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PRESS REALEASE

Mexico City, June 20, 2007.

THE FEDERAL GOVERNMENT SENT TO CONGRESS A COMPREHENSIVE PUBLIC FINANCE REFORM PACKAGE

- CONGRESS WAS SENT TODAY A PACKAGE OF INITIATIVES THAT CONSTITUTES THE EXECUTIVE'S PROPOSAL OF A COMPREHENSIVE PUBLIC FINANCE REFORM. THIS REFORM WILL ALLOW THE GOVERNMENT TO MAINTAIN SOLID PUBLIC FINANCES WHILE MEETING THE DEMANDS OF MEXICAN SOCIETY, ESTABLISHED IN THE NATIONAL DEVELOPMENT PLAN, IN TERMS OF SECURITY AND RULE OF LAW, EDUCATION, HEALTH, POVERTY ALLEVIATION, HOUSING, REGIONAL DEVELOPMENT, EMPLOYMENT CREATION AND INFRASTRUCTURE INVESTMENT, KEEPING IN MIND THE WELFARE OF FUTURE GENERATIONS.
- THE PACKAGE INCLUDES SEVERAL PROPOSALS FROM DIFFERENT SOCIAL GROUPS, STATE AND MUNICIPAL GOVERNMENTS, POLITICAL PARTIES AND FROM THE NATIONAL FISCAL CONVENTION.
- THE REFORM IS ESTIMATED TO YIELD HIGHER REVENUES OF ABOUT 1% OF GDP FOR FEDERAL ENTITIES AND 2% OF GDP FOR THE FEDERAL GOVERNMENT BY 2012. THIS WILL ALLOW FOR AN INCREASE IN SOCIAL AND ECONOMIC DEVELOPMENT SPENDING, AS WELL AS PERMITING THE CONSOLIDATION OF HEALTHY PUBLIC FINANCES AND CONSTITUTING A BASE TO SUCCESSFULLY FACE A FUTURE DECREASE IN OIL REVENUES.
- THE PROPOSED INITIATIVES INCLUDE REFORMS TO THE CONSTITUTION, TO VARIOUS LAWS AND TWO NEW LAWS AND CAN BE GROUPED INTO FOUR PILLARS:
  1. TAX ADMINISTRATION: TO FACILITATE TAX COMPLIANCE AND COMBAT FISCAL ELUSION AND EVASION MORE EFFECTIVELY.
  2. PUBLIC SPENDING: TO ESTABLISH AN INSTITUTIONAL STRUCTURE THAT GUARANTEES A RESULT-ORIENTED SPENDING, MAKING IT MORE EFFICIENT AND TRANSPARENT AT THE THREE LEVELS OF GOVERNMENT, AND PROMOTING ITS PRODUCTIVITY AND AUSTERITY AT THE SAME TIME.
  3. FISCAL FEDERALISM: PROVIDING STATES AND MUNICIPALITIES WITH BETTER INSTRUMENTS AND INCENTIVES IN ORDER TO ESTABLISH A RELATIONSHIP OF CO-RESPONSIBILITY BETWEEN THE THREE LEVELS OF GOVERNMENT.
  4. PUBLIC REVENUES: TO SET THE BASE FOR A TAX SYSTEM THAT ALLOWS THE SUBSTITUTION OF OIL REVENUES WITH MORE STABLE SOURCES OF INCOME, IMPLEMENTING NEUTRAL SCHEMES THAT PROMOTE INVESTMENT, JOB CREATION AND ECONOMIC GROWTH.
- A MORE DETAILED DESCRIPTION OF THE INITIATIVES FOLLOWS, GROUPED ACCORDING TO THE FOUR PILLARS PREVIOUSLY DESCRIBED.

<u>TAX ADMINISTRATION</u>

- THE MEASURES OF TAX ADMINISTRATION HAVE TWO FRONTS: FACILITATE COMPLIANCE OF TAX OBLIGATIONS, AND TO FIGHT TAX EVASION, SMUGGLING

AND INFORMALITY. THEREFORE, A SERIES OF LEGISLATIVE CHANGES ARE PROPOSED, WHICH TOGETHER WITH ADMINISTRATIVE MEASURES, WILL ALLOW THE TAX COLLECTION TO INCREASE BY 1.1% OF GDP IN THE MEDIUM TERM.

