

Chapter 10 Taxes and their impact on SMEs due to lack of business education

Capítulo 10 Los impuestos y su impacto en las PYMES por falta de educación empresarial

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Abstract

Taxes in Mexico intervene for the permanence of companies over time, however, there are many financial, economic, human, material obstacles in their routine that sometimes prevent development and growth, even more so when they are Small and Medium. companies (SMEs), since they are family businesses that find an opportunity in the labor market to grow, become competitive and try to survive along the way. One of the main problems that it faces are the taxes that are collected in Mexico, we speak of Municipal, State and Federal, it is the latter that are dealt with in this article, to point out the important qualities, attitudes and aptitudes that Entrepreneurs must develop over time, as well as continuous preparation, and constant updating of what is happening in the country, with basic aspects such as social, economic, financial, and fiscal, which are the latter that make an SME reaches its permanent deletion.

Taxes, Pyme, Formal education

Resumen

Los impuestos en México intervienen para la permanencia de las empresas en el tiempo, sin embargo, existen muchos obstáculos financieros, económicos, humanos, materiales en su rutina que en ocasiones impiden su desarrollo y crecimiento, más aun cuando son Pequeñas y Medianas. empresas (PYMES), ya que son negocios familiares que encuentran en el mercado laboral una oportunidad para crecer, volverse competitivos y tratar de sobrevivir en el camino. Uno de los principales problemas a los que se enfrenta son los impuestos que se cobran en México, hablamos de Municipales, Estatales y Federales, son estos últimos los que se abordan en este artículo, para señalar las importantes cualidades, actitudes y aptitudes que los Empresarios deben desarrollar a través del tiempo, así como la preparación continua, y la actualización constante de lo que acontece en el país, con aspectos básicos como el social, económico, financiero, y fiscal, que son estos últimos los que hacen que una Pyme llegue a su eliminación definitiva.

Impuestos, Pyme, Educación formal

Introducción

The tax pressure in Mexico has been increasing over the years, and as a consequence, SMEs in Mexico have suffered a significant impact and have stopped their business development, this trend is due to tax and technological imposition, and that have forced businessmen to give up, therefore, ask yourself: what will be the expectation for the coming years? In situations like this, you must know the existence of tax regimes that generate wealth, and this allows you to pay taxes, as well as an adequate financial and fiscal education.

Therefore, this document is made up of several sections where it is worth highlighting the development that some elements of the theoretical framework imply for its understanding; the methodology that was used, which is extended to the definition of the problem, the justification and the limitations of the problem; then the results that identify those that were found and part of the proposals are inserted; and finally there is the conclusion complementing the suggestions of the document, which so far is not conclusive, but is part of a more comprehensive and long-term study.

Development of the Topic

Characteristics of SMEs

At this point, only essential points will be addressed to identify SMEs, we will begin by saying, the term PYMES is an acronym adopted to speak in Latin America and Spain of micro, small and medium-sized companies and that in the field of business it is widely adopted. The way to identify the size of these companies can vary from one country to another, in some the number of employees is considered, for others the income. In Mexico, according to the Ministry of Economy (SE), three aspects are taken into account: business, number of employees and income, supported by a ceiling index, as in the following stratification table:

Table 1.1. SME Estratificación

Stratification				
Size	Sector	Range of number of workers	Annual sales amount range (\$)	Combined Maximum Cap
Micro	All	Up to 10	Up to \$4	4.6
Small business	Trade	From 11 to 30	From \$4.01 to \$100	93
	Industry and services	From 11 to 50	From \$4.01 to \$100	96
Medium company	Trade	From 31 to 100	From \$100.01 to \$250	235
	Services	From 51 to 100	From \$100.01 to \$250	
	Industry	From 51 to 250	From \$100.01 to \$250	250

Source: SE DOF June 30, 2009

Another characteristic to highlight is that they are mostly family businesses, generated for the most part by the need for self-employment, to cover personal and family needs, they begin without a structure, or planning and as informal organizations, they often formalize when the opportunity to be suppliers of formal organizations arises. Formal SMEs according to data from IMCO (Public Policy Research Center which INEGI takes as a reference) (<https://imco.org.mx/pymes-de-la-informalidad-a-la-competitividad/>, 2023) represent 4.9% and 30.7% of employment and with respect to gross production, 28%.

