

COVID-19: Business aspects to be considered

Mexican Government has implemented a series of actions addressed to control the disease caused by the outbreak of SARS-CoV2 (COVID-19), virus, in addition to establishing certain measures to relief the economic impact caused by this pandemic, mainly aimed at protecting the persons who pertain to a vulnerable economic sector.

Preventive measures

On March 11, 2020, the World Health Organization declared the outbreak of COVID-19 as a global pandemic and, under said premise, it was labeled as an international public health emergency.

At a domestic level, on March 23, 2020, the Decree by means of which the General Health Council acknowledged the disease caused by SARS-CoV2 virus in Mexico as a serious disease requiring urgent attention, as published in the Federal Official Gazette (*Diario Oficial de la Federación* or DOF).

Accordingly, on March 24, 2020, the Decree establishing preventive measures to be implemented to control the health risks due to COVID-19, by means of which the suspension of activities of public, social and private sectors involving a physical concentration of people was ordered, was published in the DOF.

Furthermore, on March 30, 2020, the General Health Council, by means of a Decree published in the DOF, declared a health emergency due to force majeure in connection to the epidemics caused by SARS-Cov2 virus. Through said decree, an immediate suspension was ordered until April 30, 2020, regarding unessential activities, in order to face the contingency in public, private and social sectors. It is worth mentioning that the original term was extended until May 30, 2020, through a different decree, published on April 21, 2020.

Finally, on March 31, 2020, the **health security measures** to be observed derived from the health emergency declaration due to force majeure, were published in the DOF, and are listed herein below:

1. Immediate suspension of unessential activities in public, private and social sectors, until April 30, 2020.
2. Only certain activities comprised in said decree may continue operating, which shall be deemed essential, as well as said activities which suspension may cause irreversible effects in its continuance.
3. Meetings or gatherings over 50 persons are not allowed and shall observe the basic hygiene measures (frequently washing hands, sneezing under cough etiquette, distance greeting).
4. Population is encouraged to avoid participating in essential labor activities, observing house shelter until April 30, 2020.
5. House shelter shall be strictly applied to all persons over 60 years, in pregnancy or immediate puerperium, or under a diagnosis of arterial hypertension, diabetes mellitus, chronic heart or lung disease, immunosuppression, kidney or liver failure, regardless whether their activity is deemed essential.

6. Once the suspension of unessential activities and house shelter end, the Ministry of Health, in coordination with the Ministry of Economy and the Ministry of Labor, shall issue the guidelines towards an escalated return to labor, economic and social activities.

In connection to the foregoing, please find herein below an analysis of the impacts companies are facing in labor, contractual, fiscal, transfer pricing and foreign trade matters.

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Derived from the decisions made by the Federal Government on March 30 and 31, through which the pandemic COVID-19 was declared a health emergency and the suspension of labor was deemed necessary due to force majeure in connection to unessential activities in order to face such contingency, on April 6, the Ministry of Health issued a decree setting the guidelines to the aforementioned decrees.

Consequently, there are several inquiries regarding the implications in labor matters, thus we will discuss the most relevant questions to be considered.

Essential activities

Pursuant to the measures issued by the Federal Government, the activities that will necessarily suspend labor are those deemed unessential to face the contingency declared. Specifically, the activities determined as essential are those related to the following supplies, goods and merchandise:

- Materials and products for medical attention, medical devices and medical equipment
- Food and beverages
- Agricultural and farming activities, agroindustry, fishing, aquaculture and analogue activities
- Energy, including oil, and distribution of electric energy
- Telecommunication, information technology, electronics and high technology
- Nourishment for pets, aquaculture, vitamins, medicines and their pre-mixtures
- Veterinary services (clinics and medicines)
- Refrigeration services
- Products for personal and home hygiene
- Critical supply and manufacturing chain
- Chemicals, nuclear including nuclear reactors, materials and the waste sector
- Water systems, dams and water treatment
- Emergency services
- Technical services and supplies for critical infrastructure
- Cement, concrete and steel
- Defense
- Aviation and aeronautics
- Financial services, banking or non-banking, including insurances and bonds
- Governmental facilities
- Health and public health
- Mining and iron and steel works
- Service and distribution for the maintenance of vehicles
- Courier and shipping services, and e-commerce

Also, in accordance with the above, the services supporting productive plants must be deemed as part of the essential activities, such as:

