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## **Auto Industry Concerned about Proposed Change in Tax Status for Cars**

*by LADB Staff*

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The automobile industry is waging a losing battle to convince the federal government to extend the suspension of a tax on purchases of new automobiles (Impuesto Sobre Automobiles Nuevos, ISAN). The government suspended the ISAN in 1995. According to the Finance Secretariat (SHCP), starting next year, exemption from the ISAN will only apply to the Volkswagen sedan and the General Motors Chevy model. In early October, the SHCP issued a statement emphasizing that the suspension of the ISAN was only a temporary measure to help the auto industry get through the economic crisis that exploded in Mexico as a result of the peso devaluation in late 1994.

Responding to criticism from the private sector, the SHCP said the reinstatement of the tax is aimed at providing some assistance to the country's financially strapped state governments. The tax, which was once collected by the federal government, will now be collected by state officials. State governments will have the prerogative to determine the amount of the tax. Still, SHCP officials acknowledged that the federal government will have to play an intermediary role to ensure that the ISAN is fairly uniform. "If one state decides not to change the ISAN, this could affect whether other states charge the same rate," said Alicia Jara, economic studies director for the automobile distributors association (Asociacion Mexicana de Distribuidores de Automotores, AMDA).

Jara warned, however, that the tax will still severely hamper sales of domestic passenger cars even if the rate that states charge remains the same that the federal government had imposed prior to 1995. In addition to reinstating the ISAN, the government has also decided to eliminate a hefty tax deduction that it began granting in 1995 to all businesses that purchase new cars. If the government carries out both these measures, sales of automobiles in 1997 would, at best, be expected to match the level of sales for 1996, although industry analysts say sales may well drop below the 1996 level.

Jara said the economic crisis continues to affect domestic sales, which will fall short of AMDA's target of 310,000 units this year. Through August, sales had reached 183,000 units. She predicted sales will total 290,000 units by year-end. Still, according to the monthly report released by the automobile industry association (Asociacion Mexicana de la Industria Automotriz, AMIA), Mexican auto sales more than doubled in August compared with the same period in 1995, representing the seventh monthly increase recorded so far this year. Sales of domestic and imported cars, light trucks, and industrial trucks amounted to 20,067 units in August, compared with 9,400 units in August of last year. The report showed exports of Mexican-made vehicles rose 49% in August to 83,900 from 56,200 in August 1995. AMIA director Fausto Cuevas said the end of the ISAN suspension could create very difficult conditions for the Mexican motor-vehicle industry next year, since the global market for motor vehicles is also expected to contract.

In a press conference in October, AMDA president Eduardo Solana and Cesar Flores, director of the bus and truck manufacturers association (Asociacion Nacional de Productores de Autobuses,

Camiones y Tractocamiones, ANPACT), said the tax suspension allowed domestic sales of motor vehicles to increase significantly between November of 1995 and September of this year, despite an increase of about 20% in the price of vehicles. But despite the stronger sales, they noted that the motor vehicle industry has not yet recovered. Sales for the 11- month period from November of last year to September of this year have averaged about 23,000 units per month, compared with 13,000 sold monthly between April 1995 and November 1995. In contrast, sales averaged 54,000 units per month in 1994 and 57,000 in 1992. Industry officials suggest the return of the ISAN might reduce potential sales by about 90,000 units, which could affect at least 25,000 jobs in the motor-vehicle industry, both in actual job losses and in jobs that will not be created. The value of production is expected to drop by about 18.8 million pesos (US\$2.42 million).

For his part, Alejandro Garza, president of the Ford distributors association (Asociacion Mexicana de Distribuidores Ford), urged the Zedillo administration to enact some sort of permanent tax break for purchases of automobiles. According to Garza, many automobile distributors fall in the category of small or medium-sized businesses, a sector of the economy that continues to face a crisis. According to some AMDA estimates, a lack of growth in domestic automobile sales next year could force almost one- third of the dealers in Mexico out of business. The motor-vehicle industry, perhaps resigned to the probability that the government will reinstate the ISAN, has developed an alternate lobbying strategy. Motor-vehicle industry officials have joined forces with major business organizations to influence state governments.

Cuevas said AMDA is attempting to avoid a situation where one state imposes the tax and another does not, which could create a sales war. To this end, AMDA is lobbying the business coordinating council (Consejo Coordinador Empresarial, CCE) and national chambers of commerce (Confederacion de Camaras Nacionales de Comercio, CONCANACO), which will attempt to ensure that the ISAN is charged at a uniform rate around the country. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 21, reported at 7.74 pesos per US\$1.00] (Sources: Excelsior, 09/23/96; The News, 09/24/96; El Universal, 09/23/96, 09/26/96, 09/27/96, 09/30/96, 10/08/96, 10/16/96; El Economista, 10/08/96, 10/16/96, 10/17/96)

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