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# Positive and negative effects of the minimum wage subsidy, through oversight, in the labor market

Diego Sánchez Cortazar[1]

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## Abstract

The article analyzes fiscal strategies, addressing the topic of the federal revenue and expenditure budget, highlighting its importance for the country's monetary collection, as well as the way the State obtains income to meet national needs. In particular, one of the population's key needs is to achieve better income and purchasing power to meet their demands, such as acquiring a basic and dignified basket of goods. The main objective of this study is to analyze the effects of the minimum wage subsidy, financed through tax collection and fiscal oversight, on employment and informality in the Mexican labor market. Likewise, it examines the labor policy aimed at increasing minimum wages, which the State has established as a priority, a policy supported by tax revenue, and discusses its effects on the labor market. Specifically, if the State decides to raise the minimum wage and finances it through tax collection, companies may have more capacity to create jobs. Methodologically, a two-stage least squares regression model is used, based on labor market variables such as tax revenue, minimum wage, unemployment, and number of informal businesses. However, if the State enforces a very strict tax policy to support higher wages, this approach may lead companies to choose informality instead. The main results show that while tax revenue can support minimum wage increases and help reduce unemployment, it also leads to an increase in informal businesses. It is therefore proposed that effective oversight must be accompanied by support programs and tax education policies to avoid adverse effects such as informality and to foster a better perception of fiscal policy among taxpayers.

**Key Words**

Budget; Needs; Rights and Obligations; Minimum Wages; Unemployment; Informality.

**Clasificación JEL:** E24, J01, J02, J41.

## Introduction

Public spending and fiscal policy are fundamental elements in the economic and social development of a country, as they enable the State to finance essential programs and services for the population. Over time, these instruments have evolved with the aim of improving the efficiency of tax collection and ensuring a fair distribution of resources. In Mexico, this evolution has been marked by various reforms aimed at strengthening fiscal sustainability and reducing tax evasion.

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One of the most significant changes in recent years has been the digitalization of tax processes. The implementation of electronic invoicing, for instance, has allowed for greater control over economic transactions and has contributed to reducing informality. Thanks to this measure, the Tax Administration Service (SAT) has been able to identify taxpayers' obligations with greater precision, closing gaps for evasion and optimizing revenue collection.

Another relevant strategy has been the creation of the Simplified Trust Regime, which seeks to facilitate tax compliance for small taxpayers by reducing administrative burdens and offering lower tax rates. This scheme has been key in expanding the taxpayer base, encouraging formalization, and generating greater revenue for the State without increasing pressure on already compliant sectors. However, its effectiveness is still under evaluation, as it faces challenges such as resistance from some sectors to regularize and a lack of awareness about its benefits.

In this regard, Soberón and Villagómez (1999) state that the behavior of the government's budget constraint provides a detailed perspective on the challenges and opportunities in managing public spending and tax collection in the country.

Despite these advances, Mexico continues to face major challenges in terms of tax collection. Labor informality remains an obstacle to a more equitable fiscal policy, as a large part of the economically active population does not contribute directly to the tax system. This limits the government's capacity to invest in infrastructure, education, and health, sectors that are essential for national development, or to subsidize income through increases in the minimum wage.

Expanding on this idea, Vela et al. (2013) analyze how fiscal, and labor policies impact the Mexican economy, including aspects related to evasion and informality. The authors provide a comprehensive view of how these policies affect key macroeconomic variables such as investment, production, and wages.

The management of public spending is also a constant point of debate. An efficient use of resources can generate a multiplier effect on the economy, boosting growth and improving the population’s quality of life. However, poor management of public funds can lead to fiscal deficits, increased debt, and a loss of trust in institutions. In this sense, transparency and accountability play a fundamental role in the administration of State resources.

Additionally, the impact of public spending on private investment is an aspect that cannot be overlooked. While an adequate level of spending can complement private investment and generate confidence in markets, excessive or poorly directed spending can crowd out business investment and generate uncertainty. Therefore, it is essential that fiscal policy be strategically designed to align economic growth objectives with financial stability.