- o A SET OF MEASURES WILL BE ESTABLISHED TO MAKE TAX COMPLIANCE EASIER. AMONGST THESE, IT IS WORTH HIGHLIGHTING THE DEVELOPMENT OF A PERSONALIZED PORTAL FOR PROFESSIONAL INDIVIDUALS AND ENTREPRENEURS, AS WELL AS THE SIMPLIFICATION OF THE PERSONAL INCOME TAX.
- o WITH THE PURPOSE OF FIGHTING TAX EVASION, A NEW TAX ON INFORMALITY IS PROPOSED, WHICH WILL TAX CASH DEPOSITS OVER PS. 20,000 PER MONTH AND WILL BE RECOVERABLE AGAINST THE INCOME TAX, ALONG WITH SEVERAL MEASURES TO ALLOW FISCALIZATION FOR THOSE WHO ARE NOT REGISTERED IN THE TAXPAYERS REGISTRY.
- o THE PROCEEDINGS FOR AUDITING AND VERIFYING REBATE CLAIMS WILL BE STRENGTHENED IN ORDER TO FACILITATE FIGHTING TAX EVASION AND ELUSION, WHILE IMPROVING THE TAXPAYER'S LEGAL CERTAINTY. AMONGST THE MEASURES THAT BENEFIT BOTH THE FISCAL AUTHORITY AND THE TAXPAYER, GREATER CONTROL ON TAX REBATES AND THE USE OF THE ELECTRONIC SIGNATURE (FIEL) WILL BE FOSTERED.

PUBLIC SPENDING

- THE PROPOSAL ESTABLISHES INSTITUTIONAL MECHANISMS IN ORDER TO INCREASE THE QUALITY OF PUBLIC SPENDING, WITH A RESULT-ORIENTED APPROACH, PROMOTING ITS PRODUCTIVITY AND AUSTERITY AND STRENGTHENING TRANSPARENCY AND ACCOUNTABILITY IN THE USE OF PUBLIC RESOURCES.
- THE NATIONAL COUNCIL FOR THE EVALUATION OF PUBLIC POLICIES WILL BE ESTABLISHED. IT WILL EVALUATE ALL PUBLIC POLICIES BASED ON THE ACHIEVEMENT OF GOALS AND RESULTS. THE EVALUATIONS AND RECOMMENDATIONS WILL BE PUBLIC AND THEY WILL BE REFLECTED IN THE FEDERATION'S EXPENDITURE BUDGET, PROMOTING A RESULT-ORIENTED APPROACH AND AN AUSTERE, PRODUCTIVE AND CORRECT MANAGEMENT. THE EVALUATIONS WILL INCLUDE FEDERALIZED EXPENDITURE AND THE SUBSIDIES GIVEN TO THE FEDERAL ENTITIES.
- GREATER CERTAINTY WILL BE PROVIDED TO PUBLIC INVESTMENT IN INFRASTRUCTURE PROJECTS, REDUCING RISKS AND COSTS AND IMPROVING THE ALLOCATION OF RESOURCES FOR INVESTMENT PROJECTS. FOR THAT PURPOSE, MULTI-ANNUAL INVESTMENT BUDGETS FOR INFRASTRUCTURE PROJECTS ARE PROPOSED AS WELL AS ESTABLISHING THE OBLIGATION FOR THE AUTHORITY TO SET AN INVESTMENT PLAN THAT WILL RANK THE PROJECTS IN TERMS OF THEIR SOCIOECONOMIC RETURNS.
- INVESTMENT SPENDING WILL BE FAVORED OVER CURRENT SPENDING, FOR THAT PURPOSE OPERATIONAL EXPENSES OF THE GOVERNMENT WILL BE SUBJECT TO MORE STRICT CONTROLS.

