

Tax issues that matter for microentrepreneurs in Mexico

Asuntos fiscales que importan para los microempresarios en México

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Abstract

The situation of the environment of microenterprises in Mexico and in the south of Tamaulipas is presented. A field investigation was carried out with 64 microentrepreneurs in the area to find out their updating in the management of ICTs and their training needs. The goal is to make a proposal that supports microbusinesses for the benefit of the family economy and its community. The main findings show that 74% have a family business, 29% have a miscellaneous business, and 70% always or almost always plan their work. The maximum educational level: 41% higher education, and 39% high school. 41% use ICT for business processes, although only 29% to promote it. 44% are trained and 56% request training. A training proposal on tax issues is included to support its regularization, which comprises optional legal entities, current tax regimes and some of their obligations, the digital media used and the characteristics of the CFDI, to conclude with the differences in obligations. taxes according to the volume of their sales.

Microenterprises, Tax regimes, Entities, Obligations

Resumen

Se presenta la situación del entorno de las microempresas en México y en el sur de Tamaulipas. Se realizó una investigación de campo con 64 microempresarios de la zona para conocer su actualización en el manejo de las Tic y sus necesidades de capacitación. El objetivo final es realizar una propuesta que apoye a los micronegocios en beneficio de la economía familiar y de su comunidad. Los principales hallazgos muestran que 74% tienen una empresa familiar, 29% tiene una miscelánea, y 70% planifica siempre o casi siempre su trabajo. El nivel educativo máximo: 41% educación superior, y 39% bachillerato. 41% utilizan las Tic para los procesos del negocio, aunque solamente 29% para promoverlo. 44% se capacitan y 56% solicitan capacitación. Se incluye una propuesta de capacitación en temas fiscales para apoyar su regularización, que comprende las personas jurídicas opcionales, los regímenes fiscales vigentes y algunas de sus obligaciones, los medios digitales utilizados y en particular las características del CFDI, para concluir con las diferencias en obligaciones fiscales de acuerdo con el volumen de sus ventas.

Microempresarios, Regímenes fiscales, Entidades, Obligaciones

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Introduction

The general population requires information to make the most appropriate decisions for their needs. Business owners or managers can perform better and make their work more efficient if they have tools to organize their activities.

In Mexico, the Ministry of Economy has categorized companies according to their size, which includes the number of employed persons and the amount of their annual sales, but also by their economic activity, associated with the North American Industrial Classification System 2013 (Dini & Stumpo, 2020).

This stratification is used by the INEGI - National Institute of Statistics and Geography of Mexico in its instruments such as the National Survey on Productivity and Competitiveness of Micro, Small and Medium Enterprises called ENAPROCE, and the economic censuses. According to the indicators, microenterprises have between 0 and 10 employed people, and up to four million pesos in annual sales (INEGI, 2021).

The sectors of economic activity stratified by INEGI are: manufacturing, commerce, private non-financial services - such as information in the mass media, real estate services and rental of goods, professional and corporate services, business support, waste management, remediation services, educational services, health and social assistance services, cultural and sports recreation services, temporary accommodation services and restaurants, and other services except government activities- and other economic activities -related to fishing and aquaculture, transportation, construction and financial services (*idem*).

The 2019 economic census in Mexico showed that micro, small and medium-sized establishments (MSMEs) represented 93.6% of the total economic units in the private and parastatal sector and employed 43.3% of the staff (*loc. cit.*). Of this universe, 97.5% are micro-businesses, while small businesses represent 2.4% of the total and medium-sized ones 0.1%.

If the economic activity of MSMEs is considered, 46.4% of the total corresponded to commerce, 40.6% to private non-financial services, 12.4% to manufacturing, and 0.6% to other economic activities (*loc. cit.*).

As can be seen, commercial activity is preponderant in microenterprises, especially because it is an accessible alternative for almost any type of person, including socioeconomic level.

In the state of Tamaulipas, 2.27% of the MSMEs establishments in the country are located, with 2.34% of the employed personnel throughout the country, during 2018 (*ibidem*). Tamaulipas occupies the 10th place, of the 32 states, in the Gross Domestic Product per capita of the country, with \$190,954, and in its growth.

