Galicia

Tax Update

2027 Tax Reform

Mexico City, September 11, 2026

On September 8, 2026, the Federal Executive Branch submitted to the Chamber of Deputies the Tax Reform initiative for Fiscal Year 2027, which includes the proposed Federal Revenue Law for Fiscal Year 2027, as well as proposed amendments to the Income Tax Law, the Federal Duties Law, and the Customs Law, along with new legislation on the digital economy and cadastral harmonization, among others. The most relevant provisions are summarized below.

I. Amendments to the Income Tax Law

1. *New control mechanism for authorized deductions and tax losses (also "NOLS") (Articles 78-A to 78-F)*

- A Chapter X is added to Title II of the Income Tax Law, applicable to corporations resident in Mexico that obtain taxable income exceeding USD $2.95 million[1] and determine a taxable profit for the fiscal year.

- Deduction limit. If authorized deductions are less than or equal to 96.67% of taxable income, the deductibility limit will be 99% of the deductions. If authorized deductions exceed 96.67% of taxable income, the limit will be the amount equivalent to 96.67% of such taxable income.

- Deductions that are not utilized in a fiscal year as a result of this new limit may be carried forward over the following 20 fiscal years until utilized. The right to this carryforward is personal and non-transferable (it may not be transferred through mergers or spin-offs). The amount of such deductions may be adjusted for inflation in accordance with the procedure established in this new Chapter X of Title II of the Income Tax Law ("ITL").

[1] All amounts originally stated in Mexican pesos have been converted to U.S. dollars and rounded for illustrative purposes, at the exchange rate of $16.9722, as published in the Federal Official Gazette on September 11, 2026.

- Tax losses limit. The limit on tax losses pending amortization will be equivalent to 50% of the taxable profit for the fiscal year, after applying the new deduction limit described above. The remaining losses that are not utilized as a result of applying these limits may be carried forward in the following 20 fiscal years until fully utilized, pursuant to Article 57 of the ITL.

- Transitory provision. Taxpayers subject to these new limits on deductions and tax losses that have NOLs pending utilization from fiscal years prior to the effective date of the amendment decree may use them in the 20 fiscal years following the fiscal year in which they were generated.

- For purposes of determining employees' profit sharing, taxable income will be calculated without taking these new limits into account.

- Exclusions from new control mechanisms. The coordinated entities regime, the primary sector, maquiladora operations (except for income obtained from the sale of merchandise in Mexico), companies declared bankrupt, taxpayers applying tax benefits consisting of the immediate deduction of investments or the additional deduction of training expenses and other items, insurance institutions, and companies with fewer than 5 fiscal years since obtaining their registration with the Federal Taxpayer Registry ("RFC").

- Mergers and spin-offs. Companies that arise or survive as a result of a merger or spin-off as of September 8, 2026, will be subject to the new control mechanisms under Chapter X as of January 1, 2027.

  As a general rule, this new control regime will not be applicable to companies that survive or arise from a merger or spin-off of companies that are within the 5-year period following their registration in the RFC.

2. *2027 Provisional Income Tax Payments (transitory provisions)*

The initiative proposes that corporations resident in Mexico with income exceeding USD $2.95 million in the annual return for the immediately preceding fiscal year, excluding the sectors and taxpayers described above, determine their 2027 provisional income tax payments by adjusting the profit coefficient as follows:

- If deductions are less than or equal to 96.67% of taxable income, the profit coefficient will be multiplied by a factor of 1.0658; and

- If deductions exceed 96.67% of such income, the profit coefficient will be multiplied by a factor of 2.6162.

Tax losses pending utilization against taxable profit may be used only up to 50% of the taxable profit for the provisional income tax payment, after adjusting the profit coefficients.

3. *Reduction to the limit on net interest deductions*

The initiative proposes a reduction on the deductibility limit for net interests to 20% of the adjusted taxable profit, pursuant to Article 28, Section XXXII of the Income Tax Law.

4. *Advance payments for services and lease of assets*

The proposal provides that advance payments for services and leases will be deductible when the service is rendered or the period of use or lease elapses. If the transaction covers more than one fiscal year, only the portion corresponding to each fiscal year will be deductible.

5. *Payments to foreign residents*

Payments to foreign residents will be deductible only in the fiscal year in which the consideration is paid and the withholding tax is remitted. The withholding obligation shall accrue on the date the payment becomes due, the date of accrual, or on the date the payment is made, whichever occurs first.

6. *Capital Contribution Account, Net Tax Profit Account and tax basis of shares*

- Capital Contribution Account. In the case of the capitalization of liabilities, accrued unpaid interest, as well as the value added tax ("VAT") corresponding to such liabilities, will not be included as contributed capital. In the case of in-kind contributions consisting of accounts receivable, assignments of collection rights or credit instruments, these will be included in this account only when they are realized and up to the amount collected in cash.
- Net Tax Profit Account. The initiative proposes that net taxable profits are also reduced by expenditures that do not meet the tax deductibility requirements, and not only by items expressly identified as non-deductible.
- Tax basis of shares. Accrued unpaid interest and the corresponding VAT will not form part of the verified acquisition cost of shares.

7. *Elimination of the Optional Regime for Corporate Groups*

Articles 59 to 71 of the ITL are repealed. Under the transitory provisions, the integrating and integrated companies must exit the regime on January 1st, 2027. Any deferred income tax pending payment must be settled, along with its corresponding adjustment for inflation, no later than December 31 of this fiscal year. The transitory rule establishes exceptions under which the deferred tax must be paid no later than March 31, 2027.

