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Proposal for Tax Reform: Inheritance Tax and Tax on High-Net-Worth Individuals

Senator Amalia Dolores García Medina of the Movimiento Ciudadano parliamentary group has presented a bill to reform the Income Tax Law (*Ley del Impuesto Sobre la Renta*), Social Security Law (*Ley del Seguro Social*), Value-Added Tax Law (*Ley del Impuesto al Valor Agregado*), and Tax Coordination Law (*Ley de Coordinación Fiscal*) as part of a progressive tax reform, with the aim of transforming the tax collection system into an equity-based model by taxing accumulated wealth to finance universal social rights.

The key reforms proposed are:

I. Reform of the Income Tax Law – The Cost of Wealth

A new section, Title VIII (Articles 202 to 215), is added. Title VIII focuses on the net wealth of individuals who reside in Mexico and abroad and who hold assets in the country.

- **Wealth Concentration Tax:** This applies to net worth (assets minus liabilities) that exceeds 100 million pesos. The applicable tax rates, which are annual and progressive, start at 2% and reach a maximum of 6% for individuals with more than 1 billion pesos.
- **Inheritance and Bequest Tax (Article 93):** The total exemption on inheritances is abolished. Only inheritances of up to 14 million pesos will be exempt. The excess is taxed at rates ranging from 10% to 18%.
- **Exit Tax:** If a taxpayer transfers their tax residence abroad, they must pay tax on the unrealized capital gains on their assets, as if they had sold these assets at market value before changing their residence.

II. Anti-Abuse and Control Measures – The Tax “Lock”

These rules aim to prevent taxpayers from concealing their wealth through complex structures:

- **Transparency of the Controlling Beneficiary:** This requires the identification of the natural person who exercises control over trusts and companies, thereby preventing the use of straw men.
- **Reclassification of Transactions:** The Tax Administration Service (*Servicio de Administración Tributaria*) (“SAT”) is empowered to disregard legal structures that lack a valid commercial purpose and are intended solely to evade the payment of these new taxes.
- **Supervision of Trust Arrangements:** Assets held in trust are considered the beneficiary’s property for the purpose of the calculation of net worth, unless a strict social or housing purpose is demonstrated.

III. Reform of the Value-Added Tax Law – Luxury Property Tax

An annual tax is imposed on the ownership of luxury goods:

- Taxable goods: This category includes private aircraft, recreational vessels (yachts), jewelry, watches, and cars with a market value exceeding 1.5 million pesos.
- Taxable base: This is calculated using the updated market value of the asset at the time of filing.

IV. Reform of the Social Security Law and the Tax Coordination Law – Allocation of Expenditures

The reform legally “earmarks” the use of revenue to prevent discretionary spending:

- Universal Health Insurance: 60% of the revenue will fund a program for people without social security coverage. The State will subsidize 100% of the premium for the first 5 years, gradually reducing the subsidy until the 25th year.
- Fund for Sustainability and Care: The remaining 40% will be transferred to states and municipalities for the mandatory funding of the National Care System (daycare centers and nursing homes) and climate mitigation projects.

V. Transitional Provisions

Effective Date: It is anticipated that once the Decree enters into force—even if it takes effect after the fiscal year has already begun—the collection of the taxes in question will be carried out on a pro-rata basis over the remaining period of the fiscal year.

Operating Rules: The SAT has 60 calendar days to make the necessary changes, and the Mexican Social Security Institute has 90 calendar days to update its enrollment regulations.

This bill remains subject to debate and approval by the Congress of the Union as part of the applicable legislative process.

Pérez-Llorca Mexico’s Tax team is available to provide further information on the contents of this Legal Briefing.

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