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**Paying Taxes 2015: The global picture.**
*The changing face of tax compliance in 189 economies worldwide.*

# *Paying Taxes 2015*

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# Mexico

## Mexico's tax compliance system – a story of progress

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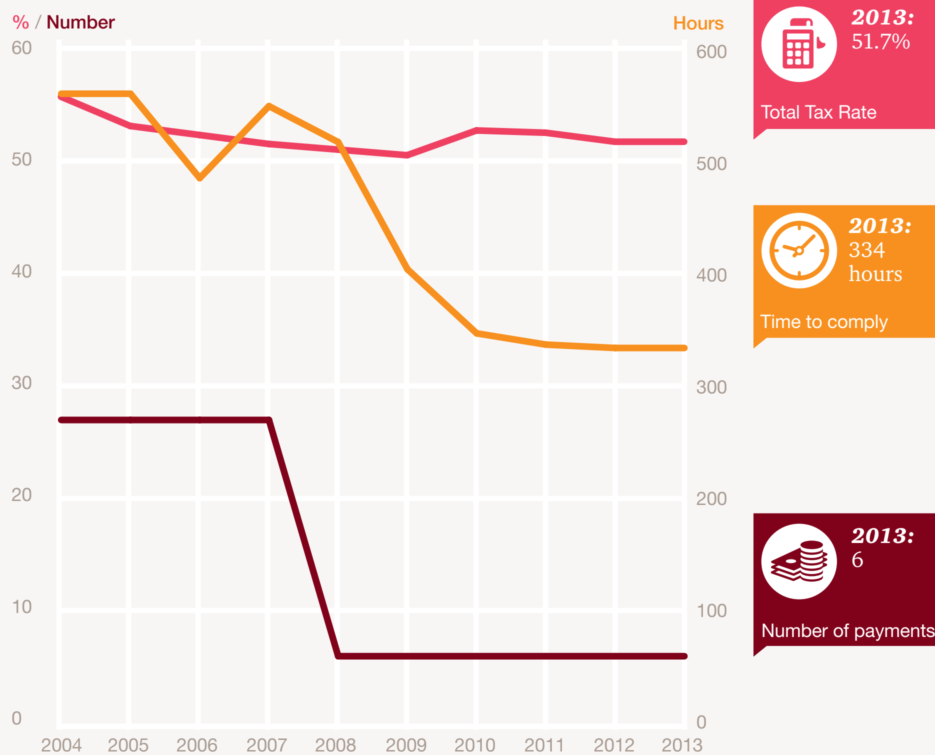
**Figure 3.25**

Trend in the *Paying Taxes* sub-indicators for Mexico




**Source:** PwC *Paying Taxes 2015* analysis

*In the past decade, Mexico has seen the introduction of a series of measures aimed specifically at addressing the trends of the global economy.*

Fast and efficient administration of tax collection can translate into less hassle for businesses – and often higher revenue for governments. In a competitive global market, the design of a tax system can influence multinationals when deciding where to invest, or the timing for a decision to make a long term commitment to a specific country.

For any jurisdiction, a tax system needs to be both fast and efficient, while at the same time having the ability to meet the revenue needs of that jurisdiction. An overriding principle for governments to consider (among a number of other factors) is that simple tax systems coupled with fast and efficient administrations can help promote economic growth by creating a predictable environment from which both businesses and governments can benefit in the long run.

Ensuring that the tax system keeps up with the ever changing global economy in this modern age is no easy task, and this is of concern to emerging and developed economies alike. Governments need to make policy choices based on what they perceive their own individual needs to be, the policy direction they wish to take, and taking into consideration where they believe they are in the context of their worldwide competitive position and investor ranking. The *Paying Taxes* sub-indicators can help inform that decision making process.

The following paragraphs show the evolution of the Mexican tax system over the period of the *Paying Taxes* study and earlier.

Aware of the necessity to keep up with the global economy, as early as two decades ago, Mexico embarked on an initiative to negotiate a network of tax treaties, with as many as 50 countries. And in the past decade, Mexico has seen the introduction of a series of measures aimed specifically at addressing the trends of the global economy. Mexico has been faced with the necessity to find the correct balance between offering an attractive environment for investors and establishing an efficient tax system that delivers sufficient revenue for the country's needs.

Perhaps one of the most noticeable actions that the Mexican government has taken began in 2003 when, in an attempt to encourage investment and stimulate economic activity both nationally and internationally, it started steadily to reduce its corporate and individual income tax rates from 35%. Since 2010, the corporate tax rate has remained at 30% as part of Mexico's response to the global financial crisis, despite announcing intentions to reduce the rate further. The 30% rate has, in effect, become permanent as an integral part of Mexico's measures to generate revenues to finance its economic advancement. Other measures introduced with the same aim included an increase in the VAT rate from 15% to 16% in 2010 and its general application throughout the country, plus the implementation in parallel of a minimum tax system and the decision to levy a tax on cash deposits, which served as a measure to address issues around the informal economy.

While the simplification of a tax system in its design and implementation is often seen as a valuable goal by both taxpayers and governments, the need to raise tax revenues cannot be ignored. Policies may be required to raise necessary revenues which will make a tax system more complex. In these instances governments need to measure the various factors involved in the development of tax policy, including the sensitive topic as to how much revenue a particular policy is expected to generate and what the cost will be to business in complying with that policy.

