

TAX COMPLIANCE: A PROPOSAL FOR MEXICO

A THESIS SUBMITTED TO THE STANFORD PROGRAM IN INTERNATIONAL
LEGAL STUDIES AT THE STANFORD LAW SCHOOL,
STANFORD UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
MASTER OF THE SCIENCE OF LAW

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May 2002

Abstract

This paper makes a tax reform proposal for Mexico based on an analysis of theories of tax compliance. The proposal is based on the assumption that individuals, in the domain of tax compliance, by and large, act as rational decision-makers. These decision-makers face monetary and non-monetary costs and benefits as well as transactions costs. In dealing with these costs, individuals compare the cost of complying with the cost of not complying and make a presumably rational decision within a set of given alternatives.

Compliance costs are determined by elements such as the tax base, rate, and costs of compliance. The costs of non-compliance are determined by the tax base, rate, sanction, and probability of being sanctioned. The probability of being caught is an element of the tax equation that will be emphasized in this analysis. This is so since it is affected by two factors that are essential in the construction of Mexican tax policy. The first factor is the amount and quality of information possessed by tax authorities and the second factor is the culture of law abidance.

Mexico is a country with a weak enforcement capacity together with an economy characterized by sectors that are difficult to monitor since the government has little or no information as to their activities. Taking these elements into consideration, the tax reform proposal made in this paper is to allow individuals to give a direct and tangible economic effect to taxes they pay through value added taxation by crediting them against their income tax liabilities. The result is to foster compliance through elements other than coercion and to facilitate coercion through transfer of information from individuals or entities to tax authorities.

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