- THE HOMOGENIZATION OF GOVERNMENT ACCOUNTING WILL BE PROMOTED AT ALL LEVELS OF GOVERNMENT, BROADENING CONGRESS' POWERS TO APPROVE LAWS THAT ESTABLISH GUIDELINES FOR ACCOUNTING PRACTICES IN THE STATES AND MUNICIPALITIES, AS WELL AS IN THE FEDERAL GOVERNMENT. THIS MEASURE WILL ALLOW A BETTER PUBLIC SCRUTINY OF EXPENDITURES AT THE THREE LEVELS OF GOVERNMENT.
- PUBLIC ACCOUNTS AND THE RESULTS FROM AUDITS WILL BE PUBLISHED PROMPTLY. IN ADDITION, THE FISCALIZATION OF THE PUBLIC RESOURCES USED BY THE FEDERATION AND THOSE TRANSFERRED TO THE FEDERAL ENTITIES WILL BE STRENGTHENED

FISCAL FEDERALISM

- THE PROPOSAL CONSISTS OF INCREASING THE TAX COLLECTION POWERS OF THE FEDERAL ENTITIES AS WELL AS IMPROVING THE MECHANISMS OF DISTRIBUTION OF PARTICIPATIONS AND SHAREABLE REVENUE.
- STATES WILL BE ALLOWED TO COLLECT A FINAL SALES TAX ON GOODS THAT ALREADY HAVE A FEDERAL EXCISE TAX (IEPS), AFTER AUTHORIZATION FROM LOCAL CONGRESSES.
- THE INCENTIVES EMBEDDED IN THE FORMULAE THAT DETERMINE THE DISTRIBUTION OF SHAREABLE REVENUES AND PARTICIPATIONS WILL BE IMPROVED. THE DISTRIBUTION OF PARTICIPATIONS WILL REWARD ECONOMIC ACTIVITY AND TAX COLLECTION EFFORTS. THE SHAREABLE REVENUES FUNDS WILL BE ALLOCATED IN A MORE EQUAL MANNER. THE DISTRIBUTION OF THE RESOURCES OF THE SHAREABLE REVENUE FUND FOR BASIC AND NORMAL EDUCATION (FAEB) WILL ALLOW THE FEDERAL ENTITIES TO MEET THE DEMAND FOR EDUCATION BY REFLECTING THE CHANGES IN THE NUMBER OF STUDENTS AS WELL AS THE QUALITY OF EDUCATION IN EACH FEDERAL ENTITY. NONE OF THESE MEASURES IMPLIES A REDUCTION OF THE FEDERAL RESOURCES ASIGNED TO ANY FEDERAL ENTITY WITH RESPECT TO ITS CURRENT LEVEL.

TAX SYSTEM

- THE NEW TAX SYSTEM WILL CONSOLIDATE SOLID PUBLIC FINANCES AND WILL ALLOW THE FULFILLMENT OF SPENDING NEEDS THROUGH AN EQUAL TAX STRUCTURE THAT PROMOTES COMPETITIVENESS, FAVORING JOB CREATION, INVESTMENT AND ECONOMIC GROWTH. THE PROPOSED FISCAL REFORMS WILL YIELD A HIGHER TAX COLLECTION OF 2% OF GDP IN THE FOLLOWING TWO YEARS.
- A UNIQUE RATE CONTRIBUTION BY FIRMS (CETU IN SPANISH) IS INTRODUCED. THIS CONTRIBUTION WILL BE PAID BY FIRMS AND INDIVIDUALS WITH ENTREPRENEURIAL ACTIVITIES AND IT WILL FUNCTION LIKE A CONTROL TAX FOR THE INCOME TAX. IT APPLIES A TAX RATE OF 19% TO REVENUES MINUS INVESTMENT AND THE ACQUISITION OR RENT OF GOODS AND SERVICE PURCHASES USED FOR THE ACTIVITIES OF THE FIRM. THIS CONTRIBUTION WILL SUBSTITUTE THE TAX ON ASSETS, BEING A NEUTRAL TAX THAT WILL NOT AFFECT

INVESTMENT DECISIONS. THE CONTRIBUTION IS GENERAL, AVOIDING ANY DISTORTIONAL EXEMPTIONS; IT IS SIMPLE, SINCE IT APPLIES A SINGLE TAX RATE TO AN EASY-TO-CALCULATE BASE, AND IT DOES NOT AFFECT THE SO CALLED "CAPTIVE TAXPAYERS" SINCE IT IS A MINIMUM TAX. THIS CONTRIBUTION WILL BE COMPLEMENTED WITH AN EMPLOYMENT TAX CREDIT WITH THE PURPOSE OF PROTECTING EMPLOYMENT AND WAGE LEVELS. THE AMOUNT OF THE CREDIT WILL BE LARGER FOR LOW INCOME WORKERS AND COMPLEMENTS THE EXISTING CREDIT TO WAGES, WHICH WILL BE TRANSFORMED INTO A SUBSIDY FOR EMPLOYMENT.