- Transport and logistics of persons, both public and private.
- Private and general transport services.
- Private security and security systems.
- Transport and logistic chains for products, from supplies, intermediate goods to final goods that must arrive at supermarkets, wholesaler and retailer stores, as well as health and work centers in operation.
- Logistics chains of sales to retailers, markets, retailer stores, among others, which allow to reduce the concentration of population at grand self-service stores.
- Infrastructure of media and telecommunication (customs, ports, highways, mobile telephone service, internet), and information technology (clouds, databases, etc.)
- Maintenance and operation of essential infrastructure such as highways, ports, customs, generation of electric energy, dams, process and distribution of potable water and drainage, distribution of gas, among others.
- Financial and banking services, SOFOM, pledges and micro-credits.
- Insurance sector.
- Maintenance services for buildings, constructions, equipment for productive plants, public infrastructure and telecommunication.
- Public security services.
- Primary stores of food, medicine and essential materials, as well as security equipment and general and industrial protection.
- Public and private health services, emergency services, ambulances and related services.
- Essential services for urban and agricultural community (laundry, home delivery restaurants, hotels, delivery services, funeral services, hardware stores and analogue, moving companies, products and services for farm fields, veterinaries, spare parts for machinery, food stores for animals, among others).

It is recommendable for those companies included in the list of essential activities, to have sufficient elements to prove such situation before an eventual inspection by the Ministry of Labor (*Secretaría del Trabajo y Previsión Social*).

Additionally, the Ministry of Health determined as necessary to have technical guidelines for specific activities, thus it issued an additional decree, dated April 6, 2020, providing for the following:

- It shall be deemed as “activities where suspension may have irreversible effects for their continuance”, as referred to in the final part of paragraph c), section II, the companies producing steel, cement and glass as well as technology information services guaranteeing the continuity of informatic systems for public, private and social sectors.

Accordingly, the companies executing the activities listed above must maintain a minimum staff to guarantee their operation, especially those companies having agreements in force with the Federal Government, as well as continuing with the activities which allow them to fulfill their short-term commitments, exclusively for the projects of Dos Bocas, Tren Maya, Aeropuerto Felipe Ángeles, Corredor Transísmico; as well as the existent agreements deemed indispensable for Petróleos Mexicanos and Comisión Federal de Electricidad (CFE).

- “Courier companies” comprise as well, as essential activities, e-commerce companies and platform, provided that they comply with the previously issued measures (no gatherings over 50 persons and hygiene cares).
- Regarding the “companies” necessary for preservation, maintenance and repairing of critical infrastructure that guarantees the production and distribution of indispensable services: it is provided that carbon mines shall maintain a minimum activity satisfying the needs of the CFE (Federal Commission of Electricity). Also, the companies distributing carbon shall maintain their transportation and logistics activities to satisfy the requirements of the CFE.

If appropriate, it must be taken into account that, regarding the companies producing steel, cement, glass, carbon mines and companies distributing carbon, a requirement was established to inform the Ministry of Economy, via e-mail to the address economia@economia.gob.mx (within a maximum 24-hour term as from the publication of April 6, 2020), of the number of employees that had been deemed as necessary in order to maintain their operation at minimum levels.

Suspension of activities

As a part of the measures taken, a suspension of activities was prescribed for those activities which are not deemed essential as from March 30 and until May 30, 2020 (as the original term was extended by the decree published in the DOF on April 21, de 2020).

It is important to consider that, even if the activity is deemed essential, resting time with salary and benefits must be granted by the employer in the cases of pregnant or breastfeeding women, employees under age 18 and over age 60, as well as those who suffer from preexistent conditions and chronic illnesses. Likewise, the measures suggested must be observed in order to keep a safe distance among their employees, observe hygiene measures and maintain a maximum number of 50 persons within a same space.

Agreements between employer and employees

Although certain decrees mentioned above are mandatory, it shall be borne in mind that the Ministry of Labor has deemed crucial the existence of agreements to protect employees and sources of labor, according to the industry and economic activity developed by each company or business.

Accordingly, it is recommendable to formalize any agreement between the parties, even in the event that labor relationships are suspended pursuant to prior agreements, in order to have evidence of the consent expressed by the employees.

On April 13 of the current year, the Mexican Institute for Social Security (*Instituto Mexicano del Seguro Social* or *IMSS*) divulged the legal and administrative instruments to ease the payment of the employee-employer fees due to the pandemic for COVID-19.

Installments

Pursuant to articles 40-A and 40-C of the Social Security Law (LSS), employers who fail to cover the fees within the terms provided will pay, as from the date in which the liabilities are payable, the update and surcharges plus the applicable penalties.

Nevertheless, upon request by employers, IMSS may grant an extension for the payment, up to 48 months, provided that the initial amount to be covered shall be equal to the 20 percent of the employer fee and 100 percent of the employee fee. The benefit of executing this agreement is that the interest rate per month is between 1.26 percent and 1.82 percent, based on the selected period (12, 24 and over 24 months) as from the moment of the formalization, pursuant to article 8 of the Federal Income Law.

Also, pursuant to article 40-D of the LSS, deferred payments of the retirement insurance and pension may be authorized for complete payable periods, without condonation of incidental amount.

