

Towards a true tax reform: Proposal to reactivate the economy. Towards real tax reform: Proposal to revive the economy**Hacia una verdadera reforma fiscal: Propuesta para reactivar la economía. Towards real tax reform: Proposal to revive the economy**

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Abstract

Every one that proposes and publishes a tax reform renews the hope of good news or at least that the situation does not worsen, this year 2020 did not happen, which is not new. The current government promised not to raise taxes, which is also new. While it is true that the Federation Revenue Law for FY 2020 does not provide for the increase in tax rates, it does show the eventual creation of new contributions, a situation that has gone unnoticed by the majority of the population, moreover, of the fervent followers of the person now holding the Presidency of the Republic. Thus, this reform tightens the audit but does not encourage job creation or the preservation of existing ones; 2019 ended without economic growth and that does not seem to matter to this regime, indolent of an economic crisis in the wake of today's pandemic. That is why the proposals for improvement must come from individuals, from the civil society which, though belittled by authority, must take the baton, now distracted and empty; the gravity of the situation deserves it, it claims.

Law, Consumption, Economy**Resumen**

Cada que se propone y se publica una reforma fiscal se renueva la esperanza de buenas noticias o al menos que la situación no empeore, este año 2020 no ocurrió, lo cual no es novedad. El gobierno actual prometió no aumentar impuestos, cosa que tampoco es nueva. Si bien es cierto que La Ley de Ingresos de la Federación para el ejercicio fiscal 2020, no contempla el incremento de tasas impositivas, sí deja ver la eventual creación de nuevas contribuciones, situación que ha pasado inadvertida por la mayoría de la población, más aun, de los fervientes seguidores de la persona que ahora ocupa la Presidencia de la República. Así, esta reforma endurece la fiscalización pero no incentiva la creación de empleos ni la conservación de los existentes; 2019 terminó sin crecimiento económico y eso parece no importar a este régimen, indolente de una crisis económica aderezada con la pandemia que se vive hoy en día. Es por ello que las propuestas de mejora deben venir de los particulares, de la sociedad civil que, aunque menospreciada por la autoridad, debe tomar la batuta, hoy distraída y vacía; la gravedad de la situación así lo amerita, lo reclama.

Ley, Consumo, Economía

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Introduction

Governments come and go, and with them, proposals that obey a country model that follows political rather than economic guidelines. Now, within this dynamic, the current six-year term faces three types of crisis: The economic one, which started the previous year, marked by a recession officially denied but which resulted in a growth of -0.1% during 2019 (Instituto Nacional de Statistics, Geography and Informatics, 2020) and that for this 2020, a debacle between 7 and 9% is predicted; that of public security, due to the fight for the dominions of organized crime; and, now, the utility, caused by the COVID-19 pandemic, whose government management, for a change, has given much to be desired.

This black panorama makes a tax reform that actually reactivates the economy more urgent than ever, far from political prejudices based on the fact that "all of the above was badly done", "it is the fault of neoliberal governments" and, even more, "that it's over, no more corruption", although this is implemented more in occurrences than in serious politics. The reality is that this government has been characterized, among other things, by punishing the business class and winning over the popular sector through handouts to ensure votes and thus the sinister permanence in power.

It is precisely this disdain for entrepreneurs that has aggravated the consequences of these crises, since it is they who create jobs, the engine of growth and consequently of economic development; and that they see in this government an insurmountable wall, instead of the support they require.

This work aims to expose what the Federation Income Law hides for 2020; the disparity in the tax burden of the different regimes for natural persons; the importance of wage earners in the national economy; the effectiveness that VAT has undoubtedly had in terms of collection level; the pending issue that exists with street vendors and the subject to the Tax Incorporation Regime, etc.

Finally, the proposal included in this material is exposed with the logic and fundamentals of economic science; in this neoliberal model that the government so much repudiates and that it intends to "abrogate" with decrees or political speeches, showing a deep ignorance and an evident attachment to the idea or project of a socialist Mexico.

