Governing Party Now Open to Adding Value-Added Tax to Food and Medicines in Fiscal-Reform Package

Carlos Navarro
Governing Party Now Open to Adding Value-Added Tax to Food and Medicines in Fiscal-Reform Package

by Carlos Navarro  
Category/Department: Mexico  
Published: 2013-03-13

In a move that could signal President Enrique Peña Nieto’s strategy on tax reform, the governing Partido Revolucionario Institucional (PRI) removed language from its statutes that prohibited imposing a value-added tax (impuesto al valor agregado, IVA) on food and medicines. The decision, which followed a vote by delegates attending the PRI’s national congress in early March, provides the president with a free hand in determining how to move forward with reforms to Mexico’s outdated tax structure. But the PRI was careful to note that the decision in no way suggested that the party was going forward with an increase in the IVA for food and medicines.

At the party congress, delegates also voted to support mechanisms to allow increased private-sector participation in energy production. In supporting a flexible position on the oil sector, party leaders emphasized that the PRI was not abandoning the long-standing position that the Mexican state remain in full control of the country’s energy resources.

The two decisions seemed to create a clear line of demarcation between the PRI and Mexico’s left, which includes the center-left coalition, led by the Partido de la Revolución Democrática (PRD), and the Movimiento Regeneración Nacional (Morena), led by ex-presidential candidate Andrés Manuel López Obrador. The PRD, which has agreed to work closely with Peña Nieto to support reforms that would move Mexico forward (SourceMex, Dec. 5, 2012), reiterated its strong opposition to an IVA on food and medicines. The PRD and its coalition partners plan to make their opposition known when the issues come up for congressional debate.

Morena, on the other hand, now has two concrete issues on which to confront the administration directly during street rallies and other public forums.

The decisions by the PRI congress also came just a week before Peña Nieto completed 100 days in office. The Mexican president appears to be enjoying strong public approval, but opinions are mixed among political analysts on whether the president is off to a good start.

PRI modifies statutes

A large majority of the more than 4,000 delegates who participated in the PRI’s two-day congress in Mexico City supported motions to eliminate language in the party statutes prohibiting the imposition of an IVA on food and medicines and opening the oil sector to private investors. A faction of the party in the past vehemently opposed these changes, so the move was an effort by the party leadership to minimize conflict if comprehensive tax reform includes an IVA on food and medicines.

For the most part, in the past the PRI opposed an IVA on food and medicines, while the conservative Partido Acción Nacional (PAN) proposed imposing the tax favored by the business community (SourceMex, Aug 25, 2004, and Sept. 22, 2010).
Critics say an IVA on food and medicines would have a disproportionate negative impact on the poorest citizens, which has led even pro-business conservatives like former President Felipe Calderón to shy away from proposing such a tax. In his tax-reform proposal in 2009, Calderón criticized business groups for pressuring the government to tax these items (SourceMex, Nov. 4, 2009).

So why are the PRI and the Peña Nieto government suddenly leaving open the possibility to tax food and medicines? The spin from the PRI was that a comprehensive tax reform with everything on the table would generate the revenues needed for the government to devote greater resources to programs for the poorest segments of society.

"A fiscal reform that will boost our treasury in a coherent manner...has to include a discussion of all types of taxes and fees," said Deputy Manlio Fabio Beltrones, floor leader of the PRI in the Chamber of Deputies. "These should include the fiscal structure of the state-run oil company PEMEX, fees for mining rights, the IVA, the income tax (impuesto sobre la renta, ISR), and the business tax (el impuesto empresarial a tasa única, IETU)."

**IVA on food and medicines not a given**

Still, the PRI is not ready to declare that an IVA on food and medicines is imminent. "Our posture is that we are not going to limit discussion on [any aspect] of the IVA," said PRI president César Camacho Quiroz.

This is a slight change from comments that Camacho made a couple weeks before the PRI assembly. "The PRI has not said yes to an IVA on food and medicines not does it plan to do so," Camacho said in mid-February.

