

# Peña Nieto Submits Socially Committed Tax Reform to Congress

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President Enrique Peña Nieto submitted the Fiscal Reform Bill, designed to amend Articles 4 and 123 of the Constitution, to Congress today. “It is a social reform that establishes Universal Social Security and increases public investment in strategic sectors such as education and infrastructure,” he declared.

He stressed that this is a reform that establishes a fairer, simpler and more transparent tax system for all Mexicans. “Taken as a whole, it will help reduce the high levels of inequality among Mexicans, those that earn more will also pay more while those with least will also obtain more benefits.”

He announced that he also submitted a Program for the Acceleration of Economic Growth to Congress, which, “Seeks to stimulate the domestic market and support employment among Mexicans.”

President Peña Nieto stressed that, “The Tax Reform Bill takes up and meets the commitments of the Pact for Mexico regarding fiscal matters.”

He declared that the proceeds of the tax reform must serve two main purposes: trigger higher economic growth and uphold the social rights of Mexicans. “With the Tax Reform, we will all do more for the country and Mexico will do more for all Mexicans.”

He explained that it contains two protection schemes that are essential components of the new Universal Social Security System: the Universal Pension, which will benefit all Mexicans aged 65 years or over, with a basic income for their livelihood; and Unemployment Insurance, which will protect workers and their families by providing a temporary income when they face the plight of losing their jobs.

This bill, he continued, is designed to make the shift from Social Security as a labor right to social security as a human right.

#### THERE WILL BE NO VAT ON FOOD AND MEDICINES

President Peña Nieto explained that the Tax Reform is a comprehensive, fair reform, “Because it will not affect Mexicans who have least,” while acknowledging that the economy, “is growing at a slower rate than expected and, consequently, a tax on basic products at this moment would have an adverse effect on consumption and people’s well-being.”

In this regard, he highlighted his decision to ensure that the Tax Reform Proposal does not include VAT on food and medicine, “This is a socially just and economically responsible decision at this point,” he declared.

He said that the amendment proposes that the VAT rate should remain at 16 percent, adding that medical services, urban transport, books and magazines will continue to be exempt from this tax.

#### THIS WILL PUT AN END TO UNJUSTIFIED AND UNWARRANTED PRIVILEGES

“The Tax Reform will put an end to unjustified and unwarranted privileges,” he said, proposing to eliminate three quarters of preferential treatments and almost half the special regimes. “We will only keep those that provide broad social benefits and have proven effective in supporting the growth of the economy,” he declared.

The president also said that the Tax Reform is a fair reform because it is extremely progressive, “In other words, those that earn most will pay most.” Therefore, among other measures, taxed will be levied on the profits companies pay their owners, and the profits obtained from the Stock Exchange.

## THE REFORM SIMPLIFIES TAX PAYMENT

It is a reform that simplifies because it facilitates tax payments, he added, after noting that in fulfillment of Commitment 72 of the Pact for Mexico, a proposal has been submitted to eliminate the Tax Consolidation Regime, so that all taxpayers, without exception and with no special privileges for anyone, will contribute to the country to the best of their ability.

“To this end, a new, much simpler, shorter and clearer Income Tax Law has been proposed.”

The president explained that in order to simplify the tax system, it is necessary to eliminate the taxes that make it particularly costly and complex. In this regard, he explained that the proposed reform seeks to eliminate the Flat Tax (IETU) and the tax on cash deposits (IDE).

Additionally, he said that the Tax Administration Service (SAT) will be required to provide a free, open digital system to enable individuals and micro, small and medium enterprises to comply with tax rules.

Adding that nowadays two of every three Mexicans are employed in the informal sector, the president said the tax reform promotes the formality of the economy, “It involves a real paradigm shift. The establishment of new rules will encourage firms and workers to join the formal sector.” The benefits it offers, he added, mean that it will be more advantageous for businesses to operate in the formal rather than the informal sector.”

Another feature of the tax reform is that it contributes to the environment and health of Mexicans, he said. To this end, green taxes will be created that promote environmental stewardship by taxing carbon fuel and pesticide consumption.

He also announced that sugary drinks will be taxed in order to discourage their consumption and thereby reduce obesity rates, especially in children.

## THE TAX REFORM STRENGTHENS PEMEX

The President explains that the tax reform proposes a new tax regime for Petróleos Mexicanos, “Like that of any other oil company in the world, which will enable it to make greater investments to promote national development.”

He explained that the reform enhances the responsible management of public finances as a state policy in order to establish spending limits for bureaucracy, with a spending target that

promotes investment in education and infrastructure rather than the growth of current expenditure, which will be reflected in a new structural balance rule.

“During times of high economic growth and higher tax revenues, it will enforce savings by law, which will be able to be used in times of economic slowdown, as well for establishing a long-term savings fund.”

In short, he continued, “We would be adding automatic stabilizers to our financial strength, so that business cycles are less pronounced and the economy grows steadily according to its long-term potential.”

He added that new institutional mechanisms will be established to ensure the transparency and efficiency of public spending, especially for education and health in the states.

THE “FINANCIAL PACKAGE” WAS ALSO SUBMITTED TO CONGRESS: VIDEGARAY

Secretary of the Treasury Luis Videgaray Caso reported that just beforehand, the Revenue Bill for the 2014 Fiscal Year, the proposed expenditure budget for the coming year and the General Criteria for Economic Policy were submitted to the House of Representatives. These documents, he said, “Constitute the Economic Package.”

In total, he explained, the president has submitted eleven decrees comprising the Fiscal and Social Security Reform to the House of Representatives.

He explained that these commitments are designed to implement universal social security and to undertake a Tax Reform to simplify the tax system and make it more transparent and fairer.

He said that, “It is now up to the Legislature Branch, beginning with the House of Representatives as the Chamber of Origin to undertake a careful, professional, responsible analysis.” I’m sure that, as befits the delegates in the 62nd Legislative Branch and the senators, they will do a professional job with high-mindedness and, above all, a high degree of patriotism.