



What's News in Tax

Analysis that matters from Washington National Tax

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Mexico 2027 Economic Package

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Mexico's proposed 2027 Economic Package includes a range of measures that could have a significant impact on U.S. multinationals operating in Mexico. This article summarizes the two most radical proposals: (1) a measure to control (i.e., cap) deductions; and (2) changes to the application of withholding tax to and deductibility of interest payments made from Mexico. However, there are a range of other significant proposed changes, including a cap on the utilization of tax losses, which are summarized in reported prepared by [KPMG Mexico](#).

The Mexican Finance Ministry has released its 2027 Economic Package (see Mexico: [Proposed tax measures in 2027 Economic Package](#)). The proposed legislation will pass first to Mexico's Chamber of Deputies and then the Senate, before it is enacted into law before the end of the year. The package will take effect from January 1, 2027. While changes are possible, at this stage, limited revisions or adjustments are expected.

1. Control of Deductions

Mexico has proposed a new control of deductions mechanism. The proposal would apply to businesses with taxable income (gross income) of MXN 50m (approx. USD 2.8m). The proposal applies equally to domestic and foreign-owned businesses.

The proposal applies as follows:

- **Low-margin businesses** where deductions exceed 96.67% of taxable income (i.e., with a profit margin of less than 3.33%) would only be able to claim deductions up to 96.67% of their taxable income.
- **High-margin businesses** where deductions are less than 96.67% of taxable income (i.e., with a profit margin of more than 3.33%) would only be able to claim 99% of their deductions (i.e., there would be a one-percentage-point haircut).

The table below illustrates the impact of the proposed control of deductions mechanism.

	Scenario 1: High Margin	Scenario 2: Low Margin
Taxable Income	100.0	100.0
Current State		
Deductions	(95.0)	(98.0)
Income Before Tax	5.0	2.0
Tax	1.5	0.6
ETR (%)	30%	30%
Control of deductions measure		
Deduction Limit	99.0%	96.7%
Adjusted Deductions	(94.1)	(96.7)
Adjusted Income Before Tax	6.0	3.3
Tax	1.8	1.0
ETR (%)	36%	50%
Additional tax	0.3	0.4

The measure includes exceptions for businesses that: (1) have an authorized maquiladora regime; (2) have the Plan Mexico tax incentive; (3) have losses; (4) are less than five years old; or (5) taxable income less than MXN 50m (as noted above).

The measure enables expenses for which a deduction is not available to be carried forward and utilized in a later year. However, given the mechanics of the measure, it is unclear whether these carried-forward deductions could ever be utilized.

The control of deductions measure may be challenged as unconstitutional, but it is unclear whether this challenge will succeed.

What should U.S. groups consider?

- **Advocacy.** What adjustments could be made to the measure to limit its potential adverse impact?
- **Creditability.** Where relevant, would the tax arising from this measure be creditable in the United States?
- **Return adjustment.** How could the return of a group's Mexican operations be adjusted to limit the overall tax impact?

2. Payments Abroad

Mexico has proposed changing the timing of deductions for payments abroad. The proposal would expressly link the deduction to the fiscal year in which the consideration is paid, and the corresponding withholding tax is remitted.

The proposal would introduce an accrual concept for withholding tax purposes. The withholding agent's obligation would arise when the payment becomes due, accrues, or is paid, whichever occurs first. Where consideration is denominated in a foreign currency, the amount would be converted into Mexican pesos at the time the corresponding tax is withheld.

What should U.S. groups consider?

This proposal is likely inconsistent with Mexico's existing bilateral tax treaties, including its tax treaty with the United States.

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