

Tax reform in Mexico:

Unlocking the potential of digital inclusion to support economic and social development

Tax policy can support the government's telecom reform initiatives to further drive increased mobile network coverage and competitive prices.



Mobile services in Mexico connect over 47 million people, equivalent to 38% of the population, and deliver widespread social and economic benefits to the country. Access to connectivity has enabled many Mexicans to benefit from the exchange of information for business and social purposes, increasing productivity and economic activity. Mobile broadband has the potential to further support the growth of the knowledge economy.

However, 54 million adults in Mexico remain unconnected to mobile services and mobile internet penetration rate is the second lowest in Latin America. Affordability and investment have been identified as key issues that create barriers to digital inclusion. In particular:



The cost of a basic mobile phone represents

5.2%

of annual income for the **10% poorest households**



Network infrastructure investment is lagging behind neighbouring countries.

Investment in improved capacity is also required to ensure quality of service and to provide bandwidth for mobile data services, particularly as demand for mobile data increases over time.



The cost of

500 MB

of data for mobile broadband accounts for over **10%** of annual income for those at the bottom of the pyramid

Higher taxation on mobile compared to other goods and services risks increasing the affordability barrier leading to reduced access and growth in the mobile industry, a key sector driving Mexico's economic and digital growth.



A recent study on the role of mobile in Mexico conducted for the GSMA by Deloitte assesses the economic and social impact of the industry and quantifies the socioeconomic and fiscal benefits that the mobile sector brings in Mexico¹.

The study finds that mobile-specific taxes contribute significantly to raising the price of mobile services and can limit digital inclusion and economic growth in Mexico:

- **The IEPS (Impuesto Especial Sobre Producción y Servicios)** is a special tax on mobile airtime and SMS that is also levied on certain goods and services such as sales of alcoholic beverages, tobacco, gasoline, diesel, gambling and betting. This tax adds to the overall cost of owning and using a mobile phone, of which **19% is accounted for by taxes in Mexico**².
- **Annual regulatory fees** contribution to the government, by mobile operators, is among the highest globally. The share of Mexican operators' revenues spent on regulatory fees is the **third highest among 26 countries**³.
- **Recurring tax and fee payments** in 2014 contributed by the mobile industry reached more than **USD 4.5 bn**, representing **1.5% of total government tax revenues in Mexico**.

TAX REDUCTION SCENARIOS - ADDITIONAL IMPACTS BY 2020

	MARKET PENETRATION	MOBILE BROADBAND CONNECTION	MOBILE REVENUES NET OF TAX	ECONOMY WIDE INVESTMENT	GDP	EMPLOYMENT	TAX REVENUES
REDUCING IEPS TO 1.5% 	1.1 MN	800,000	USD 220 MN	USD 540 MN	USD 2.3 BN	15,000	USD 290 MN
REMOVING IEPS 	2.2 MN	1.5 MN	USD 440 MN	USD 1.1 BN	USD 4.5 BN	23,000	USD 590 MN
10% REDUCTION OF REGULATORY FEES 	290,000	200,000	USD 60 MN	USD 140 MN	USD 590 MN	3,000	USD 80 MN