1. Federation Income Law for fiscal year 2020

Revenue law of the federation for the fiscal year 2020 Chapter I On Revenue and Public Debt

Article 1. In the fiscal year of 2020, the Federation will receive the income from the concepts and in the amounts estimated in millions of pesos that are listed below:

Concept	Estimated Income
Total	6,107,732.4
1. Taxes	3,505,822.4
11. Income taxes:	1,852,852.3
01. Income tax	1,852,852.3
12. Wealth Tax	
13. Taxes on Production, Consumption and Transactions:	1,534,55.8
01. Value added tax	1,007,546.0
02. Special tax on production and services:	515,733.5
01. Automotive fuels	342,053.6
ces	313,321.0
01. Article 2. Fraction I, subsection D)	28,732.6
02. Article 2. TO	62,166.7
02. Drinks with alcoholic content and beer:	18,888.4
01. Alcoholic beverages	43,277.3
cas	43,679.4
02. Beers and soft drinks	2,968.8
tes	5,923.3
03. Wrought tobaccos	11.6
04. Games with bets and draws	28,660.5
05. Public telecommunications networks	23783.2
06. Energizing drinks	758.1
tes	5,729.3
07. Flavored drinks	10,776.3
you give	70,984.6
08. Non-basic foods with high caloric density	70,984.6
09. Pesticides	70,984.6
10. Fuel	0.0
fossil bles	
03. Car tax	
them new	41,210.2
14. Taxes on Foreign Trade	41,210.2
01. Taxes on foreign trade	6,850.3
01. To the import-	6,850.3
tion	0.0
02. To export-	-130.8

Table 1 Federation Income Law 2020, 2020

This extract from the 2020 Federation Income Law (LIF 2020) has been transcribed, corresponding to income from taxes, since this part contains interesting data, worthy of being analyzed:

- a) In numeral 12 appears "Taxes on Wealth", without any amount.
- b) In numeral 15 appears "Payroll and Assimilable Taxes", also without any amount.
- c) In numeral 16 appears "Ecological Taxes", without any amount, just like the previous ones.

What do these taxes refer to? Why, if it is not budgeted to collect a single peso of them, do they appear in the LIF 2020? Is it intended to establish them in the future? Is it one more betrayal of the current campaign promises government? It is definitely not about simple paranoia, there is a reason to be alert and expose that these are new taxes that will be implemented at any time during this six-year term.

In this regard, experts say the following:

It seems to be fully explored and fully proven that the Federal Revenue Law is the only instrument through which the Congress of the Union can exercise the power provided for in Article 73, section VII: "Congress has the power: to impose the contributions necessary to cover the budget ". (National Autonomous University of Mexico, 2018).

Indeed, said article 73 of the Magna Carta is the starting point for the analysis of this section.

There are several consequences derived from the previous idea, if it is true. For example, it will be resolved that if the aforementioned law is not approved, promulgated and published before the start of the fiscal year to which it will govern, it is not possible to apply the previous law, which is valid for one year. In this case there will be no tax collection, as the Constitution does not provide a solution to the case. Likewise, if the law was approved by the legislative chambers, but the promulgation and publication is delayed by the Federal Executive and, therefore, the validity begins after days of the fiscal year, in the period, whatever, included between the initiation of the fiscal year and that of the validity of the law, there may not be tax collection either. (National Autonomous University of Mexico, 2018).

In effect, following this reasoning, without LIF there is no tax collection, since it is the source that allows establishing which taxes will be in force during the year.

The annual nature of the law helps a lot to these ideas, as is unequivocally deduced from article 74 of the Constitution: "The following are exclusive powers of the Chamber of Deputies: IV. Approve the annual budget for expenses, first discussing the contributions that, in its opinion, should be decreed to cover it ". Nothing remains to be done if, within the ordinary legislative period that runs from September 19 to December 31 of the year (articles 65 and 66 of the Constitution), the Federal Revenue Law is not approved. (National Autonomous University of Mexico, 2018).

It is clearly stated then that this law is in force annually and that it must be approved within the ordinary legislative period.

Also a consequence of sustaining that idea is the tacit annual validity or tacit extended validity in which all the laws relating to each tax, right, product or use are inevitably placed, which the Income Law prevents as tax sources. It is categorically affirmed - by many authors - that the omission of a tax line in the Revenue Law prevents the application of the regulatory law of that line. For example, if income tax is not included in the Income Law, the Income Tax Law could not be applied by the Ministry of Finance and Public Credit, and the rule would have to be followed for all income. On the contrary, if none of the lines are omitted, the laws that regulate them will continue to apply. (National Autonomous University of Mexico, 2018).

