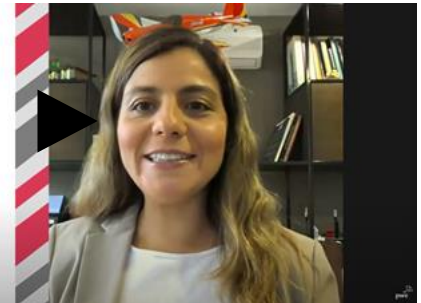


# Recent changes in Mexican tariff regime affect US companies with manufacturing operations in Mexico

## Tax Insights in Brief

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## In brief

### What happened?

On April 22, 2024, the Mexican Ministry of Economy [established import tariffs ranging from 5% to 50%](#) on specified products, which went into effect on April 23, 2024. Additionally, in April 2024 (through a guideline published in May), the Mexican government changed the criteria for application of '[Regla Octava](#)' ([Rule 8](#)), which previously allowed temporary imports of 'sensitive' products to be exempted from duties. Temporary importations of identified 'sensitive goods' — e.g., aluminum, steel, textiles, sugar, tobacco — are no longer eligible to apply for the Rule 8 exemption.

### Why is it relevant?

For US companies manufacturing in Mexico under the Maquiladora, Manufacturing, and Export Services Industry (IMMEX) Program (hereinafter referred to as IMMEX companies), there are important considerations arising from the recent Mexican government actions. The elimination of the Rule 8 exemption signifies that certain companies importing goods classified as 'sensitive' into Mexico now may be required to pay Most-Favored-Nation (MFN) duties, which are the standard import tariffs, on those items. In addition, if the imported goods also are included in the list of specified products covered by the newly announced tariffs, these companies will face Mexico tariffs above and beyond the MFN duties.

## Action to consider

IMMEX companies engaging in temporary importations of 'sensitive' goods under the IMMEX Program for subsequent export to the United States may need to consider the implications of potential increases in Mexican duties and tariffs. To develop a comprehensive understanding of the potential impacts according to each company's structure (e.g., maquiladoras, Mexican toll manufacturers that are not maquiladoras, contract manufacturers), as well as the overall supply chain, companies may wish to model various scenarios including different transactional and operational flows. Further, IMMEX companies may want to consider an analysis of these impacts under the United States-Mexico-Canada Agreement (USMCA) to avoid potential additional tariffs when exporting to the United States, as well as other financial and tax perspectives.

## In detail

### Mexico import tariff increases

The new Mexican customs provisions state that the following goods are subject to the tariff increase (between 5% to 50%), effective April 23, 2024:

- Steel
- Aluminum
- Textiles
- Clothing
- Footwear
- Wood
- Plastic
- Furniture
- Chemicals
- Paper and cardboard
- Ceramics
- Glass
- Electrical materials
- Transportation (car parts, generators, bicycles, among others)
- Musical instruments

**Note:** This measure will be in effect for a two-year period starting April 23, 2024. It is not yet clear whether these measures will be extended beyond that date.

### Mexican government decision to suspend renewal for exemptions to tariffs for certain products

In addition to the imposition of the above tariffs, the Mexican government suspended renewal or new application requests of the Rule 8 permit, which allowed for the exemption from Mexican import duties for temporary importations. Some of those sensitive industries, which are now facing higher tariffs, also are impacted by the Rule 8 suspension.

The following goods are examples of what is considered 'sensitive' and therefore no longer eligible for the exemption of import tariffs under Rule 8, when temporarily imported:

- Steel
- Aluminum
- Iron
- Textiles
- Sugar
- Used vehicle tires
- Mineral waste
- Tobacco

## **Additional considerations**

### **USMCA consequences**

A related consideration for the consequences of these regimes is that affected companies will need to refer to Article 2.5 of the USMCA, where applicable, to perform a duty deferral analysis. USMCA Article 2.5 addresses the treatment of non-originating materials incorporated into manufactured goods exported into the territory of one party from the territory of another party, and the duty deferral analysis involves determining the eligibility for duty exemptions or reductions under this provision.

Manufacturing entities will need to conduct the applicable analysis under article 2.5 of the USMCA to mitigate the duty payment on Mexico and the United States and/or Canada in cases where manufactured goods in Mexico are subsequently exported to these countries.

**Observation:** With the loss of Rule 8 exemptions, companies may need to default to other USMCA rules pertaining to duty deferral. To avail itself of any duty deferral available under USMCA, a company would need to track its duty-paid items imported into Mexico all the way through to export as finished goods to another USMCA country to support the application and benefit of the deferral.

### **Supply chain considerations**

From a supply chain perspective, companies face three options, each with significant implications. They can:

- Pass on the increased costs to consumers, potentially raising the price of finished goods;
- Absorb the costs, risking decreased profitability; or
- Alter their supply chain to mitigate the impact of these tariffs.

**Observation:** The options can be combined in various permutations. To assist companies in navigating these choices, it may be advantageous to develop a business case for each option to evaluate the impact on total landed cost, profitability, product strategy enablement, supply chain risk, and potential investment costs.

### **Additional compliance challenges**

Beyond the immediate and collateral impacts related to the tariffs and their costs, these changes may create compliance challenges for companies operating as a maquiladora for income tax purposes. Specifically, in accordance with certain Mexican income tax law requirements, permanent import operations generally should not

be the core focus of a company operating under a maquiladora structure, otherwise the maquila status could be at risk, potentially curtailing the benefits for Mexican corporate income tax purposes.

## Let's talk

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

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