



Tax Insights
from International Tax
Services

Mexican Federal Tax Court examines beneficial ownership

April 20, 2026

In brief

What happened?

The Mexican Federal Tax Court (Tribunal Federal de Justicia Administrativa – TFJA) issued several isolated precedents examining the concept of beneficial ownership in the context of dividends and interest paid under Mexico's tax treaties. In these decisions, the court concluded that an entity resident in a treaty jurisdiction will not be regarded as the beneficial owner where, based on contractual arrangements or a broader assessment of the surrounding facts and circumstances, it is effectively required to transfer the income to a related-party resident in a third jurisdiction (even if the third jurisdiction has a tax treaty in place with Mexico).

Why is it relevant?

These rulings reinforce Mexico's substance-over-form approach in assessing entitlement to tax treaty benefits and confirm that reduced withholding tax rates or exemptions could be denied where the recipient does not demonstrate effective control over, and economic enjoyment of, the income. The decisions are broadly consistent with the OECD Model Tax Convention Commentaries and indicate an increased focus on the factual and functional analysis of holding and conduit structures involving Mexican-source income.

Actions to consider

Taxpayers should review their holding company or transaction structures, especially for dividend, royalty, and interest payment structures involving Mexico. They also should assess whether intermediate entities have sufficient economic substance and maintain robust documentation supporting beneficial ownership. Existing arrangements relying on treaty relief could require restructuring or additional support to mitigate potential withholding tax exposure upon a Mexican tax authorities audit.

In detail

Background

The TFJA analyzed cases involving dividends paid by Mexican resident companies to entities resident in Spain and interest paid under the Mexico–Netherlands tax treaty. In the dividend cases, the discussion was part of a refund request procedure where the immediate recipient was a Spanish resident company whose sole shareholder was resident in the United Kingdom (UK). Although dividends were paid directly to the Spanish entity, the court examined whether that entity had the right to freely use and enjoy the funds.

Analysis

Referring to Articles 10 and 11 of the applicable tax treaties, as interpreted in light of the OECD Model Tax Convention Commentaries, the court reaffirmed that beneficial ownership requires more than formal legal entitlement to income. An entity will not qualify as the beneficial owner where it functions as a mere conduit, agent, or administrative intermediary, or where its entitlement to the income is constrained by a contractual or legal obligation to pass the payment to another party. Importantly, the court emphasized that these limitations need not arise solely from express legal documentation but also could be established through a holistic assessment of the relevant facts and circumstances. The tax authorities and the court argued that a shareholder (UK in this case) had empowerment to decide the distribution of profits from a subsidiary and based on that right there was in some way a legal obligation for the Spanish entity to distribute the profits to its UK shareholder. Under this approach Spain was not considered as the beneficial owner and the refund was denied.

Observation: These precedents further align Mexican judicial interpretation with OECD guidance on beneficial ownership and provide additional support for the tax authorities' analytical framework when assessing entitlement to treaty benefits. Of particular relevance is the court's acknowledgment that beneficial ownership could be denied based on implicit legal or economic constraints derived from the factual context, even where no explicit contractual obligations are identified. This interpretation suggests a heightened evidentiary standard for taxpayers, who must be prepared to demonstrate not only formal entitlement to income, but also effective control, decision-making capacity, and substantive economic enjoyment in order to sustain treaty-based relief.

Let's talk

For a deeper discussion of how this might affect your business, please contact:

Practice contacts

Carlos Orel Martinez

+52 55 7939 0206

carlos.orel.martinez@pwc.com

Adriana Rodriguez

+52 (55) 9197 5837

adriana.rodriquez@pwc.com

Luis Felipe Munoz

+52 (55) 2272 5039

luis.felipe.munoz@pwc.com

© 2026 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only and should not be used as a substitute for consultation with professional advisors.

Solicitation