Optional regime for company groups,
- iii. Coordinated entities,
- iv. Regime of agricultural, forestry and fishing activities,
- v. Tax incorporation regime,
- vi. Taxpayers who render professional services (individuals),
- vii. Maquila (IMMEX) companies,
- viii. Trusts,
- ix. Cooperative productive entities,
- x. Section of assumptions of article 69 of the Federal Tax Code (see next section)
- xi. Taxpayers who carry business activities through trusts,
- xii. Taxpayers with revenue from intangible assets,
- xiii. Revenue from e-commerce activities,
- xiv. Taxpayers with revenue from outsourcing,
- xv. Taxpayers that are subject to audit procedures from the tax authorities,
- xvi. Taxpayers applying other tax incentives,
- xvii. Among others





Requirements

Beneficiaries that intend to receive the benefits of the IT must comply with the following:

- Submit the notice no later than March 31st of the fiscal year that intends to apply the IT stimulus for the border region.
- Demonstrate that they have registered in such tax address for at least 18 months prior the application, or companies with less time shall prove economic capacity, assets and facilities for performing operations in said region; prove new assets are being used and their income in this area represent at least 90% of its total income, or companies registered in the Tax Authority office after the decree produces effects shall comply with the requisites of the Decree and demonstrate they have economic capacity, assets and facilities to conduct their business operation in the area, in which they must use new fixed assets and estimate that the total income for that year in that region will account for at least 90% of their total revenue for that tax year.
- Have a current advanced electronic signature and a positive opinion regarding compliance with tax obligations.
- Access to the tax mailbox in the tax Administration Service Internet Portal.
- Collaborate annually with the verification in real time with the authorities.
- Not being in the suspension procedure that restricts the taxpayers to invoice or have them cancelled.

Requirements

- The registration will have a period of validity of one year, if the taxpayer desire to continue with the application of the decree benefit, they should submit a renewal register no later than March 31st of the following year and comply with the requisites previously described.
- The authority may verify compliance of said requirements at any time and if found in default, the registration notice shall have no effect, which may be undermined by the taxpayer and continue with the application of the benefits; if said resolution is not undermined, registration to the beneficiaries' registry can no longer be requested.
- The taxpayer that are enrolled for such benefit may request the tax authority their removal.
- In case of the removal from the benefit, the taxpayer will not be longer able to apply such benefit, in which case such benefits will be lost for the entire tax year in which this occurs and must submit no later than a month after the amended tax returns of advance monthly payments that the benefit was applied (plus interest & surcharges).





Loss of the right to apply the benefit

Tax authorities may, at any time, revoke the benefits for the taxpayers, under the following circumstances:

- Fail to submit the renewal request before March 31st ,
- When the taxpayer ceases to meet the requirements established in the Decree or other rules that the tax authorities may establish,
- When the taxpayer files their case of such benefit.



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Value Added Tax Benefit

VAT Benefit

VAT

Tax credit equal to **50%** of the Value Added Tax (VAT) rate, for the purpose of simplifying, the 8% reduced rate on the value of the acts or activities will be applied.

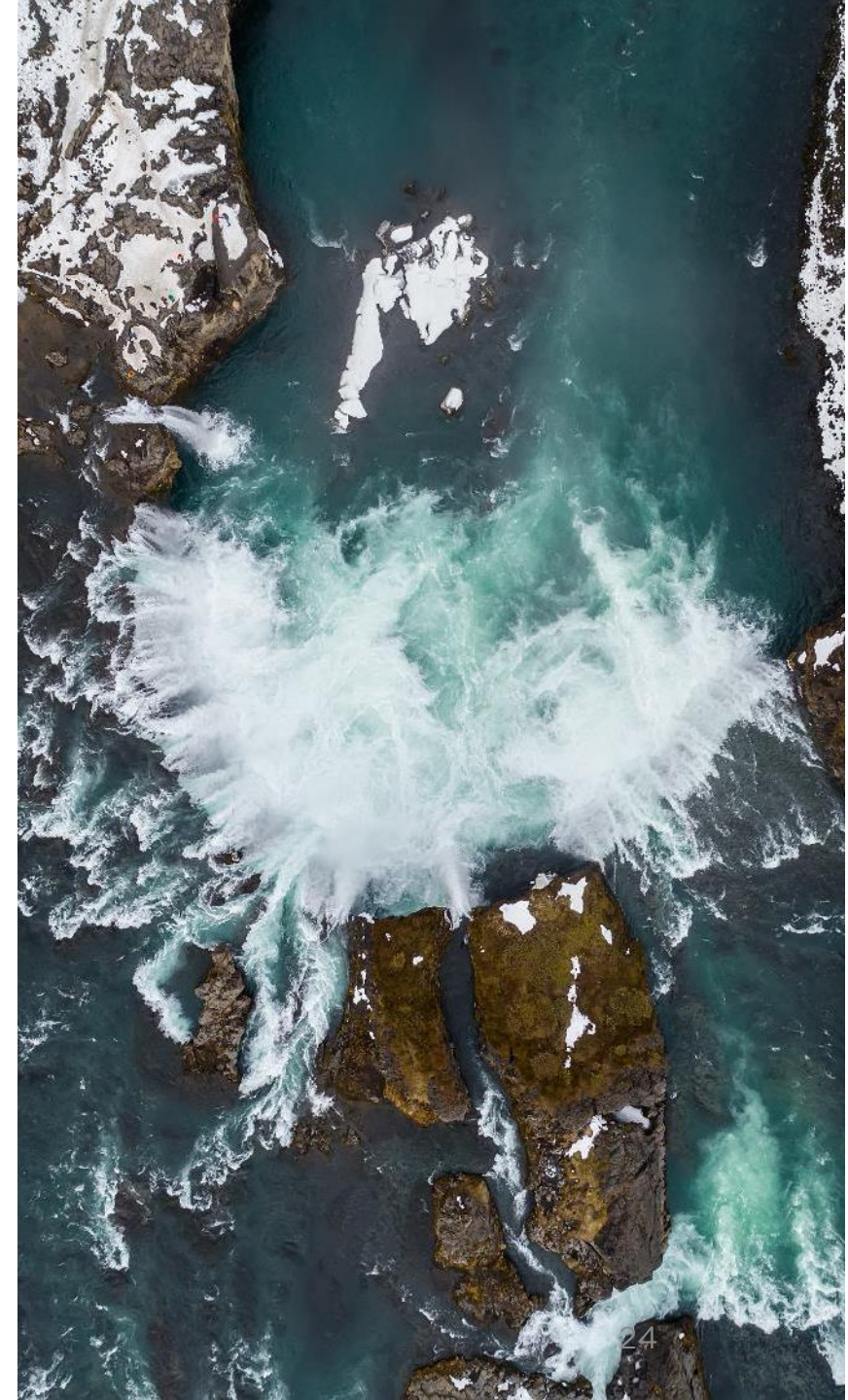
Upon applying the stimulus, VAT could decrease from 16% to 8%

