

## Nearshoring: benefits and facilities for investments in the Isthmus of Tehuantepec

On June 5, 2023, the “Decree promoting investment by taxpayers who carry out productive economic activities within the Development Poles for the Welfare of the Isthmus of Tehuantepec” was published in the Federal Official Gazette (DOF). This decree grants important tax benefits and administrative facilities to taxpayers who carry out certain productive economic activities in these poles.

All taxpayers, both individuals and corporations, tax residents in Mexico and residents abroad with Permanent Establishment in Mexico are eligible. To be eligible, they must have, among other things, a valid concession or own an area within the so-called “Welfare Development Poles” (“Development Poles”) and have their tax domicile there. These poles and their location will be identified through a declaration to be published in the DOF.

The economic activities contemplated are: (i) Electrical and electronics; (ii) Semiconductors; (iii) Automotive (Electromobility); (iv) Auto parts and transportation equipment; (v) Medical devices; (vi) Pharmaceutical; (vii) Agribusiness; (viii) Equipment for the generation and distribution of electrical energy (clean energy); (ix) Machinery and equipment; (x) Information and communication technologies; (xi) Metals and petrochemicals, and (xii) those not included in the above but determined at a later date.

### **Tax benefits**

The benefits include:

1. A tax incentive equivalent to 100% of the Income Tax is granted for the income derived from the economic activities carried out in the “Development Poles” during the three fiscal years following the one in which the certificate of eligibility has been obtained. For the following three fiscal years, the stimulus will be reduced to 50%, unless minimum employment levels to be determined subsequently are exceeded, in which case the stimulus will be 90%.
2. During the six fiscal years of application of the above stimulus, taxpayers may apply the immediate deduction of 100% of the original amount of the investment of new fixed assets used for the development of productive activities in the established zones. New assets will be considered those that are used for the first time in Mexico.
3. A tax incentive is granted consisting of a tax credit equivalent to 100% of the Value Added Tax payable on the sale of goods, the rendering of independent services or the granting of the temporary use or enjoyment of goods made with taxpayers located within the same development pole or in other different ones. This incentive will be applicable during the four years from the entry into force of the decree or from the date on which the declaration of a development pole is published in the DOF.

This is the first step to establish the legal framework to regulate the operation of the tax benefits and facilities in the development poles. Therefore, we must wait for the issuance of general rules necessary for their proper and correct application.

It appears that the federal government's goal of promoting investment to drive growth in certain areas of the Southeast is beginning to materialize, at least from a legal perspective. We believe that the benefits described are so significant that it is worth considering the possibility of establishing production units within the development poles, despite the incipient logistics infrastructure and scarce skilled labor.

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S I N C E R E L Y

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