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New Congress May Consider Reduction in Value-Added Tax

by LADB Staff

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The opposition Partido de la Revolucion Democratica (PRD) and Partido Accion Nacional (PAN) have proposed to join forces with two other minor parties to push through legislation to reduce the value-added tax (impuesto al valor agregado, IVA) to 10%, representing a five percentage-point drop from the current level. President Ernesto Zedillo raised the IVA to 15% in 1995 as part of an emergency economic package to deal with the devaluation of the peso (see SourceMex, 03/15/95).

The increase in the IVA, which has been somewhat unpopular, became a campaign issue for both the PRD and PAN in local elections during the past few months. However, the impact of the increased IVA was not tested at the national level until the recent congressional elections, where the PRD and PAN together won enough seats to deny the PRI an absolute majority (see SourceMex, 07/09/97). In addition to the PAN and PRD, newly elected legislators from the Partido del Trabajo (PT) and Partido Verde Ecologista Mexicano (PVEM) have pledged to support any initiative to lower the IVA back to 10%.

Zedillo administration opposes proposal

The Zedillo administration has already announced its staunch opposition to the proposals to lower the IVA because of its impact on the government treasury. According to deputy finance secretary Martin Werner, a reduction in the IVA to 10% could result in revenue losses of 20 billion to 30 billion pesos (US\$2.56 billion to US\$3.84 billion). Werner cited statistics from the Secretaria de Hacienda y Credito Publico (SHCP), which showed that revenue obtained from the IVA in 1996 the first full year at 15% totaled 72.09 billion pesos (US\$9.23 billion). This is almost one-third of the government's total tax revenue of 226.10 billion pesos (US\$28.9 billion) that year. And, according to SHCP data, revenue from IVA collections in the first quarter of 1997 reached 23 billion pesos (US\$2.94 billion). "There are implications that must be considered," said Werner. "Either the government will be forced to reduce spending or the lost revenue will have to be made up with increases in other taxes."

PAN, PRD push tax cut in economic plan

In recent months, the PRD and PAN have both released economic plans that include steps to counter the IVA reduction. The PRD proposes an increase in taxes on luxury items, while the PAN wants to reduce government spending. Rosalbina Garavito, director of the PRD-affiliated Instituto de Estudios de la Revolucion Democratica (IERD), told reporters that the reduction in the IVA is only a small part of the PRD's strategy to strengthen earnings and promote economic productivity. PRD Deputy Raul Livas also said the party's proposals include a 20% increase in the minimum wage, beginning in 1998. "The main elements of the PRD's economic project are to increase employment and boost earnings, which would allow many Mexicans to share in the nation's wealth," said Livas.

Meanwhile, the PAN's "alternative budget" proposes to reduce property taxes for business and eliminate income taxes (impuesto sobre la renta, ISR) for any workers who earn the equivalent of

four minimum wages or less. According to PAN Deputy Salvador Beltran del Rio, the PAN's budget plans will also be used as a starting point to negotiate public expenditures for the 1998 budget. Spokespersons for the PAN and PRD said their party platforms are fiscally sound. "I guarantee that any proposal to reduce the IVA will be responsible and well-founded," said Beltran. According to Joel Estudillo of the Instituto Mexicano de Ciencia Politica, President Ernesto Zedillo would benefit from a compromise with the opposition parties on the IVA. "The compromise could boost the PRI's image and allow Zedillo to get a jump start on budget talks with the opposition," said Estudillo. Some experts suggest the proposal to reduce the IVA could run into strong opposition in the Senate, where the PRI still retains a large majority.

Business sector opposes IVA cut; labor offers mixed reaction

Business organizations which were the first to protest the increase in the IVA in 1995 are now speaking out against the PRD and PAN proposals to lower the value-added tax. Speaking to reporters, the leaders of the Consejo Coordinador Empresarial (CCE) and the Confederacion de Camaras Industriales (CONCAMIN) said the reduction in the IVA could create a fiscal deficit, which would in the end prove harmful to the economy. "The deficit would result in a wave of uncertainty in the financial markets," said CCE president Eduardo Bours Castillo.

On the other hand, CCE and CONCAMIN leaders said they would support proposals for gradual reductions in income or property taxes. Meanwhile, the Confederacion Patronal de la Republica Mexicana (COPARMEX) said the proposal to lower the IVA could work if the government reduces expenditures by eliminating government ministries whose function can no longer be justified. As an example, COPARMEX president Gerardo Aranda Orozco mentioned the Secretaria de Turismo (SECTUR), the Secretaria de Reforma Agraria (SRA), and the Secretaria de la Controlaria Nacional de la Federacion y Administracion, (SECODAM).

For its part, the labor sector has expressed divided opinions on the proposals to lower the IVA. On one hand, the Confederacion de Trabajadores de Mexico (CTM) and the Congreso del Trabajo (CT) have called the proposed IVA reduction "irresponsible." "The plan would create obstacles for our national economic programs," said CTM officer Javier Pineda Serino. The CTM and CT's opposition to the plan is not surprising, since both labor organizations have very close ties to the PRI.

On the other hand, the IVA reduction has been strongly endorsed by the Confederacion Revolucionaria de Obreros y Campesinos (CROC) and the Frente Sindical Unitario (FSU). The CROC maintains strong ties to the PRD, while the FSU is an independent organization formed this year to offer unions an alternative to the CT (see SourceMex, 02/12/97 and 07/02/97). [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 23, reported at 7.81 pesos per US\$1.00] (Sources: Reuter, 07/14/97; El Economista, 07/11/97, 07/18/97; The News, El Diario de Yucatan, 07/18/97; Excelsior, 07/17/97, 07/21/97, 07/22/97; El Nacional, El Sol de Mexico, 07/22/97; Novedades, 07/18/97, 07/21-23/97; El Universal, La Jornada, 07/18/97, 07/23/97)

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