This part of the aforementioned study, carried out by the Institute of Legal Research of the Maximum House of Studies, gives us light on this matter: All the contributions that appear in the LIF (without making a distinction regarding their amount or even lacking it) allow or "authorize" its validity and, with it, its collection.

So things seem as if each tax law can only be applied for one year, and the cause will be in the necessary annual inclusion in the repeated Income Law of the tax resource. Similarly, if the inclusion is made, it happens that the law suffers the curious phenomenon of receiving authorization to apply.

For all this, it is necessary that we change the expressions used in the previous paragraph with a little better precision, to underline this consequence. Instead of validity, the correct thing to do would be to say tacit annual positivity or tacit extended positivity. Indeed, if the aforementioned omission is incurred, the tax law is not repealed, it does not lose its formal validity. If the tax law is in force, a new income law includes the tax line that it regulates, its validity is not extended or renewed, but because of its continued positivity, its application is authorized for one more year. (National Autonomous University of Mexico, 2018).

In other words, according to this correction, what happens is that the tax law in question does not acquire or lose validity as such, but rather its application is extended; In other words, by being included in the LIF of a certain year, the collection provided for in said law is thus formalized. Which leads us to think, if each tax extends its collection each year, being included in the LIF, what happens with the mentioned taxes that do not have any amount but appear in the LIF? It is evident that they will not have collection because although they are there they do not have the corresponding law that regulates them, at least for this year 2020. What is the purpose of including them this year?

Let's review the following review:

It is believed that it is not an essential requirement that when a new tax is approved, it must necessarily appear in the Income Law for the fiscal year in which it will come into force, because the ordinance that establishes the new tax, upon being approved by Congress of the Union, it is a law of the same category as that and, furthermore, because the Constitution does not require that the Revenue Law necessarily consign the tax line of the new tax in order for it to be legally enforceable. The Revenue Law simply had its origin in the idea of saving time for the members of the Congress of the Union. (Margáin Manautou, 2007).

Mystery solved. The LIF for 2020 establishes three new taxes that will not necessarily start their collection (and in fact they do not) in 2020; however, as this prominent author comments, it is simply a matter of "saving time" and in the future, having them already considered.

Thus, it is expected that in this six-year term, without a doubt, these three contributions will be implemented, contradicting the rhetoric that of "there will be no increase in taxes and no new ones will be created."

2. Natural persons, the key

This work presents a proposal for tax reform, at least at the conceptual level; For this, it is necessary to start with a simple reflection on the role that the taxpayer plays, either as a natural person or as a legal entity, in tax collection.

For years, the legislator has tried to put padlocks and toughen control measures with dedication to legal entities; the income tax rate has been modified, deductions are limited, complex tax regimes have been created, etc .; however, tax evasion continued to persist. Thus, as has been commented on in multiple forums, the Ministry of Finance and Public Credit (SHCP), long before the creation of the Tax Administration Service (SAT), in June 1997, realized that inexplicably "there were companies (read moral persons) poor and entrepreneurs (read natural persons) rich "; In other words, legal entities declared tax losses year after year, while their shareholders went on vacation to Europe.

The tax authority, starting to do the task, then comes to the conclusion that it had missed the path, it is not the legal persons who must be watched, but the natural persons; and it is then that the fiscal discrepancy, the declaration of donations and loans, etc. appears in the LISR, thus directing all the artillery to this objective.

The reason has always been very simple, we individuals are the engine of economic development, legal entities are only a legal invention to associate and seek a goal. Under this premise, why not design a tax reform that has individuals as protagonists? But not imposing clumsy regimes such as the Regime of Tax Incorporation (RIF) or exercising fiscal harassment by pursuing the returns in zeros or forcing them to open the so-called tax mailbox; but a reform that in reality represents for them an easy compliance with tax laws, for the treasury itself an increase in collection, and, in addition, that reactivates the economy.