An additional Benefit is that, for the execution of this agreement, no guarantees shall be required. This is due to the authorization granted through the Technical Council Decree number ACDO. AS2. HCT.300419/150.P.DIR, on April 30, 2019. Likewise, once the payment of extended or deferred fees has been made, pursuant to the Decree 187/2003 of the Technical Council, 90% of the originally assessed penalties may be cancelled.

Absenteeism discount

It is worth considering that article 31 of the LSS provides for a discount for absenteeism. In accordance with it, in case of absenteeism of the employee with whom the labor relationship subsists, the employer may discount up to 7 days, and during such term it shall be only compelled to pay the fee for illness and maternity insurances.

Non-business days

In accordance with the declaration of health emergency due to force majeure by the health authority, the term comprised between March 31, 2020 and the date in which the Technical Council determines that the causes have ceased, was determined as non-business days in regard to procedures, diligences, hearings, notices or requirements.

To the extent that the provisions restricting mobility issued by the authorities to contain COVID-19 remain, at both national and local levels, the development of all kinds of corporate activities will be restricted.

These restrictions directly affect the meetings of partners and shareholders at the corporate domiciles of the companies for the holding of general or special meetings which allow them to make decisions and, most of all, to comply with the provisions of the General Act for Business Companies (LGSM).

The starting point in order to determine the possibilities of each company during this contingency term, is the review of their bylaws, which represent the governing provisions on the functioning and operation of the companies, along with the LGSM. Therefore, it shall be always essential to verify the process established for the calling, holding, execution and implementation of the resolutions made during a meeting.

In order to find a practical solution to the meetings during this contingency, companies may consider the following alternatives:

- i. Representation of partners and shareholders at a meeting through a proxy, either the latter pertain or not to the company, provided that they are not their directors. It is worth considering that the granting of the proxy must be made in accordance with the corporate bylaws and, if they do not provide for, then in writing. Usually, bylaws provide for the execution of a simple proxy letter and, since there is no restriction for a single person to represent several partners or shareholders, this could be an efficient way to have meetings with persons who are within the corporate domicile of the company.
- ii. Holding a meeting through remote electronic communication media (videoconferences), is possible only if the bylaws specifically provide for it. Although Mexican legislation -specifically the Code of Commerce- allows the use of electronic and optical media, or any other technology, for the acts of commerce and their formation, it shall be borne in mind that LGSM does not include expressly the possibility that the partners or shareholders have meetings through said media, thus meetings held under such modality must be expressly convened in the corporate bylaws.
- iii. According to the LGSM, a corporation (*i.e. sociedad anónima*) is able to make resolutions out of a meeting, if provided in the corporate bylaws, as long as they are unanimously made by the shareholders representing the total voting actions or of the relevant class of shares. Such meetings will have, for all legal purposes, the same validity as if they were made during a general or special meetings, provided that they are confirmed in writing. It is important to consider that, in the cases of limited liability companies (*i.e. sociedad de responsabilidad limitada*), even when the LGSM does not expressly provide for the making of resolutions out of a meeting, as it provides for corporations, it is possible to include these resolutions by the partners in the bylaws, which is commonly accepted, as long as certain requirements applicable to this type of companies are met.

However, we are currently facing an extraordinary situation which implies the need to provide the incorporation of the mechanisms mentioned above, in order to anticipate these situations in the future and grant a greater dynamism to companies, and incorporate the possibility to use the electronic signature.

Should this be the case, a partial amendment of the bylaws agreed during an extraordinary meeting of shareholders, formalized before a Notary Public, will provide certainty to the partners. Also, it will be important to consider these possibilities when incorporating new companies.

Preventive measures issued by Mexican authorities to avoid propagation of COVID-19 represent a difficulty to fulfill contractual obligations, especially for those who perform unessential activities, as a result of the suspension of their operation. Under such circumstances, it is fundamental to analyze the contractual implications derived from the health emergency:

Covid-19, acts of nature or force majeure?

Even though the health emergency has been declared due to force majeure causes in connection to the epidemic disease caused by SARS-COV2 virus, this mention to force majeure does not automatically imply that the fulfillment of contractual obligations is suspended, according to the Federal Civil Code or to the Civil Codes of the States, as the case may be, which generally set forth that no person shall be obliged to acts of nature, except when contributing to it or when expressly accepting such responsibility or under a legal imposition.

Acts of nature or force majeure mean situations in which the obligation cannot be accomplished due to causes which are not imputable to the subject, since it is impeded to fulfill due to an event beyond its control, an event which it was unable to foresee or, even when foreseeing it, it cannot be avoided. There are three categories of events constituting acts of nature or force majeure, when derived from i) natural events, ii) human acts, or iii) acts of an authority.