While, the state of Tamaulipas is in the 14th position of the average income of full-time workers with \$7,859, and in the 13th position of people with income below the welfare line with 0.99% of the employed population. ; however, it is located in position number 8 with 28%, in terms of people with incomes higher than the state average with respect to the employed population.

Tamaulipas state ranks 25th in the country with 2% of the economically active population receiving job training (IMCO, 2021a). A position that is not consistent with the importance of its GDP within the country.

In particular, the metropolitan area of Tampico, Ciudad Madero and Altamira, Tamaulipas, together with the Veracruz municipalities of Panuco and Pueblo Viejo, have a population located in the range of 500 thousand to one million inhabitants, it is in position 14 of 25 of the 2021 Urban Competitiveness Index of the Mexican Institute for Competitiveness (IMCO, 2021b).

This economic zone in the south of Tamaulipas is in position 19 of the 69 analyzed, in terms of people below the well-being line of the economically active population -PEA- with 13.5%; the monthly wage for full-time workers is \$7,941, ranking 34th, but above the state average (*ibidem*).

Likewise, this metropolitan area of southern Tamaulipas and Northern Veracruz municipalities presents 47.5% of its population employed in informal labor conditions, which is why it is in position 42 of the 69 analyzed; while 22.5% of the employed population has no income, which brings the area to position 27 out of 69 (IMCO, 2021b).

Regarding technological access, 93.3% of households have mobile telephone lines - position 28 of 69- but only 36.3% of households have a computer and internet -position 40 of 69 (*idem*).

The foregoing allows us to visualize a dynamic, heterogeneous, but competitive area, since in some areas it is in a medium-high position and very few elements are in a low circumstance, such as the gender gap in the labor force and wage inequality in the same sense - which is why it occupies positions 60 and 64, respectively, out of 69 (*ibidem*). In this context, retail trade is one of the most common activities in this geographical area of southern Tamaulipas.

The objective of this work is to identify the training requirements of micro-entrepreneurs in this southern area of Tamaulipas and to make a training proposal on basic tax matters. It is proposed to design a broader program that offers this sector of the economy an accessible administrative training alternative to boost its activity.

This proposal has a social benefit on the sector of microentrepreneurs located in the urban area of southern Tamaulipas. Assist in the development and improvement of management practices in their businesses, which would result in greater economic benefits for them, their families, and the community in general in the region.

This document presents the context in which the work was carried out, both nationally and regionally. Next, the methodology of the field research carried out to obtain the information is described. In the following section you can read the main findings that are associated with the theme that is presented. Subsequently, the basic content of the training that will be carried out with the microentrepreneurs is stated, and at the end some of the conclusions that come from what is presented.

Taxes in Mexico

The ideology of taxes in Mexico has endless nuances, among which stands out the collective fear on the part of society of the Tax Administration Service -SAT-, the highest tax authority responsible for tax collection in Mexico, a machine that has been perfecting since its founding in 1995.

Popular beliefs about taxes in Mexico revolve around these phrases: *The first year of your business you do not pay taxes; That's why all in cash; If I don't sign up, the SAT doesn't know I exist; and do not give an invoice, so you pay less taxes.* These comments are derived from ignorance of the law and the refusal to pay taxes, which contributes to the low growth of microenterprises and, in the worst scenario, to their failure.

It is essential for everyone, and for those microentrepreneurs, to know terms such as tax discrepancy, to know that there is an Anti-Money Laundering Law, as well as to be aware of the collaboration agreements between banking institutions and the SAT, to promote a tax culture in Mexico.

For example, article 31, section IV, of the Political Constitution of the United Mexican States establishes, as an obligation of Mexicans, to contribute to public expenses (Chamber of Deputies, 2021). According to tax experts from the Organization for Economic Cooperation and Development, the Economic Commission for Latin America, and the Caribbean, as well as the Inter-American Development Bank, in 2021 tax evasion in Mexico reached a total of 1.4 trillion pesos, which represents 4% of the country's Gross Domestic Product (Morales, 2021). Although other sources claim that it is 6% of GDP (Forbes Staff, 2021).