	Without Incentive	With Incentive	With Incentive, and suppliers
Charged VAT	750,000	750,000	750,000
(-) Tax Incentive	N/A	375,000	375,000
(=) Net Charged VAT	750,000	375,000	375,000
(-) Creditable VAT	500,000	500,000	250,000
VAT to pay (favor)	250,000	(125,000)	125,000
Difference		\$375,000	125,000

Considerations

Taxpayers that apply for this incentive must comply with:

- Deliver the goods or render the services in the border region.
- Already established companies
File the application notice for such incentive within the 30 calendars days after this Decree goes into effect (end of January 2021).
- New taxpayers
For the taxpayers that initiate activities after the effects of this Decree must file such notice during the following month after the obtention of the tax ID of the company (registration of in the Federal Register of Payers).





Conditions

The VAT incentive is not applicable in the following cases:

- Transfer or sale of real estate or intangible assets.
- Providing digital content, such as audio or video, or a combination of both.
- Taxpayers listed on the 69 and 69-B Federal Fiscal Code, published in the Tax Authority website; in the specific case for the second list, are also not subject taxpayers in which their shareholders are also listed,
- Taxpayers that are listed in the 69-B Bis Federal Fiscal Code, regarding the presumption of undue filings of tax losses.
- Activities related to the render of transportation service of goods or persons, except when such service begins and ends within the border region without intermediate stops outside such region.

In case that the taxpayer does not meet the requirements established for this incentive or are situated in one of the cases mentioned before the they must calculate the VAT considering the 16% rate regarding all the operations in which the reduced rate was used, since the moment in which they situated in such conditions, such amended filings must be done within the following month (plus interest & surcharges).



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Relevant modifications in force
for Fiscal Year 2021 and onwards

Relevant modifications made in 2021

- a) The authorization to apply the decree is replaced by a notice of inscription. In the case of renewal, the notice must be filed no later than March 31st of the corresponding fiscal year.
- b) Is allowed the inscription for this tax stimuli to all the taxpayer who has been condoned any tax credit regarding penalties by the SAT (tax authority for its acronym in Spanish “Servicio de Administración Tributaria”)
- c) It is clarified that for VAT purpose, the stimuli will apply only for the transport services of goods and persons, whether by land, sea or air, when such services beginning and end within the border region, without making scales out of it.
- d) The application of the benefits is extended to December 31st, 2024.





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Conclusions





Conclusions

Tax incentive for operations carried in Border regions,

1. Income Tax

- Benefit up to a third of the rate (30% to 20%)
- Notice for such tax benefit must be filed no later than March 31st of the fiscal year to be applied during the following month after the obtention of the Tax ID (for brand new companies)
- File a renewal notice for the fiscal year to be applied, no later than March 31st,
- 90% of the activities of the taxpayer must come from the border region.

2. Value Added Tax

- Benefit of a 50% of the rate (16% to 8%).
- Notice for such tax benefit must be filed within the 30 days in which the Decree is in force OR during the following month after the obtention of the Tax ID (for brand new companies).
- The benefit will be applicable to the activities that the material delivery of goods and the services were rendered in the border region.



Let's talk!

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