Another important issue is the dependence on oil revenues within the country’s fiscal structure. Historically, Mexico has relied heavily on oil income to finance public spending, which has made it vulnerable to fluctuations in international crude oil prices. In this context, diversifying income sources and modernizing the tax system are essential to ensure the long-term sustainability of public finances.

At the international level, Mexico has sought to align with oversight and tax cooperation standards promoted by organizations such as the OECD. This has improved the regulation of tax avoidance schemes and strengthened mechanisms for information exchange with other countries. However,

there is still work to be done to ensure a more progressive fiscal policy aligned with the population’s needs.

In this paper, we analyze how efficient tax oversight can play a key role in sustaining minimum wages. However, the study also shows both the positive and negative consequences of this economic subsidy; while it has beneficial effects on employment levels, it also leads some companies to operate informally as a response.

In addition to this introduction, the article first presents a literature review; followed by the methodology used for the analysis. The next section introduces the variables and presents the results derived from the estimations. Lastly, a comparison with the literature is offered and the article concludes with a brief discussion.

In this context, the present research is relevant as it provides quantitative evidence on how tax oversight and collection can influence the support of minimum wages, as well as the dynamics of employment and informality.

The findings not only help us to better understand the economic consequences of fiscal decisions but also offer valuable insights for public policy design. This research may contribute to the development of more balanced wage policy strategies that strengthen formal employment without creating incentives for evasion or informality in the business sector.

**Literature review**

Public spending is understood as a fundamental element through which the State provides citizens with the minimum conditions necessary for a dignified life. It represents the application of funds collected through taxation. This leads to a relevant question: how does the State obtain revenue? The government receives income from various sources, which are then used to finance public expenditure. At this point, the dual nature of the Federal Revenue and Expenditure Budget becomes essential.

Article 31, Section IV, of the Political Constitution of the United Mexican States, states that it is the obligation of all Mexicans: “To contribute to public expenses, both of the Federation and of the States, of Mexico City and of the Municipality where they reside, in the proportional and equitable manner established by law” (Political Constitution of the United Mexican States, 2024, Article 31).

Public spending is defined as the disbursement made by the State in implementing and executing its plans and programs. These resources can be allocated to current expenditure, capital expenditure, and financial investment, as well as to debt payments and transfers made by various public sector entities (INEGI, 1994).

Regarding economic variables linked to public spending, Urdiales and Gallardo (2012) analyze the relationship between private investment decisions and revenue collected through the income tax, along with public spending. They argue that primary public spending stimulates private investment, which can positively impact the generation of decent wages and employment, as it encourages new companies to bring their operations to Mexico.

Sobarzo (2004) emphasizes the importance of taxpayer compliance for the proper functioning of public spending. However, when tax collection lacks clarity or transparency, and external factors such as oil price fluctuations arise, the State may fall short on revenue and be forced to incur debt.

Once the revenue budget is approved, the government is obligated to meet the agreed-upon targets.

Tax compliance has been one of the key challenges for the Mexican government, as citizens often do not perceive the benefits of public spending in their daily lives. In this regard, Sánchez-Juárez (2018) examines the relationship between the Social Competitiveness Index (SCI) and fiscal policy, asserting that adequate tax collection positively influences economic growth and the promotion of fair wages. Conversely, the author points out that social inefficiency and limited public spending contribute to weak economic development.

Santiró (2011) also infers that there are significant links between the performance of the Mexican economy and the sources of tax revenue. He emphasizes that for the Mexican government, auditing as many taxpayers as possible has always been an urgent necessity. Despite obstacles such as tax evasion, the government has persisted in efforts to enforce compliance.

In this line of thought, Ross (2023) notes that informality reduces the tax base, which negatively affects the amount of revenue collected, a phenomenon common in Latin American countries with high levels of informal employment. Similarly, Vela et al. (2013) argue that tax evasion leads to disparities in macroeconomic variables such as investment, production, and wages, highlighting the importance of effective fiscal policies to mitigate these negative effects.

Given that tax evasion is a widespread issue across economies, several authors have proposed strategies to combat it. For instance, Pulido (2007) points out that stricter penalties, fiscal discipline, and improved monitoring mechanisms reduce tax evasion. He also argues that economic growth helps mitigate evasion and improves social well-being, contributing to better wages and employment opportunities.

