2027 Income Tax Law Reform Bill

Key provisions affecting legal entities

TAX

NEWSLETTER

The purpose of this document is to describe the main provisions of the 2027 bill that affect legal entities. The bill was submitted by the Federal Executive to the Chamber of Deputies on September 8, 2026. The analysis explains the proposed changes compared with the current regime and their main consequences for determining Income Tax.

1. Limitation on Authorized Deductions

The 2027 Income Tax Law reform bill proposes that legal entities with taxable income exceeding 50 million pesos may no longer deduct all of their authorized deductions in the same fiscal year, even when such deductions are genuine, strictly necessary, and properly documented.

The rationale is based on an analysis by the **Tax Administration Service (SAT),** which assumes that companies whose deductions do not exceed **96.67%** of their taxable income conduct **1%** of their transactions with invoice-issuing shell companies, while those exceeding that threshold conduct 10%.

- If deductions do not exceed **96.67%** of taxable income, only **99%** of them may be deducted. For example, with taxable income of 100 million pesos, deductions of 90 million pesos, and taxable profit of 10 million pesos, only 89.1 million pesos would be deductible; taxable profit would increase to 10.9 million pesos and Income Tax would rise from 3 million to 3.27 million pesos, increasing the effective rate from **30% to 32.7%.**

- If deductions exceed **96.67%** of taxable income, deductions would be limited to that percentage. For example, with taxable income of 100 million pesos and actual deductions of 99 million pesos, the actual taxable profit would be 1 million pesos, but the bill would require recognition of an artificial taxable profit of 3.33 million pesos. Income Tax would increase from 300,000 to 999,000 pesos, without any actual increase in the taxpayer's economic capacity.

The threshold is arbitrary. A company with deductions equal to **96.67%** of its taxable income would have to defer **1%** of its deductions, while another with deductions equal to **96.68%** would be subject to the maximum deduction limit of **96.67%** of taxable income, requiring it to recognize artificial taxable profit equal to **3.33%** of that income. It is difficult to justify why a difference of only 0.01 percentage points should produce such different tax consequences for taxpayers in virtually identical economic circumstances.

This distinction violates the constitutional principle of tax equity by imposing radically different tax treatment on taxpayers in virtually identical economic circumstances. It also affects the principle of tax proportionality by causing the tax burden to be determined on artificial profits that do not necessarily reflect the taxpayer's actual ability to pay.

The proposal generalizes to all taxpayers conduct that the tax authority itself attributes only to some of them. Instead of identifying, auditing, and penalizing those who actually engage in sham transactions, it imposes general restrictions that apply equally to compliant taxpayers and alleged offenders. As a result, companies with legitimate and properly documented transactions would pay Income Tax on artificial profits derived from a statistical presumption rather than from an irregularity actually established. Although deferred deductions may be recovered in subsequent fiscal years and adjusted for inflation, this does not offset the financial cost of the time value of money or the economic harm arising from the advance payment of tax.

The measure is particularly unjustified for large multinational groups, whose internal controls, external audits, corporate governance bodies, compliance systems, and financial review processes significantly reduce the possibility of sham transactions. Even so, they would be subject to the same limitation based on a statistical presumption rather than concrete evidence of noncompliance. Paradoxically, the bill would affect more severely taxpayers that, because of their level of oversight and transparency, face lower risks of engaging in the conduct the reform seeks to address.
The new mechanism expressly excludes the immediate deduction of investments and certain additional deductions related to training, initial certifications, utility models, and patents.

At the same time, the deduction limit is determined by considering total authorized deductions and the 96.67% threshold of taxable income. This creates an internal contradiction because the immediate deduction appears to form part of the authorized deductions considered in determining whether the threshold is exceeded, while the text itself provides that the mechanism does not apply to that benefit.

At least two reasonable interpretations arise from this contradiction:

- The immediate deduction must be considered in determining whether authorized deductions exceed **96.67%** of taxable income and excluded only when applying the limitation.

- The immediate deduction must be excluded entirely from the mechanism, both in determining whether authorized deductions exceed **96.67%** of taxable income and in applying the limitation.

The distinction is relevant because a company might not exceed the **96.67%** threshold with its ordinary deductions but could exceed it after including the immediate deduction, producing different tax results depending on the interpretation adopted.

Furthermore, the new mechanism applies only to legal entities resident in Mexico. Nonresidents operating through a permanent establishment in Mexico are not included within its scope, even when they earn taxable income exceeding 50 million pesos and determine taxable profit.