Speaking in Veracruz a few days after the PRI assembly, party secretary-general Ivonne Ortega Pacheco reiterated that no plans are in the works to push for an IVA on food and medicines. The former Yucatán governor said Peña Nieto does not plan to impose any new taxes but to create a system where everyone pays his or her fair share. "We have a president who is willing to make the decisions that others have not made," Ortega said at the International Women’s Day event.

Some PRI members are already offering their own proposals. For example, David Parra Sánchez, a PRI member in the México state legislature, has proposed exempting the items on the basic basket of goods from an IVA. "It would be immoral to impose an IVA on beans, eggs, milk, and rice, which are popular staples," said Parra.

Parra also said a tax on medicines would hurt poor people, especially since some medications are already expensive. "This is especially the case for those used for serious illnesses, which are out of reach for most of the population," said the legislator.

**Opposition parties have their say**

The PRI would seem to have the support of the PAN if discussion of the IVA is included in the tax reform. PAN Deputy José Isabel Trejo, currently serving as president of the Chamber of Deputies, said changes to the tax system must be discussed in a holistic manner and not confined to a simple debate over the IVA.
"We are talking about negotiations on a number of areas that converge, such as energy, income, and expenditures," said Trejo. "To frame everything in the context of the IVA is shortsighted and confusing."

Among other things, Trejo said discussions should also include increasing the rights of states and municipalities to impose and collect taxes.

Center-left legislators are prepared for a battle in case the PRI does propose some form of IVA on food and medicines. Deputy Silvano Aureoles, the PRD floor leader in the lower house, said his party willingly signed the pact (Pacto por México) to work together with other parties and Peña Nieto but this does not mean accepting everything that is placed on the table. He emphasized that the changes in the PRI’s statutes have nothing to do with the pact.

"The pact goes beyond the discussion of a single issue," said Aureoles, referring to the IVA. "Furthermore, nothing in the language of the pact specifies any decision of that nature."

Still, the PRD is ready just in case a tax on food and medicines is proposed as part of a larger fiscal-reform package. PRD Deputy Luis Espinosa Cházaro said other options have to be considered during the tax-reform debate, including eliminating an exemption that benefits a small number of business enterprises. By closing this loophole, he said, the government could obtain as much as 500 billion pesos (US$40 billion), a far larger amount than expanding the IVA to include food and medicines.

While the PRD and its allies, the Partido del Trabajo (PT) and Movimiento Ciudadano (MC), plan to make their opposition to an IVA on food and medicines clear during legislative debate, Morena is making plans to bring the issue to the streets on March 18 in Mexico City, even before tax-reform negotiations are underway. The rally is also intended to consolidate opposition to PRI and PAN efforts to expand private participation in the oil sector. Morena president Martí Batres Guadarrama told reporters that a second rally is scheduled for July.

Clara Brugada, Morena’s secretary for the welfare of the people, was also present at the news conference with Batres. The former federal deputy and Mexico City borough chief said an IVA on food and medicine would disproportionally affect the poorest segments of society, which spends about 90% of its income on these products, compared with 50% for the middle class and 10% for the wealthiest Mexicans.

Batres strongly criticized the PRI’s decision to remove language from its statutes opposing an IVA on food and medicines. "When the PRI was the opposition party, it opposed this move." said Batres. "But now that they are governing the country, they have stepped back from that position."

Morena’s focus on the proposal to expand private participation in PEMEX gives the movement another concrete issue to bring against the Peña Nieto government and its allies from the PRI, PAN and other parties. Morena founder López Obrador, who is likely to attend both the March and July rallies, repeated his position that Mexico can come up with the needed capital to expand PEMEX projects and that private companies, most of which would be foreign entities, would simply be earning big profits from Mexico’s oil riches.

López Obrador said the cost of producing a barrel of oil is an estimated US$10, but it is sold at US $100, yielding a profit of US$90 per barrel. "If the country pumps 2.6 million barrels per day, it
means that you are getting $260 million daily, so the oil leaves you with $100 billion a year and that is what they are going after now," López Obrador said at a rally in Guerrero state in early February.

