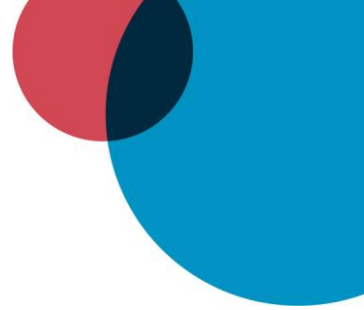




Tax Incentives Decree



On January 8th, 2019, a Decree granting tax incentives to certain taxpayers was published in the Official Gazette (the "Decree"), which entered into force the day after its publication. The purpose of the aforementioned Decree is to: (i) establish mechanisms to encourage a greater number of investors to acquire corporate debt bonds (specifically, foreign investors), and (ii) standardize the tax treatment for shares in Mexico that are going to be publicly traded in the stock market, so that the investors' decisions are not distorted, thus, promoting the trade of private equity issued by Mexican companies. The following is an executive summary of the contents of the Decree.

WITHHOLDING FOR CERTAIN INTEREST PAID TO FOREIGN RESIDENTS

Firstly, the Decree establishes that a tax incentive is granted to Mexican residents for tax purposes that are obliged to carry out the withholding indicated in article 166 of the Mexican Income Tax Law ("MITL") for interest payments derived from securities issued by companies residing in Mexico and placed in recognized markets, consisting of a tax credit equivalent to 100% of the income tax ("IT") that shall be withheld by Mexican payers (4.9% or 10%, as the case may be). It should be noted that the Decree does not mention a termination date for the incentive mentioned in this paragraph.

This incentive will only be applicable to interest payments made by Mexican residents for tax purposes to a resident in a country or jurisdiction with which Mexico has a treaty to avoid double taxation or a broad agreement for the exchange of information in force.

SALE OF SHARES THROUGH RECOGNIZED STOCK EXCHANGES

On the other hand, the Decree establishes that a tax incentive is granted to individuals residing in Mexico for tax purposes and individuals and entities residing abroad, during the fiscal years of 2019, 2020 and 2021, consisting of applying a 10% IT rate on profits obtained by said taxpayers, derived from the sale of shares in recognized stock exchanges issued by entities residing in Mexico for tax purposes, provided that the following conditions are met:

- I. That the sale of the shares in the stock exchange is made through an initial public offering of a Mexican company that has not previously traded in recognized stock exchanges.
- II. That the value of the shareholders' equity of the Mexican entity whose shares are sold is equal to \$1,000,000.00 Mexican pesos.
- III. That the assumptions established in article 129, last paragraph, numerals 2, 3 and 4 of the MITL are not met.

Finally, the Decree clarifies that the tax incentive mentioned in the preceding paragraph will also be applicable for venture capital investment trusts and other trusts or similar investment vehicles, provided that, in addition to the previously mentioned conditions: (i) the investment in the shares of the target company is maintained for at least 2 years before being sold through the initial public offering, (ii) the investment vehicle is established in Mexico, and (iii) such vehicle invests at least 80% of its equity in shares issued by entities residing in Mexico for tax purposes that have not been previously listed on the stock exchange.

This Decree mentions that the Tax Administration Service ("SAT", as per its initials in Spanish) will issue the general rules necessary for its correct enforcement.

Taxand's Take

Although the benefits set forth in the Decree seem attractive, it is important to review in detail the cases to which they can be applied, as well as the requirements and practical applicability of said benefits, in addition to awaiting the publication of the applicable general rules by the SAT, in order to be able to correctly evaluate the particular scope of the Decree for each specific case.