



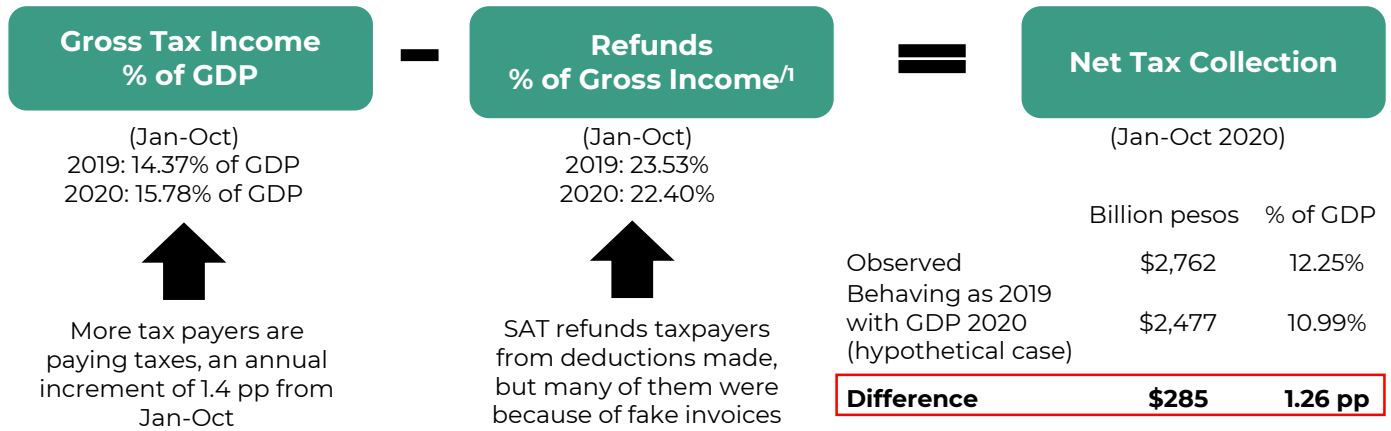
MEXICAN GOVERNMENT TAX REVENUES

Since the beginning of this administration, the government has made improvements to the fiscal framework that have increased collection efficiency and risk perception, reduced inefficient and regressive fiscal expenditures, and increased compliance with existing taxes.

Higher net tax collection

- Net tax collection can increase because of i) higher gross tax revenues or ii) lower refunds.
- Changes in tax policy and higher efficiency in fiscalization have resulted in an increase in gross tax income and in a decrease in refunds = **Higher net tax income with respect to GDP in 2020.**
- If tax collection have behaved as 2019, it would have been MXN \$285 bn less between Jan-Oct 2020.

Two main sources of additional income:



^{1/} Refunds are measured with respect to Gross Tax Income because it depends on the percentage of what the government receives from gross tax income and not GDP.

Higher net tax collection with respect to other crisis considering tax revenue elasticity

Tax revenues observed, 2020

Jan-Oct
-0.6% Y/Y
-159.2 bn v.s. program

V.S.

Tax revenues 2020 behaving as with elasticity of 2009 (hypothetical case)

Jan-Oct
-20.5% Y/Y
-712.5 bn v.s. program

Despite contingencies, tax revenues in 2020 have accomplished 95% of the program.

Main results from tax framework changes

Elasticity of revenues to GDP

2020	0.09
2009	2.2
1995	2.8

Tax revenues of Mexico vs other countries Jan-Oct 2020^{1/}

Mexico	-0.6% Y/Y in real terms
LATAM	-13.9% Y/Y in real terms
OECD	-9.9% Y/Y in real terms

^{1/} The comparison is for a selection of LATAM and OECD countries with the latest publicly available data.

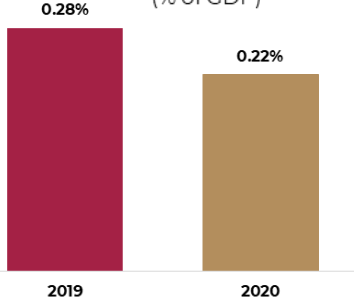


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Changes in tax policy for reduction in the compliance and policy gap

Elimination of the Universal Compensation

Annual gains from Elimination of Universal Compensation (% of GDP)



1. From 2019 onward, the universal compensation which allowed for the use of fake invoice was eliminated. Compensations are now limited to the same type of tax.

- In 2018 tax refunds plus compensations as a percentage of gross tax income represented 25.2%. In 2020 (Jan-Sept) this percentage decreased to 22.4%.
- In 2019, this change increased net tax income by 67 billion pesos (0.28% of GDP). In 2020 this policy has brought revenues of MXN 38.7 billion as of September and it is estimated to have an impact of MXN 51.5 billion (0.22% of GDP) by December.

Energy Taxation

Revenues (Million pesos)

2019 2020

66,354 60,696

— 15,363

— 2,823

2,250 4,685

1,405 2,927

— 1,480

1,819 4,034

— 1,584

— 1,768

— 768.5

Total

71,828

96,129

0.3% of GDP 0.4% of GDP

Reductions on Tax Stimulus

Fees for State-owned Rights

- Changes to the fiscal stimulus calculus of **gasoline excise taxes** from retail to wholesale price.
- Federal tollways transport services stimulus** was limited to taxpayers with annual income lower than MXN 300 mn.
- The stimulus for the acquisition of diesel and biodiesel used for machinery** was limited to taxpayers with annual incomes lower than MXN 60 mn.
- Stimulus for mining companies** was limited to taxpayers with annual incomes lower than MXN 50 mn.
- Stimulus for railroad companies' extinction.**
- Stimulus for the excise tax of diesel and gasoline used for fishing extinction.**
- Update to the methodology for updating **electricity prices.**
- Adjustments to quotas for **migration services in international flights.**
- Adjustments to quotas for **certifications and permits of different types of ships.**
- The classification for **water bodies used for residual waters** was updated.

