

Indirect Tax Alert

News from EY Americas Tax

Mexico's tax reform: Implications for foreign digital service providers

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With the imminent enactment of Mexico's tax reform, foreign digital service providers should be aware of the new requirement to collect value-added tax (VAT) on the sale of certain goods and services in Mexico. The tax reform also would require income tax withholding on certain transactions with Mexican individuals.¹

This Alert summarizes the new requirements under Mexico's tax reform that would impact foreign digital service providers.

Digital service providers subject to the new requirements

The tax reform does not distinguish between business-to-business (B2B) and business-to-consumer (B2C) transactions. Therefore, the rule would apply to all suppliers. However, the provisions appear to focus on B2C transactions. The following providers are subject to the rules and responsible for the collection, reporting and payment of VAT:

- ▶ *Category 1:* Those that provide for the download/access to images, movies, music, text, information, video, gaming, ring tones, news online, traffic, weather, online clubs, dating sites and other multimedia content, on-line learning, tests and exercises
- ▶ *Category 2:* Those that perform intermediation services between potential sellers and buyers of products and services

Providers of financial services, payment services, data storage, and the use or sale of software would not be subject to the new requirements.

Services considered rendered in Mexico

Services would be considered rendered in Mexico when: (i) the recipient provides a Mexican domicile or telephone number to the digital platform; (ii) a Mexican IP-assigned address is used; or (iii) a Mexican intermediary is used by the recipient (for instance a financial institution) for payment.

Compliance and disclosure obligations for foreign digital providers

The tax reform would require foreign digital service providers to register with the Mexican tax authorities and obtain a tax identification number for VAT purposes. They also would have to: (i) appoint a tax representative in Mexico; (ii) provide a Mexican tax address; and (iii) collect the VAT on the price of the digital service. The VAT rate would be 16%. The tax representative would be responsible for the provider's filing and reporting obligations.

The tax representative would have to disclose information related to the provider's transactions with Mexican users/recipients of the digital services, including information related to the number of transactions and transaction amounts by type of service.

Tax representatives would not need to issue official invoices during 2020. Rather, they would only have to issue a simple payment receipt to service recipients. Beginning 2021, providers of Category 2 intermediation services would have to issue formal electronic invoices related to the VAT withholding on the sales of goods and services.

Category 2 providers would have additional reporting and registration obligations.

Entry into force

The rules would enter into force on 1 June 2020.

Next steps

Businesses should evaluate their systems to identify taxable transactions and reporting obligations. Registration with the authorities will begin 1 June 2020, and should be completed by 30 June 2020, for businesses with operations subject to the rules on 1 June 2020.

Endnote

1. For more on Mexico's tax reform, see EY Global Tax Alert, [Mexican Congress passes tax reform for 2020](#), dated 5 November 2019.

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EYG no. 005158-19Gbl

1508-1600216 NY
ED None

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