

## Transfer pricing Alert

### Decree effects on border zones in transactions between Related Parties

March | 25 | 2019

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The Decree on border zones recently published that reduces for 2019 or generates a subsidy in the income tax rate to be temporarily in 20% and in the added value tax to be 8%, it is not applicable to the following taxpayers:

1. Maquiladora companies with tax domicile at the border with an authorized IMMEX program that pay taxes according to "safe harbor" rules (formula established in the Income Tax Law) or that have obtained an Advance Pricing Agreement (or APA resolution with the tax authorities) derived from income operations for manufacturing services to its related parties residing abroad; neither
2. The companies providing personnel supply services (either to related or third parties) through labor subcontracting agreement or are considered intermediaries under the terms of the Mexican Federal Labor Law, with tax domicile at the border.

On the contrary, this Decree would be applicable to other companies with tax domicile at the border, such as manufacturers and distributors that sell products at the border to their related parties, and service providers. However, as mentioned, this Decree would not be applicable if it is a manufacturer or distributor or service provider that applied other tax treatments that grant tax benefits or incentives, including exemptions or subsidies.

It is important to mention that the companies to which the Border Decree applies must comply with certain requirements no later than March 31, 2019.

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