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## Value-Added Tax Resurfaces as Key Issue in Debate on 2011 Budget

by Carlos Navarro

Category/Department: Economy

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The value-added tax (impuesto al valor agregado, IVA) is again at the center of controversy regarding the budget, which Congress must approve during the next several weeks. The opposition Partido Revolucionario Institucional (PRI) has proposed that the IVA be reduced to 15%, which was the level before the Congress approved the tax reform in October 2009 ([SourceMex, Nov. 4, 2009](#)), raising the tax to 16%. President Felipe Calderón's administration is describing the PRI proposal as dangerous because it could increase the public deficit at a time when the government needs stable finances to keep the economy afloat. Some members of the governing Partido Acción Nacional (PAN) and other parties are calling the PRI's proposal an electoral ploy ahead of the 2011 gubernatorial elections in Guerrero and México states and the 2012 presidential election.

### *PRI proposes to cut general IVA to 15%*

The PRI is selling the IVA reduction as a tool to stimulate the economy, since it would likely result in increased consumer spending. "This proposal to reduce the IVA will benefit all families in Mexico and could help strengthen our national economy," said one PRI official in Coahuila state.

Other PRI officials said the IVA reduction was necessary to force the federal government to take the budget more seriously. In many instances, the government has failed to spend all the money authorized by the Congress for key areas such as communications and social development. Both the PAN administrations of ex-President Vicente Fox and President Calderón have been accused of placing a higher priority on deficit management, partly to control inflation, than on expending the funds allocated by Congress to benefit the population ([SourceMex, Jan. 3, 2007](#)).

The Calderón administration immediately criticized the PRI's proposal, suggesting that the plan could put public finances in a bind. "Weakening revenues doesn't only affect the country's ability to face its challenges but also damages the nation's image and consequently leads to significant declines in investment, domestic as well as foreign, and as a result job creation," said the Secretaría de Hacienda y Crédito Público (SHCP).

Furthermore, Finance Secretary Ernesto Cordero said the increased deficit could weaken the peso and result in higher interest rates. "To reduce taxes while raising the deficit would bring us to an unsustainable level of debt, which could result in an economic crisis similar to those that occurred in 1976, 1982, and 1986," said Cordero.

PRI legislators were quick to point out that the reduction of one percentage point in the IVA would not endanger the country's finances because the reduction would amount to about 33 billion pesos (US\$2.6 billion) in a budget of more than 1 trillion pesos (US\$237 billion).

"Those 33 billion pesos can be channeled to consumers," said PRI Sen. Raúl Mejía González. "The people would spend, and those expenditures could result in creating new jobs."

PRI Deputy Luis Videgaray Caso, who chairs the budget committee (Comisión de Presupuesto) in the lower house, suggested that the Calderón government could make up for the loss of IVA revenues by exercising more austerity in its bureaucratic expenditures.

But PAN Deputy Carlos Pérez said the IVA reduction could hurt Mexico's reputation among the international investment community. "It's not the 33 billion pesos but rather the message that we would send at home and abroad," Pérez told Bloomberg news service. "Our rating wouldn't be the same."

The PAN delegation in the Chamber of Deputies has countered with its own proposal that would reduce the IVA to 12% but impose a value-added tax on previously exempt items, such as food and medicines.

Deputy Josefina Vázquez Mota suggested that her party would be willing to keep an open mind on all IVA proposals that came to the floor. "In the PAN we are willing to consider the PRI plan and any other proposal as long as the level of debt is not increased and the needs of state and local governments are not forgotten."

Videgaray criticized the PAN for bringing up the IVA on food and medicines, which he said complicates a compromise on tax issues.

The business sector has traditionally backed proposals to impose an IVA on food and medicines, and the Confederación Patronal de la República Mexicana (COPARMEX) reiterated its support for such a measure during the budget deliberations. "By imposing an IVA of 2% to 5% on products that are currently exempt, we could increase revenues by as much as 39.8 billion pesos (US\$3.1 billion)," said COPARMEX president Gerardo Gutiérrez Candiani. "We could direct this money to social programs, agriculture, public infrastructure, small businesses, and job creation."

But other major business organizations that have traditionally backed this plan, including the Consejo Coordinador Empresarial (CCE), are staying out of the debate, saying the political climate would doom the proposal. The CCE said it would not submit a budget proposal this year as it has in previous years.

### *PRI accused of electoral motives*

Some critics are questioning the PRI's proposal to lower the IVA to 15%, saying the move has clear electoral motives. And at least one political observer has suggested that the PRI is punishing the PAN and the Calderón government for forming alliances with the PRD in several gubernatorial races this past July. The alliances between the PAN and center-left parties resulted in victories in the gubernatorial races in Oaxaca, Puebla, and Sinaloa states ([SourceMex, July 7, 2010](#)).

"The PRI chose to exert its revenge via the economic package that President Calderón sent to the Congress on Sept. 8," said columnist Fernando Coronel Landa of La Jornada de Morelos.

Coronel said the PRI made it clear that it will reduce the money available to the government for administrative expenses, targeting those PAN agencies that have made a practice of underspending the budget allocations. "The warnings from the PRI leave no doubt about the intensity of the coming war," said the columnist.

Others, while agreeing with the plan to reduce the IVA, are questioning the PRI's motive ahead of upcoming elections. Deputy Jaime Álvarez Cisneros, a member of the center-left

Partido Convergencia por la Democracia (PCD), said the PRI is trying to fool the citizens with its demagoguery ahead of the 2011 gubernatorial races in Guerrero and México states. He suggested that the party should instead apologize for participating strongly in approving the IVA to 16% last year. "People should know that the PRI and the PAN are both responsible for the constant increases in taxes and the cost of fuel," said Álvarez Cisneros. "And now the PRI wants to fool the people again by presenting itself as the savior of our country because this is what is politically expedient."

Some analysts agree that the PRI's motives are very transparent. "There's a real intention to lower the value-added tax to 15%," said analyst Jorge Chabat of the Centro de Investigación y Docencia Económica (CIDE) in Mexico City. "It would be very popular in terms of votes because they can say they're defending people's pocketbooks." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sept. 22, 2010, reported at 12.63 pesos per US\$1.00]

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