Up to these date, there is no list of situations which may be identified as acts of nature or force majeure, but it will always depend on the circumstances of each agreement and the obligation, in order to determine whether there is an impossibility to fulfill such obligation beyond the capacity of the parties. Therefore, in each case in which this hypothesis is called upon, the particular circumstances must be analyzed, for the mere contingency is not *per se* a cause.

Will of contracting parties

Mexican Supreme Court of Justice (*Suprema Corte de Justicia de la Nación* or *SCJN*) has decided on the theory on the unpredictable or "*rebus sic stantibus*". This theory sustains that courts are entitled to eliminate or amend contractual obligations in the cases where the conditions of the execution are modified by the circumstances, and the parties have been unable to foresee this modification¹. Accordingly, SCJN has established that it is not possible to apply this theory, since the Code of Commerce provides for the principle "*pacta sunt servanda*", this is, the stipulations between the parties -under any form in which they had been established- must be executed.

¹ https://sif.scjn.gob.mx/SJFSist/Paginas/DetalleGeneralV2.aspx?Epoca=1e3e10000000000&Apendice=1000000000000&Expresion=imprevisi%2520&Dominio=Rubro.Texto&TA_TJ=2&Orden=1&Clase=DetalleTesisBL&NumTE=19&Epp=20&Desde=-100&Hasta=-100&Index=0&InstanciasSeleccionadas=6,1,2,50,7&ID=195622&Hit=15&IDs=2016888,2014918,2004451,2001276,2000871,160544,163118,171929,175308,184161,186972,189984,189867,193548,195622,197173,198809,199887,203497&tipoTesis=&Semenario=0&tabla=&Referencia=&Tema=

https://sif.scjn.gob.mx/SJFSist/Paginas/DetalleGeneralV2.aspx?Epoca=1e3e10000000000&Apendice=1000000000000&Expresion=TEOR%25C3%258DA%2520DE%2520LA%2520IMPREVISI%25C3%2593N&Dominio=Rubro.Texto&TA_TJ=2&Orden=1&Clase=DetalleTesisBL&NumTE=2&Epp=20&Desde=-100&Hasta=-100&Index=0&InstanciasSeleccionadas=6,1,2,50,7&ID=186972&Hit=1&IDs=186972,195622&tipoTesis=&Semenario=0&tabla=&Referencia=&Tema=

Accordingly, the will of contracting parties when executing an agreement should prevail, even if the conditions change during the term of such agreement (as it would be the case of the health emergency); therefore, the agreements executed must be fulfilled, even in face of future and unpredictable events which may affect the fulfillment of the obligation, and the courts are not are not entitled to modify the conditions of agreements.

Nevertheless, there may be other criteria and determinations by contracting parties, thus it is recommendable to analyze each specific contractual relationship considering the following:

1. General review of contractual obligations and stipulations agreed between the parties.
2. Analyze in each specific case in order to determine if the fulfillment of contractual obligations is truly hindered due to acts of nature and force majeure derived from the health emergency and the suspension of activities, as the mere contingency is not a cause.
3. Prior to the suspension of the activities of a business, it is important to study if the activities of such business or commerce is essential or if their suspension may have irreversible effects on its continuance, as set forth in the Decree published on March 31, 2020.
4. Finally, we suggest to reach an agreement between contracting parties to the extent of their possibilities, in order to defer the fulfillment of obligations, agree a release, agree a reduction of the rent payments -as the case may be- or their proration during the term of the agreement, among other.

The propagation of coronavirus COVID-19 is forcing the governments of different countries worldwide to take health emergency measures having a significant impact not only for companies, but also for the whole populations, which have come along tax related policies seeking to reduce the impact for taxpayers.

Unfortunately, Mexican Federal Government, up to this date, has neither approved nor issued federal tax measures to counter the impact derived from COVID-19 regarding the operation of Mexican taxpayers (except for the deferral of the term to file the annual income tax returns for individuals, until June 30), which it is fundamental to seek actions to mitigate as far as possible the impact to ongoing business.

As per federal taxes, some proposals have been filed and are still being studied. At this time, there is no certainty on their total or partial approval, yet the following summarized two proposals which have been formally presented:

1. **Cost of sales** will be extraordinarily affected by different circumstances (such as obsolete inventories, decreases or liquidation of merchandise), this it will be essential to perform a timely monitoring and appropriate documentation of these effects.
2. **Reduction of income** will represent a major problem for the finances of companies; thus, it will be transcendental to verify the issuance of credit notes, documentation of returns and any other situation derived from the sales.
3. Also, shortage of liquid funds may cause the breach of obligations by clients and, consequently, it is important to be alert to an **appropriate accrual of interests** in the event of default payments.
4. Furthermore, it shall be borne in mind the potential impact of **doubtful accounts**, which may cause an important effect on taxpayers. In all cases, it is imperative to verify an appropriate documentation allowing to evidence such situation and so support the corresponding deduction.
5. **Currency fluctuation** will have a considerable effect in both finances and tax result of year 2020, as it is a factor having a great impact. Therefore, we recommend assessing liabilities of companies in foreign currencies.
6. Considering the tax amendments for 2020, **the new rules applicable to the deduction of accrued interest** should be assessed by taxpayers in advance.
7. In addition to the effects listed above, which will have an effect until the closing of the tax year, we suggest considering as an option to optimize cash flow in the company, to **request a reduction of interim payments** as from the second half of the current year.
8. Alternatively to the reduction of interim payments, the **payment in installments set forth in the Federal Fiscal**. Of course, this should be appropriately assessed, as such option implies the payment of financial costs (updated amount and surcharges) to taxpayers who apply it .
9. Finally, given the restriction of universal setoff, **timely recovery of positive tax balances** is a route of financing to taxpayers.

Undoubtedly, COVID-19 is turning into one of the most disruptive happening with the greatest negative impact in the economy in the last 75 years.

Due to the foregoing, it is important to review the transfer pricing policies as a consequence of the changes derived from the pandemic, as well as monitoring different key areas from the perspective of transfer pricing.

Please find herein below the main points we suggest paying special attention to and evaluate possible actions:

1. **Transfer pricing policies** are a preestablished form to determine the considerations agreed between related parties under the functions they perform, the assets used, and the risks assumed. Transfer pricing policies are designed to be applied in conventional situations, but under the current extraordinary conditions, such policies should be revised, as certain independent third parties under similar circumstances, would not be willing to continue collaborating under the initial terms agreed.
2. **Inter-company agreements** must be analyzed in order to identify and evaluate on time contingent clauses which could be extraordinarily applied to the current situation. It is also important to consider the effects of the travel and commerce restrictions on the services and supply inter-company agreements.
3. Derived from the restrictions mentioned above, **temporary restructures** could result necessary in connection to supply chains. Also, it could be necessary to relocate different business functions to another related party or an independent third party and, where appropriate, review whether said intercompany restructures are worth a consideration.
4. Regarding the possibility to obtain **extremely low margins or even losses**, the OECD guidelines on transfer pricing matter set forth standards for the correct analysis for such purposes. In case of incurring in losses, companies should have enough information to evidence that the relevant loss is not a result of the manipulation of transfer pricing and, in spite of such circumstance the principle of full competence is completely observed.
5. As a consequence of a shortage of liquid funds, it is possible that some Mexican entities require offshore financial support to continue operations, and it shall fulfill the transfer pricing guidelines, in addition to different restrictions to the **deduction of interests** set forth in Income Tax Law (LISR).

6. In the event that merchandise must be liquidated and this transaction is executed between related parties, the company should be cautious as per the application of the provisions contained in article 42 of the LISR in connection to the **deduction of the cost of sales**. In all cases, it is important to consider any potential adjustment to cost.

For the drafting of **transfer pricing** documentation of the tax year, it is quite important to give prompt follow-up on losses or gains obtained; also, to perform forecasts and analyses during the tax year to avoid any inconvenient which is impossible to face, without a formal adjustment after the closing of the tax year.

The obligations and processes in foreign trade matters have not been an exception to the implementation of measures as a consequence of the health emergency for COVID-19, thus we mention and describe those which should be considered:

1. **General Customs Administration** informed that the services in foreign trade transactions will continue at usual hours, as there are no restrictions affecting foreign trade.
2. The filing of request procedures will remain active at the **Unique Mexican Foreign Trade Counter (VUCEM)**.
3. Regardless of the foregoing, **during the non-business days published** by the Ministry of Health, the Ministry of Environment and Natural Resources and the Ministry of Energy in the DOF, **the terms** set forth in laws, regulations and other applicable provisions **shall be suspended**.
4. **The Ministry of Economy** continues to attend on a normal basis the requests filed through VUCEM.
5. **The Ministry of Health authorized**, through the decree published on March 27, 2020, **imports of goods and services to face COVID-19**, without the need to file any administrative procedure. This comprises medical equipment, diagnosis agents, surgery and healing materials, and hygiene products and other products necessary for said purposes.
6. Derived from the decree published on March 27, 2020, the **Federal Public Administration**, through the Ministry of Health and the decentralized health organisms, **may request an authorization to import, without** paying foreign trade taxes, merchandise donated from abroad to face the contingency derived from COVID-19.
7. **As it is deemed as essential activities to face the contingency**, the logistic sector (airports, ports and railroads) and shipping service will remain operating.
8. **The Commercial Treaty between Mexico, Canada and the United States (T-MEC)**, will not enter into force until June 1, as originally provided. In such sense, even the Senate of the United States of America has requested to defer the term of such treaty until after July 1, 2020.