3. Employees, the main productive force in the country

Now that it has been explored who actually moves the country, it is necessary to distinguish which is the main activity of natural persons in Mexico; remember that, according to the LISR there are the following chapters within Title IV, namely:

- a) Income from wages and in general from the provision of a subordinate personal service.
- b) Income from business and professional activities.
- c) Income from leasing and in general from granting the temporary use or enjoyment of real estate.
- d) Income from the sale of assets.
- e) Income from the acquisition of goods.
- f) Interest income.
- g) Income from obtaining prizes
- h) Income from dividends and, in general, from profits distributed by legal entities.
- i) "Other income"

A wide range of activities can be seen, until ending with item i), which represents the "sack" that contains those that do not correspond to any of the previous items.

Let's review the most current figures available regarding the occupation of the Mexican population:

Position in occupation and gender	ENSO July 2020	ETOE 2020			ENO July 2019	Difference in percentage points with respect to: June 2020
		June	May	April		
United States of Mexico	100.0	100.0	100.0	100.0	100.0	
Subordinate and paid workers	68.0	70.9	72.3	74.9	67.9	-2.8
Employers	5.0	4.5	4.5	5.3	4.8	0.5
Free-lancers	22.3	20.4	19.0	17.9	22.6	1.9
Unpaid workers	4.7	4.3	4.2	1.9	4.7	0.4
Men	100.0	100.0	100.0	100.0	100.0	
Subordinate and paid workers	68.4	69.1	69.0	71.3	68.6	-0.7
Employers	6.3	5.2	6.2	7.5	6.2	1.1
Free-lancers	22.0	22.9	22.0	20.0	22.1	-0.8
Unpaid workers	3.3	2.8	2.8	1.2	3.1	0.4
Women	100.0	100.0	100.0	100.0	100.0	
Subordinate and paid workers	67.3	73.5	77.3	80.6	66.8	-6.2
Employers	2.8	3.4	2.0	1.8	2.6	-0.6
Free-lancers	22.8	16.6	14.5	14.5	23.4	6.2
Unpaid workers	7.1	6.5	6.3	3.1	7.3	0.6

Table 2

Source: INEGI (2020)

These figures, taken from the National Institute of Statistics and Geography, still known as INEGI (although more properly it could be "INEG") show the preponderance of subordinate and paid workers (salaried), with 68% as of July 2020, above of employers and own-account workers (who are located in the rest of the income contemplated by the LISR). (National Institute of Statistics and Geography, 2020).

This information, although the current federal government claims "to have other data", can well be corroborated by taking a look at what happens in daily life. Even those of us who are fortunate enough to have a profession, the first step out of college is to buy the newspaper (now consulting social networks), to look at the appropriate notice for some employment option. In second place, with 22.3% are self-employed workers (independent professionals and various trades); further still, with 5%, employers, those people who have created sources of employment, whose "entrepreneurial spirit" is threatened by public insecurity in the country, through the "collection of floor fees."

In this way, it can be concluded that we are a country of wage earners, whose income, mostly insufficient for basic needs, causes an income tax that is withheld by the employer, making us "captive clients" for the SAT, since this way he controls us without lifting a finger.

4. VAT, a tax that is here to stay

Let's review some interesting data about the origin of value added tax (VAT) in our country, a contribution that to date, ranks second in collection, only after income tax (ISR).

In Mexico, VAT is a contribution contained in the Law of Value Added Tax (LIVA), published in the Official Gazette of the Federation (DOF), on December 29, 1978, whose validity began on January 1, 1980. Said contribution replaces the tax determined based on the Mercantile Income Law and other existing legal regulations at that time. (Mexican Institute of Public Accountants, 2019).

To locate ourselves in time, we are talking about the government of José López Portillo; VAT is in force this year for 40 years.

Since its creation, the LIVA contemplated a generalized rate of 10%. However, for the alienation of goods, use or enjoyment and provision of independent services, performed by residents in the 20-kilometer border strip, the tax was calculated by applying the value of acts or activities established in said legislation, the rate of 6% . (Mexican Institute of Public Accountants, 2019).

The tax then starts with a rate of 10%; except in the northern border strip, where the 6% rate was applied. This indicates that the preferential conditions for taxpayers in said area are not new compared to the current stimulus that allows a rate of 8%. Could it be then that not everything was wrong in the past, as the President of the Republic says?

With the LIVA, all agricultural and livestock products that do not undergo industrial transformation, as well as meat, milk, eggs, dough, tortillas and bread, are released from paying the tax. (Mexican Institute of Public Accountants, 2019).