- A TAX OF 20% IS PROPOSED IN THE FEES THAT ARE CHARGED FOR PARTICIPATING IN GAMBLING GAMES AND LOTTERIES.
- A TAX OF 50% IS PROPOSED ON THE SALES OF SPRAY PAINT.

Today, a package of initiatives that constitute a comprehensive Public Finance Reform was sent to Congress. The initiatives include reforms to the Constitution of the United Mexican States, the Fiscal Coordination Law, the Income Tax Law, the Fiscal Code of the Federation, the Excise Taxes on Products and Services Law and to the Vehicle Property Tax Law. Additionally, proposals for a Unique Rate Contribution by Firms Law, Informality Tax Law and the establishment of a Subsidy to Employment are included.

The objective of the comprehensive Public Finance Reform is to establish a modern institutional structure that allows facing the economic development needs identified in the National Development Plan. This will allow the Government to meet the demands of the population in terms of public safety, the fight against poverty, education, health, housing and infrastructure investment. Also, a new tax structure will facilitate investment, economic growth and employment creation. Finally, it builds a fiscal base to face the reduction in oil revenues that is anticipated in the medium term, providing a stronger footing to public finances in the three levels of government.

The set of initiatives of the comprehensive Reform of Public Finances incorporates proposals from social groups, state and municipal governments, political parties, academics and specialists and from the National Fiscal Convention. The proposals were received through the Popular Consultation Forums, meetings with representatives of states and municipalities, political parties, social groups and specialists during the discussions for the National Development Plan, as well as from other sources including the proposals presented independently by the different political parties.

The set of initiatives can be grouped into four pillars in order to consolidate a modern and competitive system for public finances:

1. To improve the tax administration in order to facilitate the tax compliance and to fight tax evasion and elusion with more effectiveness.
2. To establish an institutional structure that guarantees more efficient and transparent spending at the three levels of government.
3. To redefine fiscal federalism, providing the states and municipalities with better tools and incentives to meet the needs of local governments and to establish a relationship of co-responsibility between the three levels of government.

4. To set the foundations for a tax system that allows the substitution of oil revenues with more stable sources of income, using neutral schemes that promote investment, growth and job creation.

Tax Administration: To Facilitate Tax Compliance and to Fight Tax Evasion and Elusion

Among the principal causes of evasion are the difficulties to comply with fiscal obligations and the perception of low risk in case of non-compliance. In that sense, the strategy will be based on two fronts: facilitating voluntary compliance, and fighting evasion, smuggling and informality. In the medium term this strategy will yield additional resources for Ps.100 billion (1.1% of GDP).

The proposal considers legislative changes that will be complemented with administrative measures. Amongst the main proposals, the following stand out:

- To facilitate compliance by individuals and micro, small and medium size firms (MIPYMES) with their fiscal obligations. Rules will be set with the objective of developing new mechanisms that simplify the management, control and form of payment and the procedures to make contributions. Among these, it is worth highlighting the establishment of a personalized tax portal for individuals and MIPYMES. The portal will allow them to keep control and reception of their income, their spending and investments, therefore making their monthly and annual tax payments easier.

- The personal income tax and the fiscal subsidy are to be integrated into a single rate. The proposal reduces considerably the current complexity in determining the fiscal subsidy for each business. Because this is a simplification measure, it would not lead to additional revenues.

- To fight informality and evasion through a Tax on Informality and measures for fiscalization. The Tax on Informality constitutes a control device, which makes it easier to identify individuals and firms that obtain incomes that are not declared to the fiscal authority. A tax of 2% will be applied on cash deposits that exceed the cumulative amount of Ps. 20,000.00 in a month. It will be withheld by the financial institution, and the taxpayer will deduct it against the income tax on their monthly or annual tax statement.

  In addition, with the purpose of auditing the individuals not registered in the Federal Taxpayer Registry (RFC), the deposits that, summed across all individual bank accounts, are higher than 1 million pesos during the fiscal year will be considered income. This will only happen when the individual is not registered in the RFC or is not required to keep accounting records.

