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

The parliamentary groups *Movimiento Ciudadano* and *Partido del Trabajo* have introduced tax reform bills that propose amendments to the Income Tax Law (*Ley del Impuesto sobre la Renta*, the "**LISR**"), the Social Security Law (*Ley de Seguro Social*, the "**LSS**"), the Value Added Tax Law (*Ley del Impuesto al Valor Agregado*, the "**LIVA**"), and the Fiscal Coordination Law (*Ley de Coordinación Fiscal*, the "**LCF**"). The stated goal is to reform the tax collection system by taxing accumulated wealth in order to fund universal social programs.

The main proposed reforms are as follows:

I. Reform of the LISR

Tax on the establishment of trusts

A new tax regime applies to trusts in which the contributed assets and rights have a market value that exceeds MXN 14 million at the time of the trust's establishment.

Tax obligations are divided among the parties as follows:

At the time of the establishment of the trust:

- The trustee institution must pay 6% of the total market value of the contributed assets and rights.
- Each beneficiary, upon appointment or eligibility to register as a taxpayer, must pay 6% of the total value of their allocated assets and rights.
- Each settlor must pay, on a one-off basis, 8% of the total value of the assets and rights contributed to the trust.

Recurring obligations:

- Beneficiaries must pay 6% annually on the updated total value of the trust's assets and rights.

Special taxable events:

- The abandonment or termination of a trust triggers an obligation on the part of each beneficiary to pay 6% of the total value of the corresponding assets and rights.
- When a trustee institution sells trust assets through an out-of-court transaction for consideration, it becomes jointly and severally liable for the income tax owed by both settlors and beneficiaries.

Special cases:

- Trusts that are established outside Mexico whose assets or rights are located in Mexico, regardless of their stock exchange listing, tax, banking, or registry records, or nationality, are subject to an 8% tax rate upon establishment of the trust and 6% annually on the updated total value in subsequent fiscal years.

- Expenses that relate to trust assets and rights are not deductible for settlors, beneficiaries, or trustee institutions.

- Trusts established for the benefit of non-profit entities under Article 79 of the LISR, or those covered by Article 187 of the same law, are exempt.

Exit Tax

A new taxable event is created when a legal entity or individual transfers their tax residency outside of Mexico. The tax applies to the difference between the market value and the acquisition cost of all the taxpayer's assets, at the following rates:

- Legal entities: 20%

- Individuals: 15%

The taxable base is calculated as the average of the last three fiscal years, plus any outstanding tax liabilities, and less any provisional payments that have already been made. Once a taxpayer's tax residency is transferred, the taxpayer may not claim any tax benefits in Mexico.

Inheritance and Bequest Tax

The existing full exemption for inheritances and bequests is abolished. Only those with a value of less than MXN 14 million remain exempt. Amounts above this threshold are subject to a progressive tax rate of 10% to 18%, applied to the portion of the inherited amount that exceeds MXN 14 million or the equivalent amount in foreign currency. The tax must be withheld at the time of distribution and may not be deducted.

Tax on the Excessive Concentration of Wealth (Chapter XIV)

A new annual tax applies to individuals in the top income decile, with the stated goal of reducing economic inequality.

- Taxable base: Individual net worth, assessed by the Tax Administration Service (*Servicio de Administración Tributaria*, the "**SAT**") (total assets less domestic liabilities).

Valued at market price at the close of each fiscal year. Reference income thresholds are updated every two years using household income and expenditure data published by the *National Institute of Statistics and Geography (Instituto Nacional de Estadística y Geografía*, "**INEGI**"). Taxpayers who believe their net worth has been overstated or understated may challenge this assessment in accordance with the provisions of the Federal Tax Code (*Código Fiscal de la Federación*, the "**CFF**").

- Rate: Progressive, from 1% to 6% annually on net worth.

- Use of revenue: 2% of collections will be allocated by the Chamber of Deputies to strengthen the SAT.

Tax on Large Fortunes

An annual tax applies to net worth that exceeds MXN 100 million, applicable to individuals residing in Mexico and non-residents with a permanent establishment in the country, at the following progressive rates:

- MXN 100,000,001 to MXN 500,000,000: 1.5%
- MXN 500,000,001 to MXN 1,000,000,000: 2.5%
- Over MXN 1,000,000,000: 3.5%

All revenue will be deposited into the Social Justice Fund (Fondo para la Justicia Social), which is dedicated to poverty reduction, environmental protection, education at all levels, scientific and technological development, and access to adequate housing.

The Ministry of Finance and Public Credit, in coordination with the SAT, will issue implementing regulations. Non-compliance will result in a fine equal to twice the unpaid tax, without prejudice to any applicable criminal liability under the Federal Tax Code.

II. Reform of the LIVA - Luxury Property Tax

An annual tax is imposed on the ownership of the following luxury assets:

- Private aircraft that weigh more than 2,000 kilograms and private helicopters.
- Recreational vessels (yachts).
- Armor installed in private residences.
- Automobiles with a market value that exceeds MXN 2 million.

The taxable base is the current market value of the asset at the time of filing, subject to an annual tax rate of 2%. The tax applies regardless of the asset's registration or flag, provided that the owner falls into one of the following categories:

- Has a tax domicile in Mexico.
- Holds Mexican nationality.
- Where the asset is held in a trust in respect of which the trustee institution, settlor, beneficiary, or controlling beneficiary is domiciled in Mexico.
- Where the asset spends more hours on land or in port annually than that required for maintenance under applicable law.
- Where the owner holds a valid concession or government assignment from the Mexican State.

III. Reform of the LSS and the LCF

A new Title VII is added to the LSS, creating the Social Security Universalization Program (*Programa de Universalización de la Seguridad Social*), through which the Mexican Social Security Institute (*Instituto Mexicano* *del Seguro Social*, the "**IMSS**") will extend full coverage to informally employed workers who lack social security coverage with any federal, state, or autonomous agency.

- Funding: The Program is funded by 59% of the revenue from the new wealth taxes under the LISR and 60% of the revenue from the tax on luxury goods under the LIVA. Administrative costs may not exceed 3% of the Program's revenues.

- Premiums: These are calculated on the basis of twice the monthly minimum wage for the relevant geographic area, on a sliding scale: 100% for the first five years, gradually decreasing to 75% from year 25 onward. Time in the Program is cumulative regardless of interruptions.

- Transparency and enforcement: Program funds are subject to audit by the Federal Superior Audit Office (*Auditoría Superior de la Federación*, the "**ASF**") and may not be withheld under any circumstances. Employers who fail to enroll their workers will face sanctions under the LSS and criminal liability for fraud under the Federal Criminal Code (*Código Penal Federal*, the "**CPF**").

A Sustainability Fund (*Fondo de Sostenibilidad*) is created, which is funded by:

- 39% of the revenue generated by the new wealth taxes.

- 40% of the revenue from the tax on luxury goods.

- Additional resources as determined by the Federal Government, participating states, and municipalities.

The Fund's resources will be distributed to municipalities and federal entities, and used exclusively for:

- Compliance with the Sustainable Development Goals of the 2030 Agenda and sectoral transformation projects aimed at promoting sustainability.

- The National, State, and Municipal Care System.

All uses of the Fund's resources must be made public through the disclosure of objectives, evaluations, and performance indicators that demonstrate compliance with sustainability criteria.

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

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