As it happens to date in the current article 2-A of the LIVA.

The LIVA does not tax the land or the constructions destined to dwelling houses, when they are sold or when they are a reason for leasing. Likewise, in order to deduct the agricultural and livestock activity, the machinery used for these purposes, the fertilizers and the services that are provided for these activities are also exempt from VAT. (Mexican Institute of Public Accountants, 2019).

In the same way, it is now provided in article 9 of the LIVA.

In 1978 it was pointed out, (...), that the set of exemptions represented more than 40% of final consumption and their tendency was to protect the purchasing power of the majority of the population.

An interesting fact is found in February 1982, when the Bank of Mexico withdrew from the exchange market and the Mexican government was forced to declare a default on payments, which caused the devaluation of the currency. , which came to be from 22 to 70 pesos per dollar. The Federal Executive, at the end of 1982, proposed a 15% increase in the general VAT rate, claiming a greater need for resources to face the economic crisis caused by the shortage of foreign exchange and the subsequent devaluations of the peso in the second semester of 1982. (Instituto Mexicano de Contadores Públicos, 2019).

The protection of the purchasing power of the population, especially of the most vulnerable sectors, referred to in the first paragraph of the quote, has always been the political banner of every candidate, even more so since he is a populist.

Then, in 1982, the economic debacle came as a result of the disastrous devaluation and the government decided to increase the general VAT rate; which means that since its inception, this tax has served as an escape valve to economic pressures, the question would be, having a capitalist economy (or neoliberal, although the current regime is sick to hear it), and being one of the characteristics the presence of cycles such as recession, crisis and the longed-for boom, why hasn't the rate lowered again? At least in the few times in which the situation seems to allow it ...

This is how VAT has evolved to this day, always staying at the forefront of collection. Surely the author has ever heard the phrase: "The only sure thing in life is death and taxes"; Well, according to the indirect nature of VAT, it could be ensured that said phrase is dedicated precisely to this contribution. Indeed, if we take into account that it is a consumption tax and since we all have the need to consume an infinity of goods and services, the payment of VAT is unavoidable.

5. Proposal to reactivate the economy through a tax reform

So far it has been commented that it is the individuals who constitute the productive force of this country, which is why the tax authority focuses its efforts to keep an eye on us. It is also a fact that the main activity carried out by these natural persons refers to obtaining income from wages, remuneration that sadly is far from covering the average needs of a human being. On the other hand, many of the tax reforms that we have undergone are focused on legal entities, and those that have referred to individuals have only made them more impoverished and made it difficult for the few who manage to comply with obligations, despite the organized crime, have your own business.

All this in the context of the three crises that we currently face and that were already mentioned at the beginning of this material: The economic one; that of security; and the sanitary. As if that were not enough, we suffer from an irascible federal regime with those who do not share its ideas, which causes divisiveness and is dedicated to "blaming the one behind" instead of giving results; all with the purpose of appearing as the hero of history, perpetuating himself and achieving projects more out of whim than out of social necessity.

The proposal included in this work could be defined as logical in its concept, risky to implement (for political actors), but which can be effective over time. This last qualifier is opposed to what has been "achieved" so far in the tax reforms, which have only meant palliative or analgesics that sometimes calm the symptoms, but the flu, or influenza, or worse still, COVID-19, are still there .

Already Adam Smith in his work "The Wealth of Nations" argued that it is not natural resources that define the wealth of a country, but its labor force, based on the division of labor and combined with free competition to achieve growth economic; according to what has been exposed in this material.

Later, John Maynard Keynes, in 1936 publishes the "General Theory of Employment, Interest and Money", and exposes, in an extract, the following, as part of his ideas:

Our theory can be outlined as follows. When the level of employment increases, so does total real income. The psychology of the community is such that when total real income increases, total consumption also increases but to a lesser extent. Therefore, if the entire world of the occupation went to satisfy the increased demand for goods for immediate consumption, the entrepreneurs would suffer losses. Consequently, to justify any given volume of employment, there must be a certain volume of current investment sufficient to absorb excess production with respect to what the community decides to consume at this given level of employment; because, unless there is this volume of investment, the income of entrepreneurs will be below the level necessary to induce them to offer the given volume of employment. Hence it follows, therefore, that, given what we will call the community's propensity to consume, the equilibrium level of employment, that is, at the level at which nothing induces all employers to increase or reduce employment , will depend on the current investment volume. Its volume will depend, in turn, on what we will call the incentive to invest, which, as we will see later, depends on the relationship between the curve of the marginal efficiency of capital and the structure of the interest rates on loans with different maturities and risks. (Keynes, 1985).

