2027 Tax Reform: Key Approved Amendments to the Income Tax Law

Practical implications for international tax, transfer pricing and tax controversy, and recommended actions before December 31, 2026

The core of the reform is a new **Chapter X** (Articles 78-A to 78-F of the LISR), which introduces a control mechanism over authorized deductions and tax losses for Mexican-resident entities with taxable income above **MXN 50 million** and a taxable profit. Below we summarize the most relevant changes, their practical effects and the decisions to consider during the 2026 year-end close.

01 STATUS OF THE LEGISLATIVE PROCESS

09/08/2026	10/13- 14/2026	10/27/2026	11/03/2026	Pending	01/01/2027
Executive submits the 2027 Economic Package	Deputies approve the LISR amendments	Senate approves with a change to Art. 78-E; 2027 Revenue Law passes unchanged	Deputies accept the change and send to the Executive	Publication in the DOF	Expected entry into force

The 2027 Federal Revenue Law and the Federal Duties Law were sent to the Executive without changes. As to the LISR, the Senate amended only Article 78-E (exclusions from the new mechanism), so the bill returned to the Chamber of Deputies, which accepted the change. Since the reform must be published before January 1, 2027 to govern the fiscal year, the period until publication is a brief window to make decisions under current law.

99% or 96.67%	50%	20%	20 years
Cap on deductions over taxable income	Of taxable profit offsettable with losses	Net interest limit (previously 30%)	Carryforward period (previously 10)

02 MAIN CHANGES FOR LEGAL ENTITIES

Deduction control mechanism (Chapter X)

Entities with taxable income above MXN 50 million that report a taxable profit will compare their authorized deductions against their income. If deductions are equal to or below 96.67% of income, only 99% of them may be applied; if they exceed that level, deductions will be capped at 96.67% of income, which in practice ensures a minimum taxable base of 3.33%.

The non-deducted portion is not lost: it is deferred and may be applied over the following 20 years, adjusted for inflation and without the possibility of transfer to another taxpayer. The effect is therefore mainly financial, although it may become permanent for businesses with structurally low margins.

Tax losses

The offset of prior-year losses is limited to 50% of the year's taxable profit, determined after applying the deduction cap, including for estimated payments. In exchange, the carryforward period increases from 10 to 20

years, also for losses generated through 2026. Accordingly, 2026 is the last year in which losses may absorb 100% of taxable profit.

Net interest and payments abroad

The net interest deduction limit drops from 30% to 20% of adjusted taxable profit, with no transition for existing debt; the MXN 20 million threshold and carryforwards remain. Payments to foreign parties will be deductible only in the year they are actually paid and the corresponding withholding is remitted, and the obligation to withhold on non-residents will arise upon accrual, due date or payment, whichever occurs first.

CUCA, services and estimated payments

Accrued interest and VAT on capitalized liabilities no longer form part of CUCA or the tax basis of shares; contributions of receivables or credit instruments will count only when collected. Services and temporary use of assets will be deductible in the year the service is rendered or the use elapses, grandfathering advance payments made before entry into force. For 2027, the profit ratio for estimated payments will be multiplied by 1.0658 or 2.6162, as applicable.

> *Note: Article 78-E sets out exclusions from Chapter X, among which, notably, are taxpayers that obtained their Federal Taxpayers Registry (RFC) less than five years ago. The Senate amendment added, among others, automotive companies holding bonded-warehouse authorization for vehicle assembly and manufacturing, and fuel distributors. Under the transitional rules, entities resulting and surviving from mergers or spin-offs on or after September 8, 2026, are subject to Chapter X. All of the above must be confirmed against the text published in the DOF.*

03 INTERNATIONAL TAX AND RELATED-PARTY TRANSACTIONS

Payments to foreign related parties

Cross-border flows are among the most affected. By conditioning the deduction on actual payment and remittance of the withholding, and moving the withholding obligation forward to accrual, the withholding agent may have to remit tax earlier and deduct later. This creates a double treasury squeeze on royalties, interest, technical assistance, services and other intercompany payments, particularly where long-term payables or cash-pooling arrangements exist.

At the 2026 year-end close, companies should identify payables to foreign related parties and consider paying them and remitting the withholding before December 31, or documenting their position under the applicable treaty. For 2027, ERP systems must be configured to withhold upon accrual.

Double tax treaties

The non-discrimination clause on deductions (Article 24 of the OECD Model Convention) may render the payment condition inapplicable where the recipient resides in a treaty country, since payments to Mexican residents are not subject to the same condition. Moreover, where the treaty rate is 0%, there is no withholding to remit and the anti-avoidance rationale loses support. A mutual agreement procedure may run in parallel with domestic remedies.

New sequence for payments abroad

1	2	3	4
Accrual	Due date	Actual payment	Remittance
Withholding obligation arises (new)	Withholding if it occurs first	Condition to deduct	Deduction in that year

Transfer pricing: points of attention

- ✓ Review intercompany agreements: payment terms, gross-up and tax clauses, and treaty application.
- ✓ Align invoicing, accrual and payment dates with transfer pricing documentation.
- ✓ Confirm that pricing policies reflect the new financial cost of earlier withholding.
- ✓ Raise adjustments and disputes arising from payments abroad and transfer pricing through MAP.

04 IMPACT ON EFFECTIVE TAX RATE AND CASH FLOW

Effective tax rate

The thinner the tax margin, the greater the impact of the cap: with a 2% margin, the effective rate could rise from 30% to nearly 50%. Low-margin sectors such as distribution, retail and contract manufacturing bear the largest relative effect. Although the deduction is deferred rather than lost, recovery depends on generating sufficient profit in later years.