Consequently, taxpayers carrying out equivalent activities in Mexico could receive different treatment depending on whether they operate through a Mexican-resident company or a permanent establishment. The bill provides no specific explanation or justification for this difference in treatment.

The limitation on deductions will not affect the basis used to calculate employee profit sharing (PTU).

2. Limitation on the Use of Tax Loss Carryforwards

The bill modifies the tax loss utilization regime for certain legal entities with taxable income exceeding 50 million pesos.

Currently, tax losses may be applied up to the full amount of taxable profit for the fiscal year. The proposal provides that only an amount equal to **50%** of taxable profit may be applied.

Consequently, even when a taxpayer has sufficient tax losses to offset all of its taxable profit, it may apply only up to **50%** of that profit. The remaining **50%** will be subject to Income Tax. Tax losses that cannot be applied in a fiscal year may be used in subsequent fiscal years.
The taxable profit to which this limit applies is determined after applying the new limitation on authorized deductions. Accordingly, taxable profit will first increase as a result of the restriction on deductions, and the use of tax losses will then be limited based on that increased taxable profit.

Tax losses whose use is limited under the new regime may be applied during the following twenty fiscal years, even if they were generated before the regime entered into force.

The proposal also extends this limitation to provisional Income Tax payments. Consequently, pending tax losses may be applied only up to an amount equal to 50% of the taxable profit determined for each provisional payment.

In addition, a transitional provision applicable to 2027 provisional Income Tax payments establishes an extraordinary adjustment to the profit coefficient provided under the Income Tax Law.
The coefficient determined under the ordinary rules must be multiplied by 1.0658 when authorized deductions reported in the last annual tax return filed do not exceed **96.67%** of taxable income, or by 2.6162 when those deductions exceed that percentage. For 2027 provisional payments, if the 2026 annual tax return has not yet been filed when the provisional payment is calculated, the last annual return filed will be the 2025 return. If the 2026 annual tax return has already been filed, that year will be used as the reference.

A company that reported taxable income of 100 million pesos, authorized deductions of 90 million pesos, and a 10% profit coefficient in its 2026 annual tax return would apply the 1.0658 factor, increasing its coefficient to 10.658%.

A company that reported taxable income of 100 million pesos, authorized deductions of 97 million pesos, and a 3% profit coefficient would apply the 2.6162 factor, increasing its coefficient to approximately 7.85%.

Once taxable profit for the provisional payment is determined with the adjusted coefficient, pending tax losses may be applied only up to 50% of that profit.

3. Payments to Nonresidents

The bill modifies the deduction and withholding rules applicable to payments made to nonresidents for Income Tax purposes.

The proposal provides that these payments may be deducted only in the fiscal year in which the consideration is paid and the corresponding withholding tax is remitted.

It also changes the time at which the withholding tax must be remitted. Currently, the relevant event is enforceability or payment, whichever occurs first; the bill adds accrual. Therefore, the withholding tax must be remitted when enforceability, accrual, or payment first occurs.

The combination of both changes requires the withholding tax to be remitted upon enforceability, accrual, or payment, whichever occurs first, while the deduction will be allowed only when the consideration is paid. Consequently, a timing difference arises between remitting the withholding tax and deducting the expense for Income Tax purposes.

4. Modification to the Determination of the Net After-Tax Profit Account (CUFIN)

The bill modifies the determination of the Net After-Tax Profit Account (CUFIN).

Currently, net taxable profit is reduced, among other items, by Income Tax, nondeductible items, and employee profit sharing. The proposal would also include expenditures that fail to meet the deductibility requirements established in tax legislation. As a result, items that could in principle be deductible but fail to satisfy requirements such as supporting documentation, withholding obligations, or payment methods may also affect the determination of CUFIN.

Consequently, an expenditure that fails to meet tax requirements will not be deductible for determining Income Tax and will also reduce the CUFIN balance available for future profit distributions.

The main impact of the reform will arise in future profit distributions. A lower CUFIN balance means that a greater portion of dividends exceeding that balance will be subject to the Income Tax applicable to such distributions.

5. Modification to the Additional Paid-In Capital Account (CUCA)

The bill modifies the rules for determining the Additional Paid-In Capital Account (CUCA).
For debt capitalizations, accrued but unpaid interest and the corresponding Value Added Tax (VAT) will no longer form part of CUCA. Only the principal amount of the capitalized debt will be recognized. According to the explanatory statement, VAT does not represent an increase in equity, and interest constitutes consideration arising from the financing received; therefore, CUCA should reflect only the principal amount actually contributed or capitalized.