8. *Amendments to the Simplified Trust Tax Regime*

- Individuals. The proposed income threshold for this regime increases from USD$206,220 to USD$294,600, subject to a maximum rate of 2.5%. Re-entry into the regime is permitted if the threshold is met in the immediately preceding fiscal year and the taxpayer has no tax obligations due.
- Corporations. The proposed income threshold for this regime increases from USD$2.06 million to USD$2.95 million, and the regime will be optional (it was previously mandatory). The maximum percentages for the deduction of investments are increased.
- Individuals in the primary sector. The income tax exemption increases from USD$53,027 to USD$58,920.

9. *Tax incentives incorporated as transitory provisions into the Income Tax Law*

The transitory provisions include tax incentives related to Plan Mexico, as well as the Economic Development Hubs for Well-Being, Circular Economy Development Hubs, and the Well-Being Development Hubs of the Isthmus of Tehuantepec and Yucatán. The incentives include the immediate deduction of fixed assets and will be in effect from 2027 through 2030.

II. Federal Revenue Law for the Fiscal Year 2027

1. *Surcharges rate and withholding on interest*

The surcharge rates remain as follows:

- Extension surcharge rate: 1.38% per month on outstanding balances. Late payment surcharge rate: 2.07% per month.
- Installment payments of up to 12 months: 1.42% per month; from 12 to 24 months: 1.63% per month; longer than 24 months: 1.97% per month.

A reduction of the annual withholding rate on the capital giving rise to interest payments made by financial system institutions to 0.68% is proposed.

2. *Tax regularization program*

A tax incentive is available to individuals and legal entities whose income in fiscal year 2025 does not exceed USD$17.68 million. Consistent with prior fiscal years, the incentive comprises a 100% reduction of fines, surcharges, and enforcement expenses.

This tax incentive applies to taxpayers that: (i) have outstanding tax liabilities for fiscal year 2025 or prior fiscal years; (ii) are subject to a tax audit, provided that all irregularities identified are rectified; and (iii) have a tax assessment issued by the tax authority.

The exclusion previously applicable to taxpayers that participated in tax regularization programs in prior fiscal years has been eliminated. In addition, the scope of exclusions has been broadened to encompass additional persons and circumstances.

3. *Guarantee of the tax interest in an administrative appeal*

Taxpayers that file an administrative appeal in a timely manner as of January 1st, 2027, will be relieved from providing a tax guarantee for a period of 6 months from the date of filing. If the appeal is resolved before that period expires, the guarantee must be submitted within 10 days following the resolution's notification effective date. If the appeal is filed under the modality of "substance over form", taxpayers will not be required to provide such tax guarantee, and the tax assessment will not be enforceable while the appeal is pending resolution.

4. *Capital repatriation from abroad*

- An income tax rate of 7.5%, with no deductions, is proposed for lawful investments held abroad up to September 8th, 2026.
- The funds repatriated to Mexico must remain invested therein for a minimum period of 3 years in: fixed assets used in certain projects; real property for carrying out the taxpayer's activities, research, training, innovation and technology development; payment of liabilities owed to the Federation.

5. *Simplified 7% VAT option for the Simplified Trust Tax Regime*

Individuals and corporations taxed under the Simplified Trust Tax Regime may elect to pay a final VAT at a 7% rate applicable to consideration actually collected. This option does not allow a credit for input VAT or VAT paid on imports. Once this option is elected, it may not be changed during the fiscal year, and a notice must be filed.

6. *Tax incentive on the sale of shares on a stock exchange*

A tax incentive is contemplated for fiscal year 2027 consisting of a 10% rate on gains from the sale of shares on stock exchanges in connection with initial public offerings or an exemption for residents of a country with which Mexico has entered into a treaty for the avoidance of double taxation. This incentive shall apply to the sale of shares of Mexican companies whose market value does not exceed USD$2.95 billion. In the event that the market value exceeds such amount, the incentive shall apply on a proportional basis.

7. *Verification program for non-profit corporations*

The reform proposes that the tax authorities implement a verification and review program for non-profit corporations; general rules shall be issued to establish the criteria for this program.

III. Other provisions of the Tax Reform

1. *Digital Economy Law for Digital and Electronic Payments (new law)*

A new law is proposed to promote the adoption of electronic and digital means of payment, recognizing the Digital Unique Population Registry Code and the Digital Citizen File as identification mechanisms. The Ministry of Finance will determine the sectors in which digital payments will be a mandatory form of payment.

2. *General Law for Cadastral and Registry Strengthening and Harmonization (new law)*

A new law is proposed to establish coordination mechanisms among the Federation, the federal entities, and municipalities to modernize, standardize, and enable interoperability among cadasters and public property registries. Among other measures, the law proposes to create a National Cadastral Plan, a National Registry Plan, a Unique Cadastral Code for each property, a Unique Cadastral and Registry Certificate linking the property folio to cadastral information, and national technology platforms for the digital management of procedures.

3. *Amendment to the Federal Duties Law*

The proposal would update or increase the duty fees for immigration services and services provided by the National Banking and Securities Commission. In addition, it would incorporate authorization mechanisms for the secondary and temporary use of the radio spectrum and reduce duties for radio spectrum bands whose fees exceed the international median, among other measures.

Should you require further information, please contact the following: Gabriela Pellón: gpellon@galicia.com.mx, Edson Uribe: euribe@galicia.com.mx, Federico Scheffler: fscheffler@galicia.com.mx, Denise Lester: dlester@galicia.com.mx, Eduardo Michán: emichan@galicia.com.mx, and/or Eduardo Espinosa: eespinosa@galicia.com.mx.

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