Cash flow, earnings and deferred taxes

Even with sufficient losses or existing debt, the reform generates cash income tax from the first 2027 estimated payment. It also affects what can be distributed: CUFIN may be artificially low if merely deferred deductions are subtracted, and CUCA is reduced by the exclusion of capitalized interest. On the balance sheet, a new deferred tax asset arises whose recoverability must be reassessed under NIF D-4 / IAS 12, and the effect on net debt/ EBITDA covenants should be analyzed.

Example (income 100; 30% rate)	Current ISR	2027 ISR
Deductions of 90 (99% applies)	3.00	3.27
Deductions of 98 (cap 96.67)	0.60	1.00
Profit of 100 covered by losses	0.00	15.00

Illustrative examples from our internal analysis; they do not replace an entity-level model.

Cash effects from 2027

- ✓ Cash income tax from the first 2027 estimated payment, even with sufficient losses.
- ✓ Moving from 30% to 20% on interest cuts deduction capacity by one third (in the example, additional tax of 3.0).
- ✓ The 2.6162 factor may decouple estimated payments from actual profit and create structural tax credits.
- ✓ CUFIN and CUCA may decrease; review dividends, capital reimbursements and covenants.

Agreements to review before 2027

Agreement	Risk under the reform	What to review
M&A / price adjustment	Valuation of the target's losses, CUCA and CUFIN; merger transitional rule from 09/08/2026	Indemnities, adjustment mechanisms and earn-outs
Financing	20% interest limit with no transition for existing debt	Covenants, prepayment cost, swaps and change-in-law clauses
Dividends and capital	Lower CUFIN and CUCA; higher tax on distributions	Dividend policy, shareholder agreements, capitalization agreements with certified date
Multi-year services and leases	Deduction as services are rendered or use elapses	Prepayment schedules and transitional regime
Capitalization of liabilities	Accrued interest and VAT excluded from CUCA and share basis	Capitalization agreements and their certified date
Payments to foreign parties	Deduction upon payment and withholding upon accrual, when the payment becomes due, or when it is paid, whichever occurs first	Payment dates

05 TAX CONTROVERSY: GROUNDS FOR CHALLENGE

Preliminary assessment

Several provisions present constitutional arguments that warrant early assessment. In our preliminary view, Chapter X and the merger and spin-off transitional rule lead the strategy, with medium viability. The strength of the challenge lies in distinguishing adverse precedents: Chapter X is a blind global cap, not a measure aimed at a specific avoidance risk, and may therefore tax non-existent income contrary to the principles of proportionality and equity (Article 31, section IV, of the Constitution).

Timing and evidence

The transitional rule covers entities resulting or surviving from mergers or spin-offs on or after September 8, 2026, when only a bill existed, supporting arguments of retroactivity and breach of the legality principle. For losses generated through 2026, it may be argued that they form part of an already realized tax base. The defense is won before filing: minutes, agreements and models with certified dates, and an accounting expert report supporting the actual base, adjusted payments and CUCA and CUFIN balances.

Provision	Viability	Main argument
Deduction cap	Medium	A blind cap taxes non-existent income; proportionality and equity (Art. 31, sec. IV, Constitution)
Tax losses	Medium	Retroactivity over losses through 2026 and the 09/08/2026 cutoff
CUCA integration	Medium	Capitalized interest is a real increase in equity
Payments abroad	Medium	Treaty non-discrimination (Art. 24) and conventionality review
Sale of shares	Medium	Double taxation of capitalized interest
Interest limit (20%)	Low	Adverse case law exists; legitimate expectations as reinforcement
Timing of withholding	Low	The withholding agent pays a third party's tax with its own funds

Indirect amparo	Revocation / TFJA	Mutual agreement	PRODECON
Against the law, as selfexecuting (income > MXN 50 million) or upon first application (first 2027 estimated payment).	Against assessments applying the reform; preferred route for CUFIN differences.	Under double tax treaties: payments abroad, withholdings and transfer pricing.	Conclusive agreements for factual disputes (substance and documentation).

Note: amendment to the Amparo Law (DOF 10/16/2025)

The decree published in the DOF on October 16, 2025, in force since the following day, clarified the requirements for injunctive relief: courts must expressly weigh the appearance of good law against the public interest, and the plaintiff must show, at least prima facie, its standing for suspension. In amparo proceedings against general laws, suspension may not be granted with general effects, and specific rules were set on securing the tax interest for final tax assessments. Deadlines and the injunctive strategy must be planned under these rules.

06 RECOMMENDED NEXT STEPS

November 2026	December 2026	Jan-Feb 2027
Diagnosis of losses, CUCA, CUFIN and interest carryforwards; 2027 impact model per entity; inventory of agreements.	Dividend, capitalization and reimbursement decisions; payments abroad with withholding remitted; minutes with certified date.	DOF publication and amparo strategy; first estimated payment with new factors; withholding systems update.

2026 year-end checklist

- ✓ Inventory and adjust losses by year of origin.
- ✓ Project 2026 taxable profit and assess recognizing income with substance.
- ✓ Reconcile CUFIN and assess dividends out of it in 2026.
- ✓ Formalize planned capitalizations with certified date.
- ✓ Pay foreign related parties and remit withholdings.
- ✓ Verify payment dates on agreements with foreign parties
- ✓ Recalculate interest deduction capacity at 20%.
- ✓ Review restructurings after 09/08/2026 and their business purpose.
- ✓ Budget 2027 treasury and estimated payments.

Von Wobeser y Sierra will monitor the publication of the decree in the DOF. Our tax team remains at your disposal for an express diagnosis, contract review and the design of your defense strategy. We suggest scheduling a working session in November to define your year-end decisions before December 31, 2026.

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