

## Mexico submits its instrument for ratification of the Multilateral Instrument before the OECD

Tax - March 22, 2023

On March 15, 2023, Mexico submitted before the Organisation for Economic Co-operation and Development its instrument for ratification of the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("Multilateral Instrument"). Consequently, the Multilateral Instrument will enter into force on July 1st, 2023 in accordance with its Article 34; and with respect to withholding taxes and residence taxation, it will take effect and be applicable as of January 1st, 2024.

The above follows the approval of the Multilateral Instrument by the Mexican Senate that took place on October 6, 2022, which was pending the submission of the instrument of ratification to enter in force.

With this action, Mexico has concluded its implementation of Action 15 of the Action Plan on Base Erosion and Profit Shifting ("BEPS Plan"), which seeks to update and provide dynamism to bilateral tax agreements.

The Multilateral Instrument will simultaneously modify 61 Double Taxation Treaties ("DTTs") entered into by Mexico with various countries, including Luxembourg, the Netherlands, the United Kingdom, Spain and Canada.

Upon submitting the instrument for ratification, Mexico made several reservations to not implement articles of the Multilateral Instrument or to interpret them according to domestic law, which should be separately analyzed. In particular, the following modifications were made to the reservations previously established by Mexico during the signing of the Multilateral Instrument on June 7, 2017:

- Transparent entities (Article 3): Mexico reserves the right not to apply Article 3 to its covered DTTs, eliminating the previously included list referring to the DTTs that contain specific provisions to address this point.
- Capital Gains from the sale of shares or interests of entities deriving their value principally from immovable property (Article 9): Mexico chooses to apply paragraph 4 of Article 9, allowing the other Source State to tax the sale of shares or comparable interests that, at any time during the 365 days preceding the sale, have derived more than 50% of their value, directly or indirectly, from immovable property situated in the other Contracting State.
- Mutual Agreement Procedure (Article 16): The reservation previously made by Mexico to adopt the BEPS minimum standard and not to resolve disputes by mutual agreement with the competent authority of the other Contracting State, in cases where the competent authority is unable to reach a satisfactory unilateral solution without prejudice to the time limits established in domestic legislation, is eliminated.

We highlight the importance of reviewing each of the DTTs signed by Mexico and the reservations made to determine the effects that the Multilateral Instrument will have on each of them.

For further information please do not hesitate to contact our experts in the field.

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