**Access to finance and informality: The Mexican tax on cash deposits**

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Large informal sectors and tax evasion are common features of many Latin American economies. In addition to a low productivity, informality generates a loss in tax revenue: the tax to GDP ratio for Mexico was 17.5 percent in 2009[[1]](#footnote-1) which is half of the tax to GDP ratio of the OECD average, with a range from 28 percent for the US to 48 percent for Denmark. On the other hand, the economics literature has identified high returns to public goods such as education and health in Latin America, while income redistribution has also been discussed as a key concern in the continent. Funding these in a manner that does not rely solely on debt accumulation requires a sustainable increase in tax revenue. Since tax rates are not substantially different between Latin America and OECD countries, this implies that tax evasion has to be seriously tackled. Mexico has moved this way in recent years through a series of tax reforms: an alternative tax system for small enterprises (REPECOS), a simplified filing system for medium companies (IETU), and a tax on cash deposits (IDE). The IDE is a 3 percent tax on the sum of cash deposits in a client’s bank account above a 15,000 peso threshold. However, the tax was conceived as a “control tax”: the entire IDE tax liability can be credited against the income and corporate taxes and therefore should be neutral for compliant firms.

As a researcher I have been particularly interested in the role of financial information to enforce taxes: theoretical papers[[2]](#footnote-2) and policy recommendations have emphasized that information from the financial system (and more generally from third-parties) can be key to observing true income flows and taxation. The IDE is a way for the Mexican tax authority to put in application these recommendations by recording cash deposit information. This information generates an indication of the flow of revenues of firms and individuals and therefore of their tax capacity. In addition to catching potential tax evaders, the IDE, increases the risk of detection, which might push some firms to formalize/declare a larger share of sales. On the other hand some firms might decide to close their bank accounts and stop using bank finance to fund their business altogether. As a result, the reform might have excluded the initially less formal firms from finance and pushed them further into informality, therefore widening the gap between the formal economy and the informal economy.

The main goal of my trip was to obtain data to evaluate the IDE and in particular its disintermediation effect on formal finance. To obtain the data I met with researchers at the central bank and at private banks to explain the objective of the project: using monthly data on different types of deposits (cash, cards, checks, online) to quantify the effect of IDE on financial disintermediation. I am currently in contact with a private bank and will present the project to their data specialists at the end of September.

Another important goal was to work on an article with Professor Enrique Seira from ITAM, where I received an office and was welcomed by everyone at the university. This project analyzed the effects of three programs aimed at increasing average balance among the poorest quintile of the Mexican population. Distributing debit cards and organizing savings lotteries generated a large effect on savings while offering commitment devices did not.

Being in Mexico was crucial in order to meet researchers and professionals who were familiar with the Mexican tax system and the economic context. The advances I made to obtain the data were important, and I am also close to finishing an article with a professor at a Mexican university. I am extremely grateful to the Tinker foundation for this opportunity and hope that the result of the study can be used in the future for policy recommendations.

1. OECD 2009 [↑](#footnote-ref-1)
2. e.g. Gordon & Li (2009) [↑](#footnote-ref-2)