To better understand the quote, it is important to place ourselves in the context in which Keynes made his thought known through his masterpiece.

- a) He was a British economist opposed to "laissez-faire", a classical school that held that everything has a natural order and that the system itself is capable of self-correcting imbalances.
- b) On the other hand, he argued that capitalism needs the intervention of the State on occasions to correct the excesses of the system, specifically, as a regulatory agent for investment.
- c) His work belongs to the time of the Great Depression in the United States, in fact, his recommendations served the recovery of the American economy.
- d) Even after World War II, his ideas were adopted and led to him being appointed British representative at the Breton Woods conference and receiving the title of Lord.

The quoted extract refers specifically to aggregate demand, investment, employment and consumption, without elaborating on interest and money. However, it is enough to present the central idea that serves our theme:

All part of the investment, having it, increases employment and with it total income (income). People, having money, the product of their work, will tend to consume more, although not in the same proportion as their increase in income; if there is excessive consumption, there would not be sufficient production of goods and services and the system collapses, that is where the State must regulate investment (well planned and in decisive sectors). Thus, the part of the income that people do not consume, save it and have the possibility of investing, favoring private investment, starting from public investment. Easy, right?

The proposal included in this work tries to collect these ideas. Reactivate the economy through consumption; if people buy the companies they win and can in turn generate more jobs. Let's analyze each of these variables separately:

- a) Public investment in Mexico retracted by a denied economic crisis, whose scarce resources are directed to electoral social programs and sexennial whims more than to support to companies.
- b) Faced with this lack of support to face the three crises mentioned, job creation is compromised, there is unemployment and those who manage to have a paid occupation hardly survive on their salary.
- c) Aggregate demand is contained because consumption is very limited. People do not consume what they would like because their resources are insufficient.
- d) If there is not enough consumption, companies lose and many of them have to close, the three crises have annihilated them.
- e) Given these conditions, it is impossible to think about saving, and consequently, about private investment.

Can fiscal matters do something to reactivate the economy, even so?

The answer is yes, although it requires a serious political and legislative commitment, according to the following points:

- a) Reduction of income tax on wages, modifying the rate of article 96 of the law or reviewing the table of credit to wages. On this second, the idea of subsidizing ISR to workers who earn 1 to 4 minimum wages, implemented in the administration of Carlos Salinas (another sample of previous successes), was well received, but has been exceeded by inflationary periods. In this way, the worker will have more money in his pocket, regardless of whether his salary increases.
- b) Reduce the VAT rate, returning to the general rate of 10%. Thus, goods and services will go down in price, having a cheaper VAT for the final consumer.
- c) To compensate for the previous reductions and not to fall, it is mirages or happy accounts that the President of the Republic promised while he was campaigning (although some say that he still is); eliminate exemptions and 0% rate in the VAT. Perhaps the most difficult measure to implement, as it represents a high political cost; hardly any government, of any color or acronym, will assume the taxation of food and medicine, sensitive goods in the population. However, for many, it is the solution. To see who dares.

Conclusions

You can conclude the following:

- a) The Income Law of the Federation provides for the implementation of three new taxes ready to come into force in any year of this hazardous administration, contrary to what was promised in the campaign by the current government, we will have to be attentive to this.
- b) Individuals are the focus of attention for the tax authority to exercise verification powers; however, there is no tax reform that encourages their productivity and facilitates compliance with the laws.
- c) Income from wages is the main activity of the Mexican population, it is a captive regime that practically controls itself.
- d) The VAT, 40 years after its creation, has demonstrated its collection efficiency, as it is a consumption tax.

- e) Under these assertions, it is proposed to design, through a serious study, a fiscal reform that seeks to reactivate the economy through consumption; reducing the payment of ISR in salary, thus increasing the liquidity of workers, in addition to reducing the VAT rate to lower the price of goods and services but eliminating exemptions and 0% rates on them, thus balancing tax collection.

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