The authorities of different States have issued tax support programs regarding state taxes imposed to taxpayers, as well as certain economic supports, as detailed herein below:

Aguascalientes

- A benefit has been granted in the payment on the payroll tax to taxpayers having less than 20 employees, from April to December, de 2020.
- Also, certain incentives have been considered as per taxes on public spectacles and on acquisition of used vehicles.
- Regarding the granting of economic supports, the state announced an increase in the program of productive subsidies for MIPYMES and monetary aid to entrepreneurs and their employees endeavored to recreation activities (bars, pools, cinemas, cafeterias, etc.).

Baja California

- The suspension of all jurisdictional activities was ordered.

Baja California Sur

- The suspension of all jurisdictional activities was ordered, as well as the terms for the conclusion of onsite inspections by local tax authorities and tax collection procedures.
- A deferment on the payment of payroll tax was granted for March, April and May, 2020 (payments must be made on a monthly basis as from August).

Campeche

- The suspension of all jurisdictional activities was ordered.

Chiapas

- The suspension of all jurisdictional activities was ordered, as well as the terms for the inspection regarding local taxes during April.

Chihuahua

- The suspension of all jurisdictional activities was ordered, as well as the terms for the inspection regarding local taxes during April.

Ciudad de México

- The terms for filing tax statements and make payments were extended until April 30, 2020.
- Terms applicable to tax procedures are suspended.
- Any action, filing or request made before the Public Administration of Mexico City or its offices will enter into force until April 20, 2020.
- Up to the issue date of this document, the Government of Mexico City has announced that it will destine funds to grant credits to MIPYMES

Coahuila

- The suspension of all jurisdictional activities was ordered.

Colima

- An extended period has been granted for the payment of payroll tax.
- Also, an extended period was granted to pay taxes on accommodation services, professional services, lotteries, raffles, draws, contests and games allowed, fees for the extraction of materials, among other.

Durango

- The terms for the payment of taxes and constituted capitals as a result of inspections at a local level were extended.
- Benefits regarding payroll tax will be granted: a general 50% exemption and up to 75% for MIPYMES establishing measures to provide goods and services.

Estado de México

- The suspension of all jurisdictional activities was ordered.
- 50% subsidy on payroll tax incurred during April for companies having up to 50 employees.

Guanajuato

- The suspension of all jurisdictional activities was ordered.
- An extension will be granted in connection to the payment of payroll tax.
- Economic programs for temporary employment and credits to entrepreneurs and MYPIMES.

Guerrero

- The suspension of all jurisdictional activities was ordered.

Hidalgo

- The suspension of all jurisdictional activities was ordered.
- Inspection procedures on local tax were suspended and the terms to answer information requirements were also suspended (either or not within inspection procedures).
- Payroll tax will be cancelled as per March and April, 50% for taxable bases up to \$500,000 pesos and 5% for greater taxable bases.
- Credit lines will be implemented for MIPYMES

Jalisco

- The suspension of all jurisdictional activities and the suspension of labor in the local administration were ordered, except for local tax authorities.
- A Contingency Plan was issued, aiming at granting economic support to persons with informal economic activities (self-employment or sub-employments), to Micro and Small Enterprises and farmers.

Michoacán

- The suspension of all jurisdictional activities was ordered.
- Local tax inspection procedures were suspended.

- As per tourism, a 100% subsidy was granted in connection to payroll taxes on March, April and May to MIPYMES having less than 50 employees and a 100% on tax on accommodation services.
- Supports and credits will be granted to MIPYMES.

Morelos

- The suspension of all jurisdictional activities and the suspension of labor in the local administration were ordered, except for local tax authorities.
- Deferment on the payment of payroll tax and tax on accommodation services for March, April and May, 2020, was granted, thus they shall be made on or before June 30, 2020.
- Economy and employment will be supported through credits granted to affected companies.

Nayarit

- The suspension of all jurisdictional activities was ordered, as well as suspension of terms on inspections on local taxes (during April).
- Deferment of payment of payroll tax and accommodation services tax regarding March, April and May, 2020, to be made between July and December, 2020.
- 100% cancellation of surcharges on liabilities and 50% of penalties derived from tax inspections during April.

Nuevo León

- The suspension of all jurisdictional activities was ordered, as well as suspension of terms on inspections on local taxes.
- Exemption on payroll tax in regard to March, April and May, 2020, applicable to enterprises having less than 10 employees or pertaining to certain activities (restaurants, hotels, casinos, gyms, theatres, bars, cinemas, etc.)
- Economic support plans focused on providing financing to MIPYMES.

Oaxaca

- The suspension of all jurisdictional activities and labor on local administration were ordered, except for local tax authorities.
- 50% incentive for payroll tax regarding the second semester of the tax year (under certain requirements).
- 100% incentive for accommodation services tax regarding the second semester of the tax year (under certain requirements).