- Among other measures, in order to strengthen the auditing and control processes the following are put forward:
    - Better control of tax rebates, through a higher probability of verifying rebate claims providing a differentiated treatment to those under high risk parameters:
    - Promoting an extensive use of the Electronic Signature (FIEL) by requiring that tax rebates above Ps.10,000 are processed through electronic means;
    - Incorporating schemes for greater legal responsibility for managers, accountants and advisors;
    - Avoiding unfair procedures associated with the submission and verification of information related to audits, highlighting that the information and documents that are relevant for the accounting and were not presented during the revision, but which the taxpayers were required to keep in their fiscal addresses, can not be presented in further procedures. Additionally, the fiscal authority will have additional time for the verification of information that the taxpayer presents at the end of the auditing process.

Public Spending: Result-Oriented, Transparent, Effective and Austere

The comprehensive Reform of Public Finances incorporates institutional measures to promote austerity in public spending, to ensure the efficient and result-oriented use of resources, and to strengthen transparency and accountability.

The proposals to promote austerity, improve resource allocation and ensure efficient public spending are the following:

- Creating the National Council for the Evaluation of Public Policies. For this, the National Council of Social Development Policy Evaluation (CONEVAL) will be reformed, expanding its scope in order to be able to evaluate all the policies and public programs of the Federal Public Administration. The results of the evaluations will be made public through the electronic media, the Federation's Official Gazette and in the Quarterly Reports on Public Finances and Public Debt that are sent to Congress. The results will be considered to make decisions in the programming and budget processes for subsequent years. The Council will essentially maintain the structure with which it currently evaluates social programs as well as its administrative nature of a decentralized public organism with technical and management autonomy.

- Evaluating federalized spending (federal contributions Ramo 33 and reallocated spending) and federal entities' subsidies according to the achievement of results and the attainment of proposed goals. In this way, federalized spending, which represents more than 50% of programmable expenditures, will be subject to evaluations. In order to respect the local governments' autonomy, the evaluation of federalized spending will be carried out by local independent institutions, and the state and municipal governments can set agreements with the National Council for the Evaluation of Public Policies to facilitate the evaluations and to provide technical assistance to implement evaluation systems at the local level.

In order to provide greater certainty to public infrastructure investment, reduce costs and improve allocation of resources, the following are proposed:

- Strengthening the procedures for determining investment priorities in the Expenditures Budget. For that purpose, it will be mandatory for the authority to develop an investment plan for the short, medium and long-term, ranking projects according to socio-economic returns, including considerations of their impact on poverty, regional development and the degree to which it relates with other programs and investment projects. The Inter-Secretarial Spending-Financing Commission will be responsible for the analysis and ranking of all the projects in the Public Federal Administration in order to include them in the corresponding Federal Expenditures Budget proposal.
- Establishing multi-annual budgets for investment projects in infrastructure. With this measure, more certainty will be provided to public investment and the financial cost of projects will be reduced.

In order to improve the quality of spending, transparency, accountability and the efficient use of public resources, the evaluation made by the National Council for the Evaluation of Public Policies will be complemented with other actions related to the dates for publishing information, with the attributions of the Superior Audit of the Federation and with governmental accounting. The proposed measures are:

- Adjusting the dates for publishing the Public Account and the Report of Results of the Superior Audit of the Federation with the purpose of providing the results to society in a more timely fashion. The Public Account will be presented earlier to Congress, in April 30 instead of June 10 of the following fiscal year. The Report of Results of the Superior Audit of the Federation will be published on December 30 of the same year instead of March 31 of the year following the publication of the Public Account.

- Strengthening the Superior Audit of the Federation by allowing it to: (i) directly audit the states on the use of federal resources, (ii) review, in case of performance auditing, the information of the Public Account for earlier years; (iii) provide recommendations about the use of resources and the compliance with results, and (iv) provide more legal certainty to the fiscalization process, among other changes.
- Homogenizing government accounting across the three levels of government. In order to obtain precise and homogeneous information on public finances at a national level, the proposal seeks to empower Congress to approve laws on government accounting for the three levels of government, complementing the actual ability it has for approving laws on that matter for the Federal Government.