Regarding the education of SME entrepreneurs, we can take as a reference those published by Saavedra, Tapia & Aguilar, in their article called "Environmental management of SMEs in Mexico City", where they analyze the academic education of SMEs entrepreneurs. (SAAVEDRA, TAPIA, & AGUILAR, 2023)

"38.7% have a maximum level of upper secondary education (high school), 38% are at the higher level (bachelor's degree), while 3.7% have master's degrees and only 0.7% have a doctorate. The foregoing shows that the businessmen of Mexico City have a relatively high preparation". (<https://imco.org.mx/pymes-de-la-informalidad-a-la-competitividad/>, 2023)

If high, but since there are no business, financial and managerial issues in their educational programs, they often end up bogged down and bankrupt.

Medium and small entrepreneurs have different motivations to become independent or to be entrepreneurs, whose main element is to maintain their own company, factory or transporter or consultancy, regardless of formal education. This implies a level of increase in economic dynamics, which the vast majority of public administrations should have as a relevant part of their objectives. The increase in productivity and the involvement of all sectors of the economy, both in a communal, regional or Country way, allows the increase in the standard of living of the population of the demarcation in question.

However, this increase in the standard of living could only be carried out through the formalization of taxpayers, through their respective payments of taxes, rights, permits, fines or procedures and that in turn the Treasury of the respective level of Public Administration, is the one who distributes said wealth through current public spending or investment, as the regulations are in force.

By inserting the vast majority of taxpayers, which for this document are SMEs, the probability that there is a virtuous circle of wealth is greater, which cannot be considered as a circular economy, than those monetary resources that are generated in the taxpayer and they enter the Treasury and then return in the form of services as some authors describe it; since the circular economy refers to a cycle of continuous, development, which preserves and in any case increases natural capital (CERDA & KHALILOVA, 2016) in such a way that it refers to producing under the objective of caring for and balancing nature, or ecosystems relating to the natural environment.

That is why for this document the objective of providing basic knowledge so that the owners or managers of SMEs maintain the interest of staying within the formal scheme, must be a constant, whose purpose is to obtain a virtuous circle: where it is generated wealth for that 99% of the existing organizations in the Country, that join the formality, paying their taxes, rights and permits, whose monetary resource enters the government and this in turn returns it both to the same company, as to its workers and the society close to that same SME, in the form of services, subsidies or transfers, which maintains the virtuous circle between the government and its governed.

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Thus, if the SME entrepreneur is not within the formal scheme, this virtuous circle of wealth will probably not be carried out, that is, it implies an increase in tax collection and its recycling (RODRIGUEZ, 2022); However, for this document, the virtuous circle is considered that process where SME organizations generate wealth and pay their taxes responsibly and voluntarily, through the regulations in force in the 3 collecting government entities (Federal, State and Municipal); and these, through the responsible administration of public resources, return it with the obligation that it is also in force for the stakeholders, that in some way there is a co-responsibility in the interaction of the government and the governed. It should be considered that part of this basic or educational knowledge towards the tax relations that are executed by the Executive from its 3 levels, specifically, for this paragraph we will refer to the federal part of ISR and VAT, while for the Federative Entity it is 3% on payroll; while at the Municipal level there are licenses and permits, among others.

When addressing formality by the owners or managers of SMEs, it is possible that they do not understand the net or immediate benefits in the first instance, because the virtuous circle is long-term to observe its results. On the other hand, they tend to be discouraged by the amount of expenditure that, without being informed, they consider they should make when joining the formality, which would be contrary to having some advice or basic knowledge about their tax obligations. In this same sense, by constantly changing the laws or tax regulations, whether federal, state or municipal, they tend to make it difficult to motivate tax incorporation. For example, in 2013 the Fiscal Incorporation Regime (RIF) was approved to enter into force, that replaced the Small Taxpayers Regime (Repecos) and Intermediaries Regime (CEFP, 2015), whose history and origins of the Repecos is from 1996 as an addition to section III of chapter VI, of title IV, with the name of the people who carry out operations exclusively with the general public (MANZANERO & CASTELLANOS, 2016) and by the year 1998, with the name that became known as Repecos, it was inserted into the Income Tax Law (PRODECON, 2013).

However, these elements that concern SMEs with a certain exclusivity change their name to the Simplified Trust Regime (RESICO) for tax reform for the year 2022, which is mandatory for some Moral persons and optionally for some natural persons (RODRIGUEZ, 2022). In this way, only for the formalization or incorporation of SMEs into the federal tax regime, the administrators of the SMEs must be updated, both in terms of concepts and amounts, so that accounting and tax planning is relevant.