Note: Expected revenues for 2020.

Main results from secondary tax revenues

Total secondary tax revenues
Jan-Aug 2020 vs Jan-Aug 2019

MXN 136.3 bn
+144.7% in real terms

Components of secondary tax revenues

- Fiscalization
- Large taxpayers
- Missed payments fees
- Foreign trade

MXN 34.6 bn
+69.9% Y/Y real
Collections through **fiscalization**

~MXN 51.4 bn
+184.8% Y/Y real
Collections from compliance of **large taxpayers**

MXN 4.3 bn
+33.5% Y/Y real
Collections from **finances, updates and surcharges for missed payments**

MXN 699 million
+9.1% Y/Y real
Collections from **foreign trade**



MEXICAN GOVERNMENT TAX REVENUES

Changes in tax policy for reduction in the compliance and policy gap

Other policy changes for reducing compliance gap

From 2020 onwards:

- 11. If taxpayers have **interests for more than 20 million**, they cannot deduct more than up to 30% of EBITDA. The expenses in nondeductible interests can be transferred for up to 10 years.
- 12. All **lease trials related to due rents** will require the landlord to provide **rental tax invoices**.
- 13. Companies that use **outsourcing jobs** must make **VAT retentions on 6% worker's payments**.
- 14. Taxpayers and fiscal advisors must present **reportable transactions** which will provide the tax authority with additional information on matters that are subject to fiscal benefits.

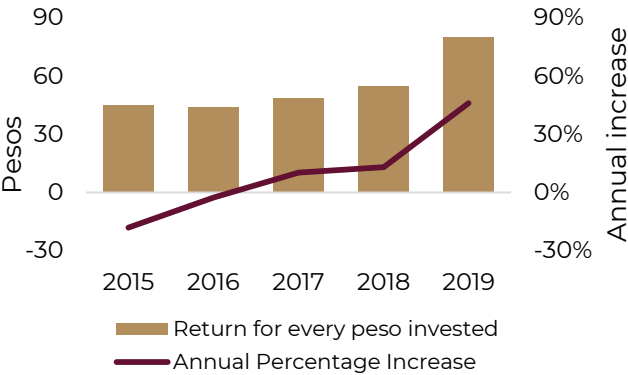
Other non-fiscal legal changes for reducing compliance gap

- 15. In 2020 based on a proposal from the Executive the Congress reformed the **Constitution** to eliminate **tax condonations**.
- 16. From January 2020 onward, **tax fraud** and the purchase or selling of **fake invoices** for amounts **higher than 7.84 million pesos** are considered felonies worth of **2 to 9 years in prison**.
- 17. The new **General Anti-evasion Rule** allows the **tax authority (SAT)** to **improve the control of taxpayer's operation by revaluating transactions** that do not follow economic rationality.

Performance of the Tax Administration Service (SAT)

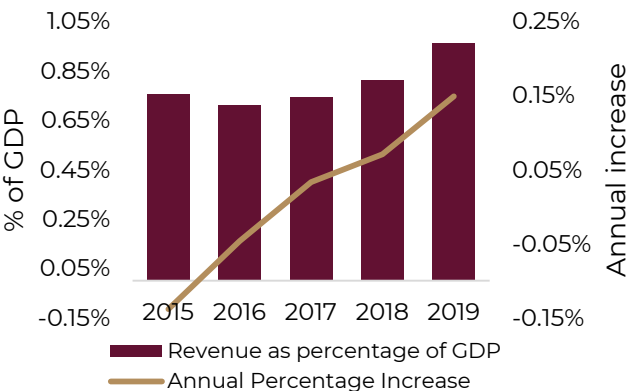
Rentability of fiscalization acts

(Return in pesos for every peso invested %)



Revenue of fiscalization acts

(% of GDP and annual % variation)



- The **SAT** has achieved operational improvements by: **simplifying tax filing, developing self-service oriented technological tools, and increasing enforcement activity and effectiveness** of the **fiscalization process**.

Achievements on voluntary tax compliance

- The **number of taxpayers** in 2019 reported an **annual increase of 7.9%** (5.6 million additional taxpayers).
- The number of **tax returns filed** during 2019 was **6.6% higher** (9.7 million additional tax returns).

Achievements on control and fiscalization acts

- Through **control acts on tax obligations** (compliance monitoring and tax falls) MXN 105.8 billion were collected in 2019, an **annual growth of 15.9%** or **MXN 14.5 bn more**.
- Recollection due to **acts of fiscalization** amounted **MXN 233.5 bn** (represents an annual growth of 17.6% or **MXN 34.95 bn more**). SAT is improving the use of technology in the detection of tax evasion and fraud.
- In 2020 **SAT obliged 10 big firms** to pay **due debts**, the list is larger.
- **Greater risk perception** has strengthened voluntary compliance. Efficiencies achieved in 2020 are the basis for a **permanent effect** to be observed in the medium term.