Federalism: Towards a New Fiscal Pact

The federalism component of the Reform attempts to meet the need for resources by States and Municipalities by putting forward new fiscal capabilities and improving incentives associated to the allocation of federal transfers. With this, the proposal redefines the federal pact, establishing a higher degree of co-responsibility between the three levels of government.

The new fiscal capabilities should be easy to manage and sub-national governments should have advantages in terms of their collection. Therefore, the proposal allows federal entities to establish a specific tax to the final sales of goods that already have a federal excise tax (IEPS). The Reform also establishes that municipalities participate with at least 20% of the tax collection, and that at least 50% of the tax receipts be allocated to investment in infrastructure and public safety. Additionally, the reform introduces the possibility of substituting the vehicle property tax in the medium-term for a state-level tax.

The new chapter of fiscal federalism should foster economic activity and create incentives for the collection of federal participations. At the same time, the Reform intends to strengthen and redistributive components of the federal pact through shareable revenues. In order to attain this, the following is proposed:

1. Modifying the formulae and schemes of participations distribution to reward economic activity and collection efforts.
    - General Participations Fund. Currently 45.17% of the fund is distributed according to the population, 45.17% is distributed according to the collection of certain taxes, and the remaining 9.66% according to a factor compensating for the two previous factors. The Reform proposes to fix the distribution by entity at their levels in 2007 and to allocate the increases in shareable revenue according to the growth of the entities' GDP (60%), to increases in local tax collection (30%) and to the level of local tax collection (10%).
    - Fiscalization of Federal Entities Fund. The fiscalization efforts of the federal entities have not been successful mainly due to their high cost and low profitability. Therefore, based on the current Rights Coordination Fund, the Reform proposes a new Fiscalization Fund for Federal Entities that rewards with a higher amount of participations the fiscalization efforts that currently do not yield any economic benefits to entities. The issues that are targeted are: (i) the reduction of taxpayer's fiscal loses; (ii) the elimination of inadmissible deductions in tax declarations; (iii) the autocorrection and liquidation actions derived from audits; (iv) the reduction in smuggling, and (v) the registration and control of taxpayers.
    - Municipal Fostering Fund. The Reform guarantees the current allocation of resources and distributes the increase in the fund derived from future increases in the shareable revenue with the same variables that are currently used, but with a new formula structure, providing better incentives for local tax collection.
2. Modify the rules of some of the shareable revenue funds in order to achieve more fair federal transfers, rewarding improvements in terms of the efficiency of expenditure and the transparency in local public finances, and to better reflect the local needs.

- Shareable Revenue Fund for the Strengthening of Federal Entities. The allocation of resources is guaranteed at the level awarded in 2007, and increases in shareable revenue will be allocated inversely to the GDP per capita level of the entities.
- Shareable Revenue Fund for Basic and Normal Education. The current amount of the transfers is preserved for each entity, and increases in the Fund will be allocated according to the number of students enrolled in

the public schools of the entity and to an index that measures the quality of the education provided.

Tax System: Equity, competitiveness and alternative sources of revenue

The objective is to strengthen public finances and to be able to meet the Country's spending needs through a fairer tax structure that promotes competitiveness, favors job creation and minimizes distortions. For that purpose, three tax measures are proposed which will generate additional resources for 1.8% of GDP in the next two years:

1. Establishing a Unique Rate Contribution by Firms (CETU in Spanish).
2. Establishing an excise tax (IEPS in Spanish) on gambling and lotteries.
3. Establishing an excise tax on spray paint.

Unique Rate Contribution by Firms

The Unique Rate Contribution by Firms is a direct tax paid by the firm and is equivalent to a flat tax of 19% on the firms' revenues from the sale of goods, the provision of services and the temporary grant for the use of goods. Before applying the tax to the revenues, capital spending will be deducted, including machinery, equipment, land and constructions, inventories and expenditures related to the acquisition of goods, independent services or the temporary use of goods that the taxpayers use for their income-generating activities.

The contribution will act as a control tax for the Income Tax. It will be compared to the firms Income Tax and the Income Tax withheld by the firm from third parties, and the highest of the two will be paid. In that sense, the CETU substitutes the Asset Tax. However, as opposed to the Asset tax, the CETU is a neutral tax that does not negatively distort the investment decisions of firms. Amongst the main benefits are:

- It is a minimum general tax. It will be applied avoiding the exceptions that have distorted the tax system.
- It does not affect the so-called "captive" taxpayers that already have a considerable tax burden. Since it is a minimum tax, the contribution will not affect those who currently have a higher burden.