Puebla

- The suspension of all jurisdictional activities was ordered.
- Terms and inspections regarding compliance with tax obligations were suspended.

Querétaro

- The suspension of all jurisdictional activities was ordered.

- Economic support for persons of families who suffered an income decrease due to COVID-19 pandemic.

Quintana Roo

- The suspension of all jurisdictional activities was ordered.
- Deferment on payment of payroll tax, accommodation tax, professional services tax and tax on the extraction of materials from soil and under soil, regarding March, April and May, 2020, to be made between October and December, 2020.
- 20% subsidy to taxpayers who pay their local taxes on time.

San Luis Potosí

- The suspension of all jurisdictional activities and the activities of the Superior State Audit were suspended.
- 100% incentive on payroll tax from March to June, 2020, for enterprises having up to 50 employees.
- 100% incentive on accommodation services tax for April to June.

Sinaloa

- The suspension of all jurisdictional activities was ordered.
- Economic support through entrepreneurial credits was announced.

Sonora

- The suspension of all jurisdictional activities was ordered, as well as the suspension of tax inspection acts and terms by local authorities.
- 50% exemption on payroll tax for companies having up to 50 employees .
- 100% exemption on accommodation services tax.

Tabasco

- The suspension of all jurisdictional activities was ordered, as well as the suspension of terms (including payment and fulfillment of tax obligations).

Tamaulipas

- The suspension of all jurisdictional activities was ordered, as well as the suspension of terms for Superior State Audit.
- Incentive will be granted, as announced.

Tlaxcala

- The suspension of all jurisdictional activities was ordered.

Veracruz

- The suspension of all jurisdictional activities was ordered.
- Credits to MYPIMES at reduced rates have been announced.

Yucatán

- The suspension of all jurisdictional activities was ordered.
- 50% tax incentive on payroll tax incurred during March and April, 2020, as well as a deferred payment until December for the payable balance.
- 100% incentive on tax on income for business activities and tax on professional services for March and April, 2020.
- 100% incentive on tax on accommodation services for March, April, May and June, 2020.

Yucatán

- The suspension of all jurisdictional activities was ordered.
- Cancellation of 100% on payroll tax to companies having up to 20 employees and 50% reduction for companies having between 21 and 40 employees.
- Cancellation of 100% on tax on accommodation services for April and May, 2020.

Suspension of terms

Several authorities have suspended their activities and terms due to COVID-19, in order to protect their workers and control the propagation of the virus.

Such authorities are listed herein below:

1. **Mexican Institute for Social Security (*Instituto Mexicano del Seguro Social or IMSS*)**. Suspension of certain procedures and processes. It has declared non-business days in connection to certain acts, diligences, audits, notices and/or requirements, the term until the Government Organism determines that the contingency has ceased.
2. **Mexican Institute for Industrial Property (*Instituto Mexicano de la Propiedad Industrial or IMPI*)**. Suspension of legal terms due to force majeure until May 30, 2020, except for essential procedures to contribute to the mitigation of the effects of the pandemic or, as the case may be, suspend provisional measures imposed under a procedure for the administrative declaration of a breach.
3. **National Supreme Court of Justice (*Suprema Corte de Justicia de la Nación*)**. Suspension of jurisdictional activities for all courts and tribunals pertaining to the Federal Judicial Branch until May 31, 2020. Only urgent cases will be addressed. On the other hand, terms will only elapse for the purposes of constitutional terms on criminal matters.
4. **Plenary Session of Federal Judicial Council (*Pleno del Consejo de la Judicatura Federal*)**. Suspension of activities until May 31, 2020. Only a minimum number of jurisdictional organisms will continue operating in order to address urgent cases.
5. **Federal Court for Conciliation and Arbitration (*Junta Federal de Conciliación y Arbitraje*)**. Total suspension of activities until May 30, 2020.
6. The **Ministry of Agriculture and Rural Development (*Secretaría de Agricultura y Desarrollo Rural*)** and its administrative organisms will suspend their terms until May 30, 2020.
7. **Superior Federal Audit (*Auditoría Superior de la Federación*)**. Legal terms will be suspended until May 17, 2020.
8. **House of Representatives**. Terms are suspended regarding its attributions until May 30, 2020.
9. **Senate of the Republic**. Suspension of terms and procedures related to pending obligations.
10. **Ministry of Economy**. Suspension of terms during the declaration of force majeure.
11. **Ministry of Finance (*Secretaría de Hacienda y Crédito Público*)**. Temporary suspension of labors of the Institute for the Administration and Appraisal of National Property (*Instituto de Administración y Avalúos de Bienes Nacionales*), suspension of terms to assist financial entities and entities subject to supervision by the National Banking Commission (*Comisión Nacional Bancaria y de Valores*) until May 30, 2020. Suspension of certain terms to assist participants of Retirement Funds Systems (*Sistemas de Ahorro para el Retiro*) until the date in which the Ministry of Health or the General Health Council (*Consejo de Salubridad General*), through the Federal Official Gazette, order the escalated return to all unessential activities.
12. **Tax Administration Service (*Servicio de Administración Tributaria*)**. Terms are suspended from May 2 to 29, in connection to acts and procedures which cannot be performed electronically. It is worth to point out that this suspension is not applicable in connection to the filing of tax return statements, payment and refund of taxes, acts associated to administrative seizure procedures, customs procedures, services to the Federal Registry of Taxpayers and assistance and tax orientation services.

