MIGRATION

2% tax on remittances to Mexico?

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- On February 7th, Mike Rogers, Republican congressman for Alabama, said he would submit a proposal for financing the wall between the United States and Mexico that president Trump intends to build, and which it is estimated would cost between 12 and 15 billion dollars (Economic News, 2017).
- Rogers said his bill, the Border Funding Act of 2017, would seek to pay for the wall by various means, one of which would be the application of a 2% tax on remittances to Latin America, which would bring in nearly a billion dollars a year. (In 2016, Latin America and the Caribbean received US$52 billion, so a 2% tax on this amount would be more than a billion dollars a year).
- **It is difficult to see how taxing remittances only to Latin America and the Caribbean could be justified. We consider that for the measure to effective, the US would have to tax worldwide remittances. Otherwise remittances could be sent first to a third country without paying the tax and from there on to Mexico or another Latin American or Caribbean country and so avoid the tax.**
- The congressman indicated that this tax would be applied to money transfer firms such as Western Union and MoneyGram. He did not say explicitly whether transfers made by banks or charged or credited to bank accounts would be affected.
- Apparently this tax would apply to the general population, so that it would affect both documented and undocumented immigrants as well as US citizens wishing to send money outside the United States.
- In January, Ant Financial, which is controlled by Chinese millionaire Jack Ma, announced its intention of acquiring MoneyGram for US$880 million. This company might therefore lose its bargaining power in the United States, although Ma met with president Trump earlier in January, so it is possible that this matter was discussed (La Mónica, 2017).
- Data from Banco de México indicate that 65% of remittances are paid in Mexico through non-bank entities and 35% through banks. The 2015 National Survey on Financial Inclusion (ENIF in its Spanish acronym) indicates that only 10% of recipients of remittances receive them in a bank account.
- **The impact of a possible tax on remittances to Mexico is difficult to estimate. However, we believe that remittances are highly inelastic given that they are largely for current consumption. We estimate that the impact on the flow of remittances would be roughly equal to the amount of**

tax charged. Thus a tax of 2% on all remittances to Mexico might represent a reduction of around US$540 million a year in remittances.

Remittances from the US

- The United States is the world's leading source of remittances, with US$135 billion in 2015 (23.2% of world remittances).
- Of total remittances from the US, 51.5% (US$69.5 billion) go to Asia and Eastern Europe, mainly to China (US$16.2 billion), India (US$11.7 billion), the Philippines (US$9.7 billion) and Vietnam (US$7.3 billion).
- Remittances to Latin America and the Caribbean account for 38.5% of total remittances from the US.

Remittances to Latin America and the Caribbean

- Latin America and the Caribbean receive a total of US$68 billion, of which US$52 billion or 76.1% come from the US.

Latin American and Caribbean countries with the biggest remittance receipts in 2016

Country	Billion of dollars	
Mexico	27.0	
Guatemala	7.2	
Dominican Republic	5.1	
Colombia	4.9	
El Salvador	4.6	
Honduras	3.9	
Brazil	3.0	e
Peru	2.9	e
Ecuador	2.4	e
Jamaica	2.4	e
Haiti	2.3	e

Source: BBVA Research based on data from the respective countries' central banks
e: World Bank estimate

Latin American and Caribbean countries most dependent on remittance receipts in 2015

Country	Remittances as % of GDP	
Haiti	24.7%	
Honduras	18.2%	
Jamaica	16.9%	
El Salvador	16.6%	
Guatemala	10.3%	
Nicaragua	9.4%	
Guyana	9.3%	
Dominican Republic	7.7%	
…	…	
Mexico	2.6%	*

Source: BBVA Research based on World Bank data
* BBVA Research estimate for 2016 based on Banco de México data

Remittances to Mexico

- Total remittances for 2016 reached an all-time high of US$26.97 billion, 8.8% more than in 2015 and surpassing the previous (2007) record of US$26.06 billion.
- 95.4% of remittances received in Mexico came from the United States. A significant proportion came from just two states: California (US$7,998 million, 31.1% of the total) and Texas (US$3,770 million and 14.6%). Other states with significant flows of remittances are: Illinois, New York, Florida and Georgia.

- The Mexican states with the biggest inflows in 2016 were: Michoacán (US$2,532 million), Jalisco (US$2,219 million), Guanajuato (US$2,264 million), State of Mexico (US$1,561 million), Puebla (US$1,371 million) and Oaxaca (US$1,289 million).

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