In Mexico, an employee can pay up to 35% of Income Tax, commercial companies 30%, and other taxpayers whose tax regimes are as varied as their activities. Most of them are individuals usually known as Micro, Small and Medium Enterprises -MSMEs- with tax rates ranging from 1% to 30% of their income.

MSMEs, mainly, have difficulties in meeting their tax obligations. One of the situations they face is the lack of advice, coupled with the constant changes in legislation, as can be seen since 1998.

Mexican small taxpayers seem to have to modify their regime every 10 years, since when reviewing the changes in the last decades they started in the Small Taxpayers Regime. However, by 2013 they were automatically changed to the Fiscal Incorporation Regime by the authority (Senate of the Republic, 2014), and again in 2022 to what is now known as the Simplified Trust Regime (SAT, 2022). Each of these changes made the obligations to be fulfilled more and more hardening.

Another part of the success of businesses are the employees, who provide their services in a subordinate manner in an exchange of work for remuneration and which is usually accompanied by certain benefits, among which social security stands out. Which is part of the obligation of the entrepreneur.

Methodology

This work began with the application of a questionnaire designed and validated to identify the profile of microentrepreneurs in the southern zone of Tamaulipas, which includes the municipalities of Tampico, Ciudad Madero, and Altamira. The population includes retail trade establishments, which have 0 to 5 employed persons.

From this universe, the lines of business that did not imply risks to the personal safety of the applicators, as well as the safe areas, were selected. The application began electronically, then by telephone and finally, in most cases, the microentrepreneurs had to be personally interviewed. The application period was three months from 2021, still in the period of the Covid-19 pandemic. Responses were obtained from 64 people.

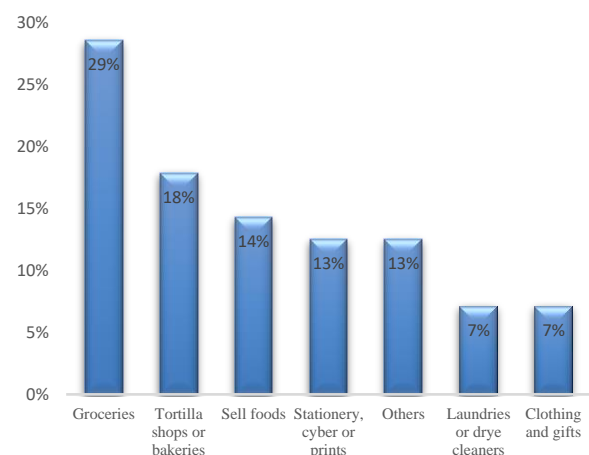
The Survey on competitiveness strategies for microbusinesses of Meléndez and Sotalero (*apud* Alonso Olivares, 2020) was used as a base instrument, which was adequately validated to apply it in the context to be investigated. The semantics and scope of the instrument were reviewed by a panel of five experts. After making the recommended modifications, it was captured in the *Google Forms* application to continue the process. Subsequently, it was applied to five micro-entrepreneurs who do not belong to the chosen sample, to validate the interpretation and receive comments.

Indicators were included in this instrument to recognize the competitiveness strategy of microentrepreneurs, as well as their training needs. From which the proposal presented in this document has been raised.

Findings

The sample surveyed is made up of 54% women and 45% men. 55% stated that they were married, and 74% stated that their business is family. The highest educational level of microentrepreneurs: 41% undergraduate or postgraduate, 39% high school or truncated career, 17% secondary and 2% primary.

The line of microbusinesses was very diverse, as shown in Graph 1. The most frequent: 29% grocery stores, 18% tortilla shops or bakeries, 14% places that sell food, 13% stationery stores or computer services and printing, 7% from laundries or dry cleaners and another 7% from clothing and gifts. The 13% of others include candy stores, glass stores, aesthetics, or sales of plants.



Graphic 1 Line of microbusinesses

Source: Own elaboration

Of all the microentrepreneurs surveyed, 70% always or almost always plan their activities. 44% had received training for themselves or their employees, while 56% requested training for the business.