13. **Ministry of Environment and Natural Resources (*Secretaría de Medio Ambiente y Recursos Naturales*)**. The days comprised between March 23 and May 29, 2020, are deemed non-business for the purposes of procedural terms and deadlines regarding administrative acts and processes, without implying a suspension of labor.
14. **Ministry of Internal Affairs (*Secretaría de Gobernación*)**. Suspension of legal terms and deadlines under the General Office for Religious Matters (*Dirección General de Asuntos Religiosos*) and the General Office of Gaming and Raffles (*Dirección General de Juegos y Sorteos*), as well as procedures and terms of the General Coordination of the Mexican Commission for Refugees (*Coordinación General de la Comisión Mexicana de Ayuda a Refugiados*), except for procedures related to filing refuge and political asylum requests until May 30, 2020.
15. **Ministry of Public Office (*Secretaría de Función Pública*)**. Suspension of legal terms and deadlines until May 29, 2020, except for urgent requirements and notices, inquiry procedures due to administrative breaches initiated ex officio, under a complaint or Audit and acquisitions, lease and public works procedures which execution are deemed extremely urgent.
16. **National Electoral Institute (*Instituto Nacional Electoral*)**. Assistance modules will be closed during contingency.
17. **Energy Regulatory Commission (*Comisión Reguladora de Energía*)**. Suspension of legal terms and deadlines until May 30, 2020.
18. **Ministry of Foreign Affairs (*Secretaría de Relaciones Exteriores*)**. Suspension of terms and deadlines in connection to administrative procedures and processes until May 30, 2020. Regarding procedures under the General Office for the Protection of Mexicans Abroad (*Dirección General de Protección a Mexicanos en el Exterior*), will keep on duty teams to address emergency cases.
19. **Federal Administrative Court (*Tribunal Federal de Justicia Administrativa*)**. Suspension of jurisdictional activities until May 29, 2020. Temporary on duty teams are organized to address and solve requests on urgent matters which may not be delayed, caution measures or suspension of challenged acts.

Even though it is early to assess the economic crisis derived from COVID-19, complex scenarios are undoubtedly foreseen as a consequence of the impact on the supply chain, the decrease of consumption and, of course, direct damage to the financial situation of companies.

In face of scenarios such as a reduction in cash flow, failure to pay and even a need to operate companies with minimum transactions in order to subsist, it is recommendable to bear in mind and analyze the feasibility of alternatives that may be used by enterprises to overcome the situation.

Accordingly, under an objective analysis, it is feasible to consider the following activities:

1. **Labor-related commitments** constitute one of the most important costs to companies, thus a proper and organized evaluation may allow a company to maintain the staff without affecting employees.
2. **Planning an operational restructure**, aimed at a reduction of costs and optimization of resources of companies, represents a practicable option with internal resources.
3. **Optimization of internal resources of entities** will be crucial for the continuity of business. Accordingly, companies shall assess the possibility to request a reduction of interim payments, make use, as much as possible, of favorable tax balances, effects derived from doubtful accounts, effects on the costs due to obsolete inventories or slow movement, among other situations.
4. **Potential merger or spin-off of companies**, in order to transform entities aiming at a structuring of business in accordance with this new reality.
5. Also, it will be fundamental to renegotiate the commitments of enterprises, especially regarding financial burdens. As mentioned above, **new rules applicable to the deduction of interest** will have an additional impact as they might potentially increase taxable base for taxpayers.
6. If a critical level is foreseen to guarantee continuity in business, **consider as an alternative to initiate a bankruptcy procedure**. In any case, it shall be borne in mind that this is a legal procedure seeking to sustain a business by restructuring the commitments of legal entities.
7. Finally, and facing a totally adverse scenario, the **liquidation of companies** could be considered under appropriate analysis and planning, paying full attention to fulfill, as far as possible, the commitments of a company without affecting its owners.

We hope you find this bulletin helpful to have an overall view of responsibilities and legal and tax alternatives for Mexican individuals or companies facing this situation. Undoubtedly, it is important to understand the scopes and consequences that may result from COVID-19 pandemic, as well as to define and take the necessary measures in order to reduce any impact to the economy and stability of an enterprise.

Should you have any doubt on specific cases, please contact our professionals for further advisory.

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