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Indirect Tax Alert

News from Americas Tax Center

MERCOSUR and Mexico: Local content percentage for automotive parts increases to 40% under Economic Complementmentation Agreement No. 55

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On 19 March 2019, the local content percentage (ICR) for automotive parts increased to 40% from a range of 10% to 30%, depending on the tariff classification and description of the goods, under Economic Complementmentation Agreement No. 55 (ECA No. 55) between Argentina, Brazil, Paraguay and Uruguay (MERCOSUR) and Mexico.

Background

MERCOSUR and Mexico signed ECA No. 55 on 27 September 2002 as part of the 1980 Montevideo Treaty.

Under ECA No. 55, preferential treatment is given to automobiles and automotive parts that meet the rules of origin set out in Article 6 and Annex II of ECA No. 55. This preferential treatment allows the importing party to reduce up to 100% of the import duty to be charged. To receive the preferential treatment, a valid certificate of origin must be issued by the exporter and presented at the customs clearance by the importer of goods. Both the importer and exporter must be residents of the signatory countries.

MERCOSUR and Mexico later agreed to phase out the preferential treatment for automotive parts.

Automotive parts listed in Protocol No. 6

As part of the phase-out, MERCOSUR and Mexico agreed to Protocol No. 6 of ECA No. 55, which included a list of 44 automotive parts that could benefit from ECA No. 55, if they complied with a local content percentage (ICR) of at least 10% to 30%, depending on the tariff classification and the description of the goods. Under this provision, at least 10%

to 30% of an automotive part had to be locally sourced in the exporter's country. Those ICRs expired on 18 March 2019. On 19 March 2019, the ICR for automotive parts increased to 40%.

Companies in the automotive sector should evaluate the effect of the ICR increase and verify whether its products still qualify for the reduced import duty.

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