Regarding the use of ICT information and communication technologies, 41% of micro-entrepreneurs use them for some part of their processes -the sale itself, contact with customers and suppliers, billing, competition review, among others. others- either with technological equipment, email, social networks, or with applications for various uses. While the internet is used by 29% for business promotion, even empirically with their social networks such as *Facebook* and *WhatsApp*.

Therefore, it is not surprising that when asked about specific training needs, digital advertising strategies were the most frequent.

Finally, it must be said that matters related to the tax situation were not properly included in the questionnaires, to avoid refusal to answer questions about the business. Perhaps including the informality of some of them, which then becomes a very delicate subject.

Conversely, in the open questions and in subsequent surveys it has been confirmed that the fiscal situation is an issue that worries the vast majority and is reason enough to include it in the training proposal.

Proposal

To meet the need for information, training, and advice for microentrepreneurs in Mexico, in their tax obligations, a basic proposal was generated, aimed mainly at those who are in the process of starting their business, and for those who do not have it regularized. altogether.

This proposal is organized as follows: 1) it identifies what type of people are the ones that must pay taxes, 2) it is oriented on the tax regime that corresponds to them according to their activities, and 3) it is oriented on their tax obligations according to the above.

Due to the natural aversion to the issue of tax burdens, it is important to highlight that to work with micro-entrepreneurs, colloquial language should be used that allows easy understanding, regardless of their level of education.

Legal person

It is necessary to define the way in which commercial actions are carried out or are going to be carried out. This decision is essential because of the consequences it has on tax treatment, so it should not be taken lightly. In this sense, the microentrepreneur would have to decide to do it based on two alternatives:

- A. Natural person. Individual, member of a community with rights and obligations, determined by a legal system (SAT, s.f.).
- B. Moral person. Group of natural persons who come together for the realization of a collective purpose. They are entities created by law, they do not have a material or bodily reality, however, the law grants them legal capacity to have rights and obligations (*idem*) once their constitutive act has been registered in the Public Registry of Commerce and their Acts are performed through a legal representative.

In addition to the above, it is essential to specify the fiscal domicile in which the commercial acts are carried out, as well as the commercial assets with which it is counted. For a natural person it is difficult to separate these two elements of the commercial and the personal.

In the case of the legal person, it is possible to protect the personal patrimony of the microentrepreneurs, by they will only respond for the patrimony contributed by the members of the legal person or shareholders. The fiscal domicile will be that of the moral person and does not expose the domicile of the partners.

Regarding legal persons, the General Law of Mercantile Companies recognizes seven types of companies, which must be formalized before a notary public and constituted with two or more partners. The foregoing except for the Simplified Stock Company -SAS- which is constituted with one or more natural persons through the website of the Ministry of Economy (2022).

Tax Regime

Below is a brief description of the main tax regimes in force in Mexico in 2022. About them, it should be considered that a natural person can carry out more than two activities, as is the case of people who have a salaried job, but also have a business. any other type.

It is important that the natural person separates his personal expenses from the expenses of the enterprise, since in each of these activities annual declarations are presented independently, such as those of Income Tax -ISR- and Value Added Tax -VAT.

- A. Wages and salaries. Employees are people hired by one or more employers, known as employers, who assign them a series of activities during their workday, pay them a periodic amount of money, and grant them certain benefits. The ISR rate is progressive according to income until it reaches 35%. If the employee has another type of income, the tax must be calculated separately.
- B. Assimilated and salaries. They are natural persons who provide professional services to a company on a sporadic or temporary basis, for which reason they do not receive the legal benefits. The ISR rate is like the previous case.
- C. Fees. People who provide services in a professional manner while being independent from companies, for which it is necessary to have a professional title. The ISR rate is 10% and is retained by the contracting party, as well as two thirds of the total VAT, its maximum ISR rate is 35%.
- D. Business activities. People who carry out commercial, industrial, agricultural, motor transport, fishing, livestock, or forestry activities. The maximum ISR rate is 35%.
- E. Leasing of real estate. People who obtain income from renting or renting real estate of the commercial type or houseroom. The ISR rate is 35% maximum.

