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Peña Nieto's plan aims to increase Mexico's weak tax revenues by nearly 3 percent of GDP by 2018.

S&P cautious on tax reform

Chance of debt upgrade if revenue increases

BY ALEXANDRA ALPER
Reuters

MEXICO CITY – Standard & Poor's head of sovereign ratings on Monday voiced caution about a Mexican tax plan, but said there was room for a debt upgrade if the fiscal plan boosts revenue and the significant energy reform is approved.

President Enrique Peña Nieto on Sunday proposed a plan that aims to increase Mexico's weak tax revenues by nearly 3 percent of gross domestic product by 2018.

It includes closing loopholes and imposing higher income taxes on the wealthy.

The reform dodged a political hot potato by not imposing the value-added tax (VAT) on food and medicine, removing an unpopular alternative minimum tax on businesses, and adding sweeteners like universal pensions and unemployment insurance.

S&P's Lisa Schineller said it was unclear if the proposed mix of new taxes would raise revenue significantly, given the reform's new spending proposals and scrapping of old levies.

"It's a question mark," Schineller told Reuters in a telephone interview. "Are the points that are being highlighted, actually going to generate more revenue?"

The flat tax, or alternative minimum tax, was put in place in 2008 in a bid to get around deductions to the corporate income tax that allowed companies to pay little.

That bid to boost the tax take and others have been unsuccessful, she said.

"You still haven't moved the tax base as a share of GDP. And then if you're talking about increasing spending on top of it, that is where our caution is going to come from," she explained.

Schineller added that the reform would have been "bolder" if it had included a taxes on food and medicine.

S&P, which rates Mexico one notch lower than other major ratings agencies at BBB, downgraded Mexico in 2009 after the previous president failed to widen the country's tax base.

S&P revised up its outlook for Mexico's sovereign debt in March to positive from stable, and Schineller said an upgrade would depend on final versions of the fiscal reform and a pending bill to boost production at ailing state oil giant Pemex.

"If we move through, and there are clear signs that you would be getting revenues and on the energy side, you'd be opening up the sector, getting a lot of investment, we certainly think that possibility — for an upgrade — is there," she said.