USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Voluntary _ Public

Date: 4/9/2014
GAIN Report Number: MX3324

Mexico

Post: Mexico ATO

The Junk Food Tax in Mexico

Report Categories:
Snack Foods

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Report Highlights:

On September 8, 2013 the Government of President Enrique Peña Nieto announced its plan of fiscal reforms aimed at boosting revenue and improving social development programs. On January 1, 2014, these new taxes came into effect. Among the reforms there is a 16 percent value added tax and an increase of 8 percent on the Special Tax over Products and Services (IEPS) to processed foods with a determined caloric value These taxes will be applied to domestic and imported products.

General Information:

On January 1, 2014, Mexico imposed new taxes as part of its fiscal reforms; as part of anti-obesity and revenue raising campaign, one of the taxes is on products called “junk food” and sugary beverages. The proposal, while publicly debated since early 2013, but formally announced by the Finance and Public Credit Commission September 8th, is a 16 percent flat value added tax and an increase of 8 percent on the Special Tax over Products and Services (IEPS) to processed foods with a determined caloric value. These taxes will be applied to domestic and imported products. The complex proposal is slated to earn an estimated 39 billion pesos in revenue by placing a tax on a wide variety of items and services, the ones concerning the processed food industry are:

1. Pet food (those who have pets reflect the ability to keep and maintain pets and are therefore able to pay a tax)
2. Chewing gum (not considered a food, rather an added sugar product)
3. Flavored drinks (including certain juices, soda beverages) that contain added sugars

Furthermore, among the new taxes in 2014, the Senate approved an increase of 8 percent on the Special Tax over Products and Services (IEPS) to processed foods with a determined caloric value (“junk food”) that contain 275 Kcal or more for every 100 grams, including:

- Snacks
- Confectionary
- Chocolates
- Custards and flan
- Fruit jam, paste
- Peanut and hazelnut butter
- Ice cream
- Cereal based products (cookies, sweet bread, breakfast cereals)

For flavored drinks, Mexico is applying a tax of 1 Mexican peso (U$0.08) on each liter of flavored drinks and for every liter of product obtained through syrups, concentrates, powders, flavors, and essences when the product contains any added sugars.

The tax also applies to numerous ingredients used in bakery processing, such as dried fruits, cocoa, and gelatin because they fall into the high-calorie foods category due to energy content of at least 275 Kcal per 100 grams, even though they are often used as ingredients and not as a finished product.

The Government of Mexico hopes that the tax will combat the country’s current overweight and obesity problem (almost 70 percent of Mexicans are overweight, and about an a third are obese, according to the World Health Organization). Mexico’s Secretary of Finance and Public Credit said in an interview with The Public Broadcasting Service (PBS) that the tax was approved as incentive not just to boost revenue but to launch more health programs in order to change the Mexican population’s unhealthy habits and to improve social development programs. According to “*El Economista*” newspaper, Mexico invests approximately 7 percent of the total government budget on programs to fight the obesity epidemic, with hopes to raise that amount with this additional tax.

The processed food sector in Mexico is facing higher unit prices resulting from the approved taxes, the increasing price of raw materials, and energy and technological innovation required to stay competitive. These factors will directly affect processed foods sales.

Exemptions
There are some exemptions of products that are not subject to the 8 percent IEPS tax and these are:
- Imported chewing gum
- Dairy products including drinkable yogurts, juices, and nectars that contain milk or dairy
- Shelled and natural peanuts, however, other natural nuts are not mentioned
- Diet sodas or artificially-sweetened beverages are not subject to the tax

It is not clear if there is a limit to the amount of sugar that is allowed per liter to avoid the tax or if drinks including any sugar will be subject to the tax. Beverage companies as well as other food manufacturing companies are reformulating their existing products and changing portion sizes to avoid the tax.

Implications
The imposed tax could potentially affect exports of certain U.S. processed products and raw commodities. Apparently, the IVA could put pressure on lower to middle-income families, who based on reduced purchasing power, spend more on basic goods, and less on specialty and processed products and other luxuries. The current atmosphere of both a growing young middle class and the increasing number of impoverished persons without adequate purchasing power, could lead to an unfavorable reduction in trade in U.S. food products. Additionally, current poverty rates place greater expectations of both voluntary and involuntary migration from various regions of Mexico and to the United States.

The Mexican Sugar Chamber declared that the tax will force consumers to search for less healthy alternatives, hitting the lower income consumers, the socio economic status who consumes the majority of soft drinks. According to the Central Citizen and Consumer Organization, obesity cannot be attributed to consumption of certain products; in countries where such taxes had been applied no improvement in obesity rates has been shown. Especially in the case of the new tax on soft drinks, various analysts are not convinced that it is going to be the solution to the Mexican obesity crisis, since it is a habit in Mexico to drink soft drinks.

The soft drink and food industries lobbied heavily to defeat the plan, but lawmakers refused their requests claiming that the tax is necessary to reduce rising rates of obesity and diabetes, as well as to raise revenue.

It is unlikely that the tax itself will turn the tide on obesity; the Mexican Health Secretariat estimates that the tax of 8 percent will reduce obesity by 8 to 9 percent[1] over the next decade. However, this has to be part of a larger effort by the government to educate the Mexican consumer on what foods are healthy and which could contribute to obesity.

Post and further information
For further information and to learn more about the services provided by the Agricultural Trade Offices (ATO) in Mexico, please contact us at:

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[1]**Euromonitor -The Implications of the Mexican Soft Drink Tax**

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