On another front, Celestino (2021) proposes an interesting hypothesis about the potential for implementing a welfare state in Mexico similar to the Nordic countries, where effective oversight and a strong fiscal policy help ensure fair wages and reduce inequality. Finally, Sovilla et al. (2021) discuss the importance of a fiscal reform aimed at increasing tax revenue, thereby allowing the government to fund employment and wage policies that help combat poverty. In this sense, tax oversight in Mexico could generate a domino effect impacting various macroeconomic aspects.

**Fiscal policy**

In Mexico, as in many other countries, defining an optimal fiscal policy has proven to be a key element for the labor market. Among the main reasons for implementing effective tax policies, Martínez et al. (2018) highlight that an appropriate tax policy can increase individuals' purchasing power, which in turn fosters greater engagement in the workforce. In this way, a sound tax strategy is crucial not only to prevent unemployment, but also to reduce informality.

Further emphasizing the importance of implementing tax policy, Durán (2022) argues that it is essential to stimulate economic development and promote progressive tax reforms, especially because tax evasion undermines a country's revenue-generating capacity. This is particularly critical in economies marked by high inequality and informality, as it affects the State's ability to fund public policies, including those related to wages.

In this regard, Montañés (2008) examines how digital tools, such as electronic accounting, enhance transparency and accountability in local public administrations. These mechanisms support the

creation of more robust fiscal policies that help mitigate the impact of tax evasion. The author also notes that tax contributions are a major component of the State’s revenue. For example, in 2024, the amount collected was approximately 4.942 trillion pesos, an outcome made possible by various strategies to audit taxpayers, such as electronic invoicing, the implementation of the tax mailbox, and the new tax framework known as RESICO.

In line with this, Bellon et al. (2020) argue that during the first year following the adoption of electronic invoicing, the sales and added value of businesses increased by over 5 percent. The impact was particularly concentrated among small businesses and sectors with historically high rates of non-compliance, suggesting that electronic invoicing improves compliance by lowering compliance costs and strengthening deterrence mechanisms.

Complementing the above, the SAT (Tax Administration Service) reported that as of July 2014, all taxpayers, whether individuals or legal entities, have been required to submit their accounting electronically through CFDI, allowing for greater control over reported income. Once an invoice is stamped and sealed, it is recorded in the SAT’s portal and can be accessed at any time by both the issuer and the recipient.

While these strategies aim to reduce tax evasion, they also entail significant expenditures for the government. However, public investment in infrastructure can stimulate regional economic activity, which in turn may expand the tax base and increase overall tax revenue.

Despite the substantial financial investment made by SAT to improve its electronic systems, Rentería (2023) notes that by the end of the first half of 2023, the SAT recovered 212.9 pesos for every peso it invested in audits, a historic amount according to the Tax and Management Report. In the same period of the previous year, the federal treasury recovered 135.2 pesos per peso invested in oversight actions. Accordingly, SAT’s return on investment indicator showed an annual increase of 77.7 pesos.

Another key aspect is ensuring that taxpayers receive proper information about their tax obligations and how electronic notifications can facilitate this process. Electronic communication has proven to be more effective and helps avoid enforcement costs for the State. For this reason, the SAT implemented the tax mailbox, replacing previous methods in which SAT personnel had to physically visit taxpayers’ homes to deliver notifications or requests from the authority. That method faced various challenges, such as not finding the taxpayer at home or not locating the address at all, which delayed the notification process. Moreover, it involved additional operational costs related to personnel salaries, printed materials, and repeated visits.

**Simplified Trust Regime**

One of the main objectives of the State is to reduce informality and tax evasion, challenges that continue to pose significant difficulties for current administrations, given the goal of auditing as many taxpayers as possible to increase income tax revenues. In this context, Rivera-Huerta et al. (2016) analyze the policies implemented to improve the productivity of individuals and informal microenterprises in Mexico, including the introduction of new tax regimes and their impact on the formalization of these businesses.

According to the National Survey of Occupation and Employment (ENOE), informality in Mexico increased from 27.9 million people in 2020 to 32.4 million by December 2022, reflecting a growing trend in the informal economy. This phenomenon highlights, on one hand, the impact of the

economic downturn caused by the pandemic on the personal and family economies of Mexicans, and on the other hand, the weakness of federal public policies designed to support informal sector workers.