Likewise, when contributions consist of accounts receivable, assignments of collection rights, or negotiable instruments, they will no longer be included in CUCA at the time of contribution. They will be recognized only when the debtor makes the corresponding payment and solely for the amount actually collected.

According to the explanatory statement, these changes seek to ensure that CUCA reflects only contributions actually made by partners or shareholders.

The main impact of the reform will arise in future capital reductions. A lower CUCA balance reduces the amount that may be reimbursed to partners or shareholders as a return of capital. The portion of the reimbursement exceeding the balance of that account will be treated as a profit distribution for Income Tax purposes.

6. Limitation on the Deduction of Net Interest

The limitation on the deduction of net interest was introduced in Mexico as of January 1, 2020, following the adoption of Action 4 of the Base Erosion and Profit Shifting (BEPS) project promoted by the Organization for Economic Co-operation and Development (OECD) and the G20 to combat base erosion and profit shifting across jurisdictions.

BEPS Action 4 focuses on the use of interest to reduce tax bases, particularly when business groups finance their operations with debt rather than equity.

The explanatory statement for the 2027 bill notes that Action 4 recommends limiting interest deductions within a range of **10%** to **30%** of an earnings measure similar to EBITDA. Mexico currently applies the upper end of that range, equal to 30% of adjusted taxable profit.

The bill proposes reducing that limit from **30%** to **20%.** The calculation method remains unchanged, but the maximum deductible amount of net interest would decrease by one-third.
The bill does not demonstrate that the current 30% limit has been insufficient or explain why it should be reduced to **20%.** The reduction will increase the Income Tax base and revenue by further restricting the deduction of net interest.

The reform will affect legal entities whose accrued interest expense exceeds 20 million pesos during the fiscal year. Once that threshold is exceeded, the portion of net interest exceeding 20% of adjusted taxable profit will not be deductible.

7. Plan México Tax Incentives

The bill incorporates into the Income Tax Law the incentives under the Plan México program, which currently operates under a decree issued by the Federal Executive. For purposes of this document, the analysis is limited to benefits applicable to legal entities. Under the reform, these benefits will no longer rely solely on a decree and will instead have express statutory support in the Income Tax Law.

Who Is Eligible?

- Legal entities taxed under Title II.
- Legal entities taxed under the Simplified Trust Regime (RESICO).
- Benefits

Immediate deduction of investments in new fixed assets acquired between January 1, 2027, and September 30, 2030.

This allows these investments to be deducted in advance instead of applying the ordinary depreciation percentages established in the Income Tax Law. The explanatory statement notes that the percentages were determined by considering projects with a minimum internal rate of return of 10%.
Additional deduction equal to **25%** of the increase in training or innovation expenses.

Key Requirements

- Active Federal Taxpayer Registry (RFC) status.
- Enabled tax mailbox.
- Positive tax compliance opinion.

Submit an investment project, a dual education program, or an innovation project.

Obtain a compliance certificate issued by the Evaluation Committee.

Keep the investments in use for at least two years, except as otherwise provided by law.

Available Funding

- Up to 28.5 billion pesos for the immediate deduction.
- Up to 1.5 billion pesos for training and innovation.
- The total funding covers the period from January 1, 2027, through September 30, 2030. The bill does not allocate amounts by year; the Evaluation Committee will determine the amounts that may be authorized in each fiscal year.

8. Deduction of Advance Payments for Services and Leases

Currently, advance payments for the acquisition of goods, independent services, and the temporary use or enjoyment of property may be deducted in the fiscal year in which they are paid, provided that the CFDI for the advance payment is obtained in that fiscal year and the CFDI covering the entire transaction is obtained no later than the last day of the following fiscal year.

The bill leaves unchanged the treatment applicable to advance payments for the acquisition of goods. However, it modifies the rules for advance payments for independent services and the temporary use or enjoyment of property.

For independent services and the temporary use or enjoyment of property, the reform eliminates the possibility of deducting advance payments in the fiscal year in which payment is made. The deduction will be allowed only as the service is actually received or the corresponding period for the use or enjoyment of the property elapses.

The explanatory statement notes that the current rule allows taxpayers to accelerate deductions through payments for services or leases whose economic benefits relate to subsequent fiscal years. It therefore considers that the deduction should be recognized in the same period in which the service is received or the use or enjoyment of the property accrues.

Kind regards,
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