It seems that, instead of facilitating the work of SMEs for their incorporation into the Formality, it is complicated, because some state and municipal fiscal collections are still missing. From the point of view of accounting, the fiscal acculturation of SMEs or the culture of the formal entrepreneur is considered relevant, who should not necessarily be an accountant or fully submit to fiscal tasks, but rather know that there are people who can do that job. , so that their intellectual or knowledge activity is spent on what they know how to do: generate wealth and jobs. In such a way that the works of incorporation to the tax collection are done by technicians, specialized or professionals; and the managers or owners of SMEs dedicate themselves to serving their Stakeholders through their product, services, merchandise or process.

Government policies have been unsuccessful when trying to integrate informal companies into the taxpayer registry, they have sought strategies for paying taxes with simple mechanics and with low tax rates, but they have been unsuccessful, since, unfortunately, to maintain many things within the reach of the less favored classes and sometimes for the convenience of the more favored classes, for many people it is important that the economy should move informally. It should also be said that being in the RFC does not mean that you are a taxpayer who pays what is owed, in most cases you pay less than what you are. And for the formal SMEs that seek to change schemes, it ends up hanging them, due to taxes and the administrative burden involved in compliance.

To see how SME entrepreneurs are the most burdened by taxes, we can see it in the income reported by the SAT, this is because they often do not pay what they owe due to the lack of tax and business education. Unfortunately, SME entrepreneurs have poor controls, and therefore the calculations are incorrect; sometimes they are less and other times more.

The following table (No. 1) indicates the distribution of tax regimes in Mexico, and the number of taxpayers that exist in the last 3 lustrums:

Table 1.2. Taxpayers by type of Regime

Year	Physical person	Big contributors	Employees (PF)	Moral persons	Big contributors (PM)	Total
2010	131,357,139	17	224,918,354	15,066,514	173,844	371,515,868
2011	139,945,560	61	267,055,142	16,243,957	185,744	423,430,464
2012	147,091,718	352	287,550,312	17,364,166	193,848	452,200,396
2013	157,267,513	602	302,574,372	18,490,574	199,061	478,532,122
2014	188,878,896	807	319,668,303	19,618,457	200,817	528,367,280
2015	226,280,513	139,334	347,903,591	20,650,136	172,180	595,145,754
2016	243,134,777	202,499	379,335,212	21,657,359	104,578	644,434,425
2017	288,282,763	256,167	428,221,697	22,683,469	119,364	739,563,460
2018	320,319,318	351,813	477,809,103	23,910,987	110,475	822,501,696
2019	358,656,115	443,522	514,293,860	25,108,689	108,634	898,610,820
2020	365,154,846	514,058	555,642,128	26,021,641	107,314	947,439,987
2021	370,738,830	665,523	560,689,643	26,889,347	146,333	959,129,676
2022	377,672,349	860,424	570,479,457	27,800,402	144,524	976,957,156
2023	95,142,523.00	247,050	145,479,607	7,110,116	35,557	248,014,853
Total general	3,409,922,860	3,682,229	5,381,620,781	288,615,814.00	2,002,273.00	9,085,843,957.00

(SAT, 2023)

Methodology

This article is a descriptive and analytical investigation, according to official information from government agencies that serve as an instrument for future financial and economic analysis, based on the economically active population in Mexico, considering the number of SMEs in Mexico, with the purpose of improving the tax culture of all SMEs, on the one hand supporting the level of collection, improving the current economy and on the other generating an opinion of tax education in Mexico.

Definition of the problem

The problem to be considered in this research is to refer to why taxes impact entities considered SMEs, the leaders of this type of company, many of their skills are empirical, and that, according to their aptitudes and attitudes, they develop competencies, skills that allow them to survive or succumb in the attempt to become entrepreneurs. The fact that they are empirical leads them to neglect basic aspects to carry out an organization regardless of its size, planning, control and the generation of information for decision making. These three elements are also essential for the tax culture, without them in a company several situations occur, taxes become a burden when they are not considered within the planning, without controls they become a great ballast because they are paid excessively, and if the information is not correct, two aspects can occur: overpayments or underpayments. In both cases it affects the company, the first because it takes away cash flow and the second can end in sanctions by the authority.

Justification

The idea of this work is to analyze the relevance of the business education of SME leaders in the management of organizations, because for decades the permanence threshold was 2 years for newly created ones, it is said that 8 out of 10 do not pass it, according to other works this situation takes years and cannot be reversed. For this reason it is important that the government, together with the private initiative, create official programs that really promote these companies. The subject to be addressed in this work on business culture is the tax part, difficult to deal with businessmen of all sizes, because they will always seek to pay less taxes or not pay at all, much of this attitude is due to the high rates of corruption in our country and many in Latin America. But it also happens that those who earn less end up paying more than those who earn more, this is clear in percentage terms.