The center-left candidate, who lost the presidential election to Peña Nieto by a little more than six percentage points (SourceMex, July 11, 2012), complained that the PRI won the election by resorting to unfair tactics (SourceMex, July 18, 2012).

In September 2012, López Obrador broke with the three center-left parties in Congress to formalize the creation of Morena to provide opposition to the Peña Nieto government outside the formal political structure (SourceMex, Sept. 19, 2012).

Mixed review for first 100 days of Pena Nieto government

The reviews on Pena Nieto’s first 100 days in office are mixed. While some analysts give him credit for taking steps to move the country in the right direction, others say that Mexico’s situation has changed little in some areas, including insecurity.

Some analysts said Pena Nieto’s move to enter into an agreement with the major parties in Congress has set the stage for him to have a successful administration. The agreement, said analyst Liébano Sáenz, was particularly necessary this year because the election did not give Pena Nieto’s PRI a majority in the Chamber of Deputies and the Senate. "The divided government, which has existed since 1997, has not created an atmosphere of political understanding that could have brought the country to sweeping reforms," Sáenz wrote in the online English-language news site The News. "In other words, today the administration and opposition parties have made enmity into a virtue. This puts in context the president’s pact with the opposition, especially if we consider that in a short period education reform has passed and soon a reform of the telecommunications sector will pass too."

Other analysts agreed that the pact is an important step for political cooperation. "The Pacto por México is viewed by many as a sign that the PRI is imposing its agenda on the opposition parties," José Antonio Crespo, a political analyst at the Centro de Investigación y Docencia Económicas (CIDE), wrote in the Mexico City daily newspaper El Universal. "But the way I see it, by seeking the pact, the PRI recognized that we have a new political plurality and that it cannot govern as it did in the past."

But Crespo also noted that the true test of whether the pact will be effective in the long run is whether the parties can agree on reforms in three major areas: telecommunications, taxes, and energy.

Still, some analysts see Peña Nieto’s efforts at unity as simply "smoke and mirrors" and not a true sign of plurality. "In his first 100 days in power, he has embarked on a desperate effort to fool and intimidate his political rivals and society as a whole," said John Ackermann, a researcher at the Instituto de Investigaciones Jurídicas of the Universidad Nacional Autónoma de México (UNAM).

"As a response, we require a major citizen action to again break the spell of the steamroller PRI machine," Ackermann wrote in Agencia de Noticias Proceso (apro). "In 2012, it was the brave students from Universidad Iberoamericana who awakened our conscience and pushed us into action (SourceMex, May 23, 2012). Who will take the baton of leadership in 2013?"

Álvaro Delgado, also a contributor to apro, questioned whether Peña Nieto’s policies on crime and insecurity were yielding better results than those of his predecessor Calderón. "The PRI
government has acknowledged that, between December and February, there were 3,157 homicides, including 55 police officers and seven bystanders, in battles among criminal groups, an average of 35 deaths daily," said Delgado.

"But as the president was celebrating 100 days in office, there was no mention of these figures and the continuing extortions, kidnappings, violent acts, and robberies," added Delgado. "The only comment came from Attorney General Jesús Murillo Karam, who warned us against expecting quick results."

But others said there has been a subtle change in the approach that the Peña Nieto government is using to deal with crime, which could yield results in the long run. "We have said before and will say again that we cannot expect dramatic changes in this area," columnist Jorge Fernández Menéndez wrote in the Mexico City daily newspaper Excélsior.

Fernández Menéndez said there is now a unified approach to fighting crime, with agencies across all levels of government working together. "This is something that the past administration proposed five years ago, but which was never supported by the political parties and the Congress," said the columnist. "The change is not in the actual proposal, but in the political savvy to move it forward."

[Peso-dollar conversions in this article are based on the Interbank rate in effect on March 13, 2013, reported at 12.43 pesos per US$1.00.]

-- End --