As previously noted, the informal economy plays an important role in national economic recovery. However, new perspectives have emerged on this issue. Ross (2023), for instance, opens the debate on whether certain tax regimes may influence informality among individuals and businesses, analyzing whether current tax structures encourage or discourage business formalization.

On this topic, Vela et al. (2013) investigate how fiscal, and labor policies affect informality in Mexico, exploring the relationship between the tax burden and the decision of companies and individuals to operate informally. Their findings suggest that certain tax burdens, and the evasion thereof, help explain the differences in taxpayer size between Mexico and the United States, and that informality has significant implications for the country's tax revenue.

A particularly relevant reflection on tax evasion in Mexico is provided by Pulido (2007), who asserts that the country faces a serious challenge in this area. According to his analysis, Mexico ranks among the countries with the highest levels of tax evasion, which directly impacts fiscal revenue. He explores the dynamics between tax authorities and taxpayers, and how the informal economy contributes to this issue. Tax policies aimed at reducing labor informality in Mexico have not yielded the expected results. According to the current tax administration, the response to addressing labor informality lies in the so-called Simplified Trust Regime, which has been in force since the 2022 fiscal year.

Following this rationale and with the goal of curbing tax evasion, the Simplified Trust Regime was created as an administrative simplification to make income tax (ISR) payments easier, faster, and more efficient. The goal of this new scheme is to reduce tax rates for individuals and legal entities with lower income, so that they pay less. This initiative from the Tax Administration Service (SAT) is based on the best international practices.

Regarding tax oversight, RESICO, according to Coto (2021) in an interview with SAT's head Raquel Buenrostro, has shown positive results in countries where similar measures have been adopted, increasing the taxpayer base by 15% to 30% over a period of three to five years. In Mexico's case, the official expects a growth between 15% and 20%.

As previously mentioned, and reaffirmed by Rentería (2023), the Simplified Trust Regime fulfills its goal of simplifying tax payments for taxpayers, a success not due to luck but rather the result of technological development, modernization of tax frameworks, and effective use of data. According to the Ministry of Finance and Public Credit, the first aim of RESICO is to facilitate voluntary compliance by simplifying the tax payment process. Its second objective is to integrate informal workers into the formal economy.

## Methodology

The objective of this study is to examine the correlation between income tax revenue, resulting from fiscal policies, and how this variable has affected the increase in the minimum wage and the labor market, particularly employment. To do so, we rely on basic concepts of econometrics.

**Econometric Methodology**

To demonstrate the indirect effect of tax revenue on the unemployment rate, we use a two-stage least squares (2SLS) model, which involves two related regressions. This approach is selected because it allows for a more precise identification of the indirect relationships among the variables analyzed. Specifically, it is acknowledged that the minimum wage is not only influenced by tax revenue but also impacts other variables such as unemployment and informality. Using a single direct regression could lead to biased estimates, as it would not properly account for the intermediate effect of the minimum wage.

With the two-stage model, we first estimate how tax revenue affects the minimum wage and then use that estimated value to analyze its impact on other labor market variables. This methodology improves the robustness of the results, as it helps control for potential endogeneity and produces more reliable and statistically significant coefficients.

Before proceeding, it is important to understand the basic concepts behind linear regression analysis. The first is the intuitive interpretation of the slope coefficient, which measures the relationship between a dependent variable and an independent variable. The second is the statistical significance of the impact that a regressor variable has on the regressed variable. To capture both concepts, we rely on the following linear expression:

$$Y_i = a_0 + a_1X_1 + a_2X_2 + \cdots + a_kX_k + U_i \qquad (1)$$

where, $Y_i$ represents the dependent variable, and $X_1, X_2, \dots, X_k$ are the k possible explanatory variables. The coefficients $a_i$ measure the effect of a change in each independent variable on the dependent variable. Meanwhile, $U_i$ is the stochastic error term, which captures all disturbances not caused by the explanatory variables, such as a crisis, a pandemic, a war, or other uncontrolled phenomena.