- F. Simplified Trust Regime or RESICO. Natural person whose annual income does not exceed 3.5 million pesos and perform one or more of the activities. This regime is focused on MSMEs and its ISR rate varies from 1% to 2.5% of total income, but deductions are not considered. The moral person can also be taxed under this regime, if it is constituted solely by natural persons, whose total income does not exceed the amount of 35 million pesos and performs one or more of the activities. Its ISR rate is 30% and deductions are authorized.
- G. Digital Platforms. Natural person with business activity that disposes of goods, provides services, or grants the temporary use or enjoyment of goods through the internet, through technological platforms (SAT, 2021). Provides the option of definitive ISR payments that are retained by the electronic application itself or made personally.

Digital media for tax purposes

The extensive use of technology led to a digital change for tax activities. The SAT improved its service in 2004 with the use of the Advanced Electronic Signature -FIEL- for users. With it, most of the procedures are carried out virtually and face-to-face appointments are avoided in the service modules that imply time and more personnel (PRODECON, 2020). But other resources that are used as means for the operation of the tax system were also enabled. The main ones are described below.

- A. FIEL. Tool that allows you to generate electronic or digital signatures that have the same validity as a handwritten signature. When the procedure to obtain it is carried out, people are given two digital files with *.key* and *.cer* endings in a storage device.
- B. Tax mailbox. It is the means of digital contact by which direct communication is maintained between the taxpayer and the authority.
- C. Digital Seal Certificate. Digital file issued by the SAT that contains all the data of the taxpayer -individual or legal entity- and is used to prepare digital tax receipts over the Internet, called CFI.

CFDI

CFDIs are vouchers of various types required for the development of guaranteed economic activities, which allows to give certainty about those who do not issue invoices (SAT, 2017). According to the size of the business, the CFDI that must be prepared are:

- A. Proof of income. They are issued for the income that taxpayers obtain by any means of payment and are generally known as invoices.
- B. Proof of discharge. It covers the outflow of money from the company such as returns, bonuses and discounts, which are considered as credit notes for accounting purposes.
- C. Proof of transfer. Formerly known as a transport letter, it is a document where every one of the merchandises that is going to be transported is declared. If they do not have them, the merchandise can be considered as contraband.
- D. Payroll stub. It is used as proof or receipt of payment for the purposes of labor legislation and as proof of deduction of the expense made as an employer.
- E. Receipt of payment receipt. It is prepared when the payment of the CFDI of income is received, issued as payment in installments or deferred.

Monthly Sales Volume

The success of a company is due in large part to sales, which is why it is important to identify and set the value of the merchandise and services that are offered. It should be considered that all income must be invoiced in a good administration, regardless of tax issues.

This measurement allows to determine if the business is profitable. A classification is made according to the monthly income of the micro-businesses:

- A. Up to \$15,000. In this case, the banks do not have the obligation to report to the SAT, this does not exempt them from paying taxes.
- B. More than \$15,000. Banks have the obligation to report to the SAT, in accordance with the Federal Law for the Prevention and Identification of Operations with Resources of Illicit Origin. Therefore, the SAT will have the power to determine tax credits.
- C. Up to \$291,000. This is the maximum amount for a natural person to remain RESICO.
- D. More than \$291,000 In this case, electronic accounting must be carried out, the Informative Statements of Operations with Third Parties, and, as they usually have employees, they must also comply with labor obligations. These fiscal and state obligations include: the payment of worker-employer social security contributions -Mexican Institute of Social Security, IMSS, and the Institute of the National Fund for Workers' Housing, INFONAVIT-, payroll tax, integer withholdings of ISR of salaries, CFDI of payrolls, among others.

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Conclusions

Microbusinesses occupy a wide spectrum of the economy of Mexico and many countries. The characteristics of the microentrepreneurs and their competencies in administrative, technological, and fiscal aspects are very important to strengthen the smallest links in the production chains.

In this sense, in this work a proposal has been made to update and train people in charge of Mexican micro-enterprises on the fiscal issues that they must consider. Decision-making by microentrepreneurs will then be carried out with greater certainty and their growth will be consistent with the professionalization of their activities. Here an effort has been made to collaborate with it.

Above all, given the level of informality in Mexico and the efforts of the SAT to regularize it, it is important that the strategy should also be supported by public higher education institutions or by professional organizations in their social work.

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