- Simplicity. The tax calculation is simple and consists only in applying the unique rate to the difference of the revenues of the firm minus the inputs and investment.
- It fosters investment and productivity. The deductibility of investment will strengthen the incentives to increase the stock of capital of the firms, and therefore, the productivity of labor.
- It promotes job creation. Higher investment will lead to a higher level of employment.

Firms and individuals with entrepreneurial activities residing in the national territory, as well as permanent establishments in Mexico owned by foreign residents, will be subject to this tax. The CETU will be calculated by fiscal periods and is compared to the income tax during that period plus the income tax withheld from third parties during the same period; the highest of these two is paid.

In order to allow firms to experience an orderly adjustment to the CETU, a transition scheme of 2 years is proposed. Therefore, the tax rate will be 16% during the 2008 fiscal year, and 19% from 2009 onwards.

This tax will be complemented by an employment credit applicable to the CETU in order to protect employment and wage levels. The credit amount will be higher for low income workers and is given as a complement to the current employment credit that transforms into an employment subsidy.

Provisional monthly payments in the same dates as the Income Tax will be mandatory. The revenues subject to the tax and the authorized deductions will be considered for the period from the first day until the last day of the month that corresponds to the payment, and a tax rate of 19% will be applied to the difference.

Excise Taxes on Gambling

An excise tax of 20% will apply to gambling and gaming fees. If an equivalent local tax is currently in place, this tax could be credited against the federal excise tax for up to a maximum of the local tax corresponding to a rate of 4%. Crediting the local tax to the federal excise tax partially eliminates fiscal competition.

The revenues obtained from this excise tax will be distributed amongst the States and Municipalities according to the General Participations Fund. Therefore this tax entails additional resources for federal entities without affecting the revenues currently obtained by states that already tax this revenue source.

Excise Tax on Spray Paint

The reform establishes an excise tax on sales and imports of spray paint with a tax rate of 50% in order to depress the graffiti practices on public and private buildings, in some cases historical landmarks, offices, factories, private houses and public and private means of transportation.

Final Remarks

The Fiscal Reform's objective is to guarantee the continuation of spending in social and economic development, as well as to face the volatility and eventual decrease of oil related revenues by establishing alternative sources of public revenues which do not cause distortions in the economy. Higher public expenditures must include institutional methods that ensure their efficient use, reinforcing accountability and transparency. Responsible taxpayers must be provided with easy ways to pay their taxes at the lowest cost possible. Additionally, the public demand for an equal payment of taxes by all those who should contribute must be satisfied. Finally, the fiscal relation between the Federal Government, States and Municipalities must be reviewed and should be based on shared responsibility, the efficient use of resources, and accountability.

The reform package is expected to increase revenues by around 1 and 2 percentage points of GDP for Federal Entities and the Federal Government, respectively. This will permit a higher allocation of resources to social and economic development, including poverty alleviation, education services and health, access to housing, regional development and investment in infrastructure.

Revenue Increases
(% of GDP)

	2008	2009	2010	2011	2012
Revenue Sources					
Federal Government	1.5	2.2	2.4	2.6	2.8
CETU	1.3	1.8	1.8	1.8	1.8
Efficiency Gains in Collection	0.2	0.4	0.6	0.8	1.0
Total Revenue Increase	**1.5**	**2.2**	**2.4**	**2.6**	**2.8**
Revenue Assignement					
Federal Government	1.0	1.5	1.6	1.8	1.9
Federal Entities	0.5	0.7	0.8	0.8	0.9
Participations	0.4	0.6	0.6	0.7	0.7
Sharable Revenue	0.1	0.1	0.2	0.2	0.2

The Fiscal Reform constitutes a first step towards facing the challenges that will arise in the next two decades, when the easily exploitable oil reserves are expected to be exhausted. The scope of the reform required entails a gradual process that would allow the Mexican economy to adjust to a new tax and institutional structure.

The reform package is one component of the current Administration's complete strategy as was stated in the National Development Plan. When complemented by other actions included in the Plan, the opportunity will arise to drive our country towards a more prosperous future with a better outlook for future generations.