

Amendments to Mexico City's Local Tax Code

Mexico City, January 24, 2025

Below is a summary of the reforms we consider relevant to Mexico City's Local Tax Code ("MXLTC") published on December 27, 2024, as well as the general program recently published on the property tax subsidies for residential-use properties:

- 1. Tax Refund Certificates:** The provision specifies that, in the absence of "budgetary sufficiency", the refund of contributions will be made through a refund certificate pursuant to the first paragraph of Article 49 of the MXLTC. Furthermore, the possibility for a taxpayer to transfer this certificate to another taxpayer to be used as a payment method was repealed.

- 2. Prohibition on Contracting with Government Entities:** Article 56 Bis was added to the MXLTC to establish a prohibition for any authority, public entity, body, or organization of the Legislative, Executive, and Judicial branches of Mexico City, as well as the municipalities, autonomous bodies, political parties, trusts, and funds, as well as any individual, legal entity, or union receiving and managing public funds, from contracting with individuals, legal entities, or legal entities that fall under any of the following:
 - i. Are liable to definitive tax assessments.
 - ii. Are liable to tax assessments, definitive or not, that remain unpaid or unsecured.
 - iii. Are not registered in the local taxpayer registry of Mexico's City Secretary of Finance or the Federal Taxpayer Registry.
 - iv. Failure to file any declaration, whether provisional or not, and regardless of determining any amount due the reform. This is also applicable to failure to comply with the filing of informative returns, established in administrative guidelines.
 - v. Subjects that are registered in the Taxpayer's registry and are deemed "untraceable" ("*no localizados*").
 - vi. Taxpayers with a final judgment and thus convicted for a tax crime. The prohibition on contracting will last for a period equal to the conviction imposed, starting from the date the judgment is considered final.

- vii. Taxpayers that have not refuted the presumption of issuing tax invoices supporting non-existent transactions or of unlawfully transferring tax losses and, therefore, are included in the lists referred to in Articles 69-B or 69-B Bis, ninth paragraph of the Federal Tax Code.
- viii. Taxpayers that reported income and withholding taxes (in returns for provisional taxes, definitive or annual returns) that do not match those reflected in tax invoices, dockets, documents or databases that the tax authorities possess or they have access to.

The prohibition shall not apply to scenarios i. and ii., provided that an agreement is formalized with the tax authorities to pay the outstanding tax liabilities in installments, using the resources obtained from the sale, lease, services, or public projects intended to be contracted, and the taxpayer does not fall under any other of the above-mentioned scenarios.

It is required that the respective agreement establishes that the taxpayers shall withhold a part of the consideration, to pay the local tax authorities for the outstanding tax liabilities.

Finally, for taxpayers that fall under the scenarios i. to viii, various prohibitions or restrictions are established concerning the application of subsidies or generalized tax incentives.

- 3. New Informative Return for Property Tax:** A new obligation is introduced for taxpayers subject to the property tax, to submit an informative return regarding the status of the residential properties. This obligation applies only to properties ranged as L, M, N, O, and P regarding the property tax rate, i.e., those with a cadastral value equal to or greater than MX\$4,524,974.08.
- 4. Increase in the Payroll Tax Rate (“ISN”):** Article 158 of the MXLTC is amended to increase the applicable ISN rate from 3% to 4%.
- 5. Tax Benefits for the ISN, acquisition tax (“ISAI” per its Spanish acronym), and property tax:** The following subsidies or tax incentives were approved, effective as of 2025:
 - i. On January 17 of the current year, the “General Ruling Granting Tax Subsidies on the Payment of Property Tax” was published. This Ruling provides for the following subsidies in effect during 2025.

- A tax subsidy is available for taxpayers owning residential-use or mixed-use properties with a cadastral value falling within ranges A, B, C, and D of the rate established in Section I of Article 130 of the CFMX. This subsidy consists in the application of the following and the following fixed rates, instead of the statutory fixed rates:

Range	Subsidy rate(MX)
A	\$65.00
B	\$74.00
C	\$90.00
D	\$107.00

- A tax subsidy is available for taxpayers owning residential-use or mixed-use properties with a cadastral value falling within ranges E, F, and G of the rate established in Section I of Article 130 of the CFMX. The subsidy consists in the application of the following percentage of subsidy to the tax due:

Range	Subsidy percentage (MX)
E	50%
F	35%
G	25%

- A tax subsidy is available for taxpayers falling under the scenario provided in the fourth paragraph of Article 127 of the CFMX (transactions involving the sale and purchase or acquisition of new constructions), equivalent to the difference between the tax determined based on the market value derived from the appraisal referred to in Section III of Article 116 of the aforementioned Code and the tax corresponding to the cadastral value.

In the case of mixed-use properties, the subsidies mentioned above will be proportionally applicable, considering the tax corresponding to the value of



the land and construction allocated for **residential** use, with regards to the total value of the property.

- ii. Certain early payment reductions remain in effect under the CFMX for the property tax upon making an annual payment for the bimonthly periods in advance, during January or February.
- iii. For 2025, an effective ISN rate of 3% is foreseen for microenterprises and 3.5% for small businesses, pursuant to the transitory provisions of the Reform Decree published on December 27, 2024.

This 3% effective ISN rate is also applicable to companies that, in the 12-month period prior to filing the return, prove that their labor personnel increased 33% on an annual basis, or that such company is initiating operations. This benefit is established in Article 278 of the CFMX.

- iv. In the CFMX, certain benefits or reductions remain in effect, which include the following:
 - A 0% ISAI rate is applicable when the acquisition of property derives from inheritance and all requirements set forth in Article 115, third paragraph, Section I of the CFMX are met (including that the property value does not exceed the equivalent of 27,185 times the daily value of the UMA); and
 - Pursuant to the transitory provisions, a 50% reduction in the aforementioned tax is applicable to acquisitions arising from inheritance, provided that only one of the requirements set forth in the previously cited provision is met. Such reduction will be effective during 2025.

Finally, the amendments to the MXLTC entered into force as of January 1st of the current year. If you require further information, please contact the following email addresses: dlester@galicia.com.mx; pyaber@galicia.com.mx; and amadero@galicia.com.mx.

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