Within the business education of SME leaders, it is often too basic, therefore, important things such as control and information management lose focus, also, they do not make sense of something such as the payment of taxes; for them this is fruitless spending and due to government corruption, everyone seeks not to pay because they have the mentality that officials steal money or divert it to projects that do not benefit them. Due to the basic education that many of the SME entrepreneurs have, they do not think that paying taxes will contribute to a better country. Within the business education of SME leaders, it is often too basic, therefore, important things such as control and information management lose focus, also, they do not make sense of something such as the payment of taxes; for them this is fruitless spending and due to government corruption, everyone seeks not to pay because they have the mentality that officials steal money or divert it to projects that do not benefit them. Due to the basic education that many of the SME entrepreneurs have, they do not think that paying taxes will contribute to a better country.

In Latin America, different proposals have been made to improve collection schemes. In Mexico, in the last six-year terms, there is talk about tax reforms and in the current one, about the efficiency of the forms of collection. All this leads to the analysis of the impact of taxes on SMEs and how the lack of tax culture has to do with the formal preparation of their entrepreneurs.

General objective

- Analyze how the business education of SME leaders causes taxes to impact the financial scheme of the financial institution.

Specific objectives:

- Identify what SMEs are and the taxes that affect their routine activities.
- Know the schooling and business education of the owners of SMEs in Mexico in a general way
- Study how business education impacts the tax culture.

Scope and limitations

To know the educational impact on SMEs according to the number of taxpayers with a range of income and who may be economically active population in Mexico, as well as the search for the educational level of the entrepreneur - taxpayer, to create an awareness of the importance of paying taxes in any country

Results

The results shall be by section of the Chapter. Analysts mention how large taxpayers, thanks to their corporate structure, pay less taxes than SMEs, thanks to the machinery they put to work to establish schemes perfectly supported by the laws.

The SAT announced that the country's large taxpayers —a group with just over 10,000 companies— pay an “effective rate” of taxes of just 1.3%. Clearly, this percentage seems very low, especially if we compare it with the corporate ISR rate of 30%. The immediate sensation is that the most important conglomerates in the country are abusing.

This impression is amplified by observing that the effective rate calculated by the SAT for wage earners is 11.4% and for individuals 25.4%. In other words, the effective rate paid by wage earners is eight times higher than that of large taxpayers and that paid by individuals is 19 times higher. Anyone who sees the SAT numbers for effective rates will come away with the idea that large companies are far from paying what they should. And you are sure it is the intention of the tax authority.

See these SAT data with hypothetical numbers:

Table 1.3 Payment of taxes large taxpayers versus wage earners

	Taxes per thousand pesos of utility	Profit and Income (salaried)	Paid taxes
Great contributor	\$12.3	\$250,000	\$3,075
Salaried	\$114	\$10,000	\$1,140
PF Business Act.	\$254	\$250,000	\$63,500

Source: Own with suggested data

For an employee, the tax perhaps represents what he invests in transportation and food to the workplace. For a natural person with business activity with that income, the taxes represent at least the monthly payroll of their employees. This is due in many cases to the lack of business education, many of the SME entrepreneurs, for example, do not deduct their payroll, their investments and even many of the company's own expenses for not complying with tax requirements or according to them. for wanting to hide their true income from the eyes of the SAT.

Much of this has been promoted by the authorities, who within a normative positivism, should be the same authorities who promote financial education in official and private institutions.

Conclusions

The efforts made by the authority in terms of collection imply unilateralism towards taxpayers, in such a way that in some sense if the general understanding were uniform, that is, that all taxpayers had the same reception for the call for taxes, the understanding homogeneous, including individuals and for this document, SMEs, the contributing population would be considerably higher, which does not guarantee that the amount collected would be higher, as we saw in part of the document. In other words, it seems that the more business education, formal education or tax information obtained for the benefit of the taxpayer, the less the amount collected.

Therefore, if the managers, owners or managers of SMEs had the opportunity to become professional, get information in a secure way or receive advice for the formalization of their companies, it is likely that they would pay less taxes than they think without being trained or informed; Also, the probability of having benefits when paying their taxes increases as their incursion into the formal sphere becomes normal. But also the virtuous circle of tax collection returned to services, transfers or subsidies, increases the level of SME and society stakeholders.

So, there are challenges for the government, the owners or managers of SMEs, and although they are not touched on throughout this document, for HEIs. For the first, bidirectional awareness of the benefits of the virtuous circle of tax payment; for SMEs to integrate into the informal sector, through professionalization or hiring experts; and for HEIs to open their doors to professionalization or advice with their experts or hybrid consultancies for the insertion of SMEs into the formality.

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