To determine whether the variable $X_1, X_2, \dots, X_k$, individually have a statistically significant effect on $Y_i$, hypothesis tests are formulated for each coefficient using the following structure:

$$H_0: a_j = 0 \quad \text{vs} \quad H_a: a_j \neq 0, \text{ for } j = 1,2, \dots, k$$

These hypotheses are tested using ($p_{value}$). A ($p_{value}$) less than 0.05 indicates that the variable $X_j$ is statistically significant in explaining changes in $Y_i$, at a confidence level of at least 95%.

Finally, in cases where the dependent variable $Y_i$ in equation (1), may also serve as an explanatory variable for other outcomes, separate estimations must be considered. In such cases, a first-stage regression is performed to estimate $Y_i$, which is then used as an explanatory variable for a new dependent variable $W$, through a second estimation:

$$W_i = a_0 + a_1\widehat{Y}_i + a_2X_{\mathrm{Ji}} + U_{iW} \qquad (2)$$

Where $J$ denotes a variable from model (1) that was not included in the first stage, and $U_{iW}$ is an error term. Note that some of the variables $X_{\mathrm{ki}}$ from equation (1) may have an indirect influence on $W_i$ through $\widehat{Y}_i$, This procedure is known as two-stage least squares (2SLS), although there are other ways to define it (Gujarati, 2007).

## Analysis and results

Figure (1) illustrates the increase in tax revenue during the last two federal administrations in Mexico. This growth is attributed to the commitment and growing number of taxpayers, as well as to the implementation of tax enforcement strategies.

With this in mind, our main interest lies in understanding the role that such revenue plays in the labor market. To quantitatively demonstrate this effect, Table 1 presents the data and construction of the variables related to labor market outcomes

**Figure 1**

*Graph of Tax Payments from 2012 to 2024*

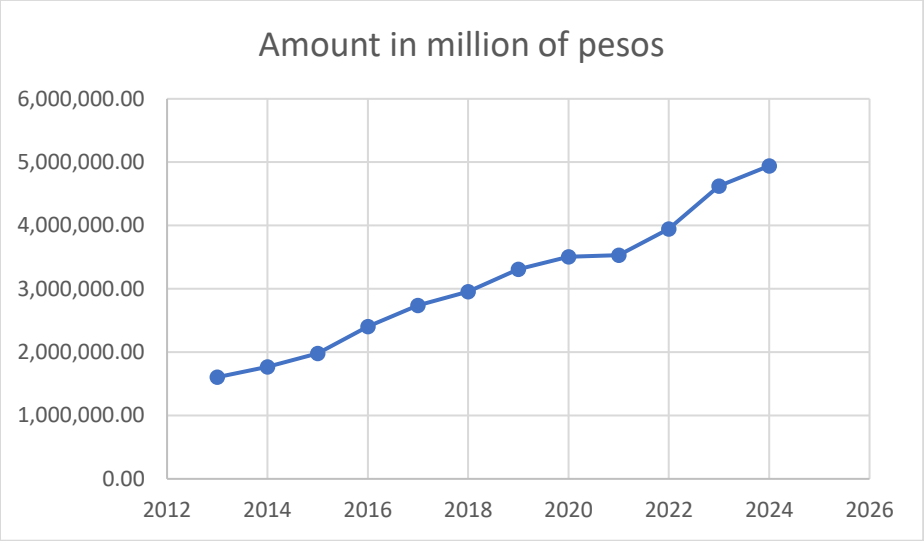


Table 1: Data and variables

| Label | Variable Description | Source |
|---|---|---|
| $Y_i$ | **Number of unemployed individuals in Mexico** | **Official data from INEGI (2024)** |
| $Y_{2i}$ | **Number of informal businesses** | **Official data from INEGI (2024)** |
| $X_{1i}$ | **Revenue from income tax collection** | **Official data from the Federal Revenue Law (Government of Mexico, 2024)** |
| $X_{2i}$ | **Minimum wage in Mexico** | **Official data from INEGI (2024)** |

Source: Own elaboration

Our first hypothesis is to test how tax revenue supports the evolution of minimum wages. This relationship is expressed in the following equation:

$$\widehat{\boldsymbol{lnX}_2} = 2.63 + 0.907\boldsymbol{X}_1 \qquad (3)$$

$$\boldsymbol{P}_{\boldsymbol{value}} \qquad (0.000)$$

From equation (3), we observe that in addition to being statistically significant, the coefficient of 0.907 indicates that for every trillion pesos collected, the minimum wage increases by 0.9%.

By defining as the wage explained through tax revenue, we now examine whether this tax collection policy, used to support minimum wages, is beneficial or not for employment levels. This is analyzed in the following estimation:

$$\widehat{Y_1} = 4.21 - 0.375\widehat{\boldsymbol{X}_2} \qquad (4)$$

$$\boldsymbol{P}_{\boldsymbol{value}} \qquad (0.000)$$

Estimation (4) shows the indirect, significant, and positive effect of tax revenue, channeled through increases in minimum wages, on the reduction of unemployment. Specifically, equation (4) indicates that for every percentage increase in the minimum wage resulting from tax enforcement, 37 fewer individuals are in unemployment conditions.

While there is a positive effect on employment levels due to the support of minimum wages, we now examine its relationship with the number of informal businesses. This is analyzed in the following estimation:

$$\widehat{Y_2} = -1.0701 + 1.0024\widehat{\boldsymbol{X}_2} \qquad (5)$$

$$\boldsymbol{P}_{\boldsymbol{value}} \qquad (0.000)$$

Similar to estimation (4), estimation (5) is also statistically significant (p-value < 0.05), indicating that supporting minimum wages through tax revenue has meaningful implications for the labor market. However, estimation (5) reveals that such support for minimum wages may have negative consequences on the number of informal businesses.

Intuitively, estimation (5) suggests that if companies perceive the government-mandated increase in the minimum wage as an imposition, they will prefer to operate informally. Specifically, for every one percent increase in minimum wage support, there will be approximately one additional business (1.0024) entering the informal market.

**Discussion**

The findings of this study highlight the importance of key factors in achieving a reasonable balance through government tax enforcement. Among these, the unemployment rate, the number of informal businesses, and the minimum wage stand out. Based on this, the literature emphasizes that fiscal oversight must be a priority for the government, since higher income tax revenues allow for increased social support and public investment. This economic chain brings several benefits, as noted by Urdiales and Gallardo (2012), who support the correlation between private investment decisions, income tax collection, and public spending. The authors argue that primary public expenditure stimulates private investment, which can, in turn, lead to better wages and employment, making Mexico an attractive destination for foreign investment.

Our analysis starts from the idea that greater government revenue from income tax allows for the subsidization of minimum wage increases, which justifies more detailed and effective oversight. As Santiró (2011) explains, there is a relationship between economic performance and sources of tax revenue. Therefore, government efforts to audit a majority of economic activities are both necessary and justified. Santiró concludes that stronger tax enforcement results in greater revenue, enabling the government to fulfill its campaign promises, including higher wages, such as minimum wage increases.

In the same line of thought, it is evident that greater enforcement not only supports minimum wage increases but also reduces unemployment, as noted by Güemes et al. (2012). The authors analyze how variations in the minimum wage can influence the labor market, including the effects on unemployment. In doing so, informal employment is mitigated, as more individuals choose to work in registered companies that enroll their employees in the tax system.

Our study shows that fiscal oversight is not entirely socially optimal. While it generates positive effects for society, it also leads to an increase in the number of informal businesses. This implies that fiscal enforcement should be seen as a complex phenomenon that may require an additional key variable to function in a logically consistent way. In this regard, Sánchez-Juárez (2018) establishes a relationship between the Social Competitiveness Index (SCI) and fiscal policy, demonstrating that social inefficiency, combined with stagnant public spending, contributes to low production growth.

That is, fiscal enforcement alone cannot achieve the desired socioeconomic outcomes. Oversight must be strategically implemented, particularly because many taxpayers, especially small and medium-sized businesses, are dissatisfied with rising tax rates. Despite the introduction of new tax regimes, these have not yet been fully embraced by the population. As Prealc (1975) highlights, without sufficient government support, many entrepreneurs seek to sustain themselves through informal activities, thus perpetuating the cycle of informality.

Rivera-Huerta et al. (2016) argue that the lack of effective policies to support SMEs contributes to their persistence in informality. They propose the implementation of support programs to facilitate access to formal markets. Through effective public policies, oversight could fulfill its intended role: supporting taxpayers, promoting productive public spending, and enabling governments to meet their commitments. Both the findings of Rivera-Huerta et al. (2016) and our own results support the idea that tax enforcement is not an end, but a means. Enforcement without justification merely pushes new entrepreneurs toward informality as a quick way to cut costs. Increasing the minimum wage, raising tax rates, and expanding expenses without reinforcing social programs makes it unsustainable for emerging businesses to enter the formal market.

As demonstrated in the econometric analysis, increasing taxes solely to fund minimum wage hikes is poorly received by taxpayers, as it complicates their daily operations, cash flows, and liquidity. Entrepreneurs who do not see the return on their contributions through public spending, and who only perceive rising tax burdens, often opt for informality. There, they can operate more freely and even offer higher wages, since they are not required to pay for social security, income tax, payroll tax, and other formal obligations. For this reason, the Mexican government should support informal businesses; productive public support can improve the competitiveness of microenterprises. Otherwise, the lack of inclusion and institutional access fosters informality, as integration into the formal economy becomes too difficult (Tokman, 1994).

For instance, after emerging from the economic recession caused by the COVID-19 pandemic, many business owners reported feeling unsupported by the government. On the contrary, new fiscal reforms worsened their economic situation, pushing them toward informality and forcing them to “get creative” in building trust and incentives for their workers. This is supported by Vanegas-Chinchilla et al. (2023), who analyze the experiences of informal sector entrepreneurs, showing how they develop alternative mechanisms to make up for the lack of government support and keep their businesses running. Along these lines, Rodríguez (2017) suggests that transparent and efficient public spending fosters a positive perception among businesses and citizens, which, in turn, may increase taxpayers’ willingness to comply with their fiscal obligations.

Fiscal oversight is, and will always be, a deeply controversial topic. There is a well-known saying: “There are two certainties in life, death and taxes.” If there is a government, taxes will exist. Therefore, synergy between the government and taxpayers must be sought, ensuring that public revenue is sufficient to cover the federal expenditure budget, while also allowing citizens to see the results of their contributions. These outcomes must be visible through tangible improvements and support for entrepreneurs. Promoting financial education, supporting new businesses, and fostering collaboration with the State can motivate the population to fulfill their tax obligations. In this regard, Sour (2006) presents evidence showing that taxpayers are more willing to pay when they perceive that taxes are used effectively, particularly when quality public goods are delivered.

**Conclusion**

Throughout this research, the authors have agreed that well-directed tax enforcement can be perceived positively by taxpayers; however, taxes must be applied according to the country's needs. The goal is not merely to collect more taxes or create new tax regimes, as such measures, rather than fostering a stable and healthy fiscal policy, may have the opposite effect. If taxpayers perceive these actions as an abuse of power by the authorities, it generates distrust in the fiscal system and may weaken the relationship between society and the State.

Based on the econometric analysis, the results show that although there is a positive relationship between tax enforcement measures and the increase in the minimum wage, these same measures have led to a rise in the number of informal businesses. Often, operating within the formal economy results in profit margins lower than expected. Addressing informality and tax evasion must be a top priority for any administration, as the government needs revenue to meet its obligations. If revenue targets are not met, external financing becomes necessary, which can lead to a vicious cycle of growing external debt, potentially triggering a domino effect across other areas of the economy, such as inflation, recession, and currency devaluation.

This phenomenon underscores the need to rethink the purpose of fiscal policy so that it not only focuses on revenue collection but also encourages business formalization by creating a favorable environment for small and medium-sized enterprises (SMEs).

It is worth noting that although the implementation of the Simplified Trust Regime has increased income tax collection, it has not achieved its primary objective: bringing SMEs and individuals into the formal tax system. This is partly due to the lack of financial and tax education in Mexico. Many people are unaware of the ultimate purpose of taxes, which fosters a setting conducive to continued informality. No matter how innovative fiscal policies may be, their real impact will remain limited unless accompanied by educational efforts aimed at raising public awareness about the importance of tax compliance and business formalization.

Throughout this study, the authors propose that the most effective way to combat