Mexico saw the implementation of an alternative minimum tax, the asset tax, as early as 1989, when the Mexican government sought to put in place a measure that would complement the then established income tax system. This was an attempt to restore the level of government revenue which had been eroded over the years. While the implementation of the asset tax was successful in so far as it reached its goal of increasing the amounts of revenue collected, over the years it has also resulted in an erosion of the effectiveness of the revenue collection system. In 2008 the need arose again to reinforce the income tax system, including measures aimed at dealing with the global financial crisis. This included measures such as increasing tax rates and the introduction of a flat tax which replaced the asset tax. While the introduction of this new tax could be perceived as adding unnecessary complexity and additional burdens to an otherwise stable system, the impact on taxpayers of the additional compliance burden was expected to be far less than the impact on increasing government revenues and on the promotion of economic activity and investment. Compared with the asset tax, the flat tax was less likely to deter investment, as all cash disbursements for expenditure and capital investment were deductible.

The 2008 fiscal year also saw the introduction of a tax on cash deposits which sought to regulate Mexico's informal economy. The tax was creditable against federal taxes and was intended to raise revenues from the informal sector, to promote incorporation and so to increase the number of registered taxpayers.

Despite the introduction of these new taxes, simplification of the tax system is also seen as important. Starting in 2014, Mexico has implemented measures to simplify its VAT system by the unification of the VAT rates applied at 16%, repealing the 11% VAT rate (10% before 2013), which had been applicable to transactions performed within Mexico's border zone. This is intended to make both the collection and administration of this particular tax efficient for the government administration and tax contributors alike.

The changes to the tax system mentioned above would have been far more difficult to implement if it were not for a series of efforts made by the Mexican government aimed at making the most of technological advances. In particular, significant improvements have been made to ensure the rapid exchange of information and automation of processes. This was largely achieved through the appointment in 2002 of an advanced and competent technical team led by an engineer who headed the Tax Administration Service during that administration.

With expertise and experience in both the private and public sectors, this team was assigned by the Mexican government to integrate electronic systems and platforms into Mexico's tax system. This led to a series of achievements including the adoption of an online portal through which tax payers can perform compliance and consulting operations, the introduction of security certificates in order to perform electronic transactions, the implementation of electronic tax payments and the cross referencing of tax information. These achievements, which were intended to speed up the various processes involved in filing taxes, have provided Mexico's current tax compliance system with improved administration processes (though there is still room for further improvements). This achievement, in combination with other economic and deregulatory measures, is expected to help promote sustainable growth in the immediate future.

### *The Pact for Mexico*

The day after taking office on 1 December 2012, Mexico's current President met with leaders and key members of Mexico's political parties to sign a national political agreement. Composed of a series of public proposals, The Pact for Mexico has led to the implementation of a series of reforms touching various topics ranging from education, telecommunication, finance and energy and, crucially, Mexico's tax reform.

Once again in 2014, Mexico saw the need to adjust its tax system to build a strong economy that is able to withstand the effects of a global recession and with high expectations for national economic development and growth. The Executive, driven by The Pact for Mexico, sought to promote tax reform that would, among other things, give permanence to, simplify and make more efficient the collection of taxes, combat tax evasion and eliminate what were viewed as excessive tax privileges.

In light of these expectations, the Mexican government secured congressional approval of major changes in its tax legislation with its success dependent on the Integral Solution of the Tax Administration and its related platform. A clear example of this can be seen in one of the major changes to Mexico's legislation mentioned above – the repeal of both the tax on cash deposits and the flat tax and the introduction of the new income tax law. The new law relies on the experience gained from the flat tax and the reporting processes introduced with tax on cash deposits. Significant changes in the structure of the system have been inspired by the flat tax, which eliminated all tax incentives, and suspended tax consolidation and restricted deductions based on the OECD BEPS principles. Several changes made to the income tax law were based on not having to rely on alternative minimum taxes, and so resulted in limitations on deductions which help achieve one of the political agreement's major goals of eliminating privileges while also simplifying the system and making the collection of taxes more efficient.

*The Pact for Mexico has led to the implementation of a series of reforms touching topics ranging from education, telecommunication, finance and energy and crucially Mexico's tax reform.*

Most recently, the secretary of Treasury and Public Credit (the finance ministry of Mexico) has announced the signing of a further agreement focused entirely on tax matters. This states that there will be no further tax modifications initiated by the executive power until November 2018, placing trust in the implementation of measures already approved and in the strength of the technological platform which supports the tax administration.

In summary, two decades after the start of the government's current mission to reform the tax system:

1. Currently all taxpayers file their taxes through paperless electronic means.
2. The corporate tax rate is set at 30%, with a dividend tax applied to net profit distributions to individuals and foreigners, while the graduated rates of individual income tax are levied at a maximum of 35% on global income with very limited personal deductions.
3. All deductions need to meet strict requirements, with transfer pricing standards and BEPS restrictions already in place.
4. Group taxation is no longer available, as it was viewed as one of the tax privileges that were not in line with the government's broader policy.
5. All tax incentives have been eliminated to reduce their impact on revenues and the complexity that they add to the system.

The intention is for these reforms to support a growing middle class and a declining poverty rate with the goal for Mexico to be the world's fifth-largest economy by 2040. It seems likely therefore, notwithstanding the current commitment of the Mexican government to make no further tax law changes for the rest of its six year administration, that the Mexican Congress or the States could initiate changes to the tax system to further promote economic development or benefit the business community. Such changes might include measures to promote investment and employment, as well as people development and innovation. This could be achieved by offering benefits such as simplified tax incentives for investments, the creation of jobs, to support innovation and for enhancing productivity. Other measures to reinforce those already taken by the Executive, and which could facilitate an eventual corporate tax rate reduction, may include redesigning consumption taxes, excluding basic foodstuffs and the coordination of the registration and enforcement efforts with the State governments to encourage participants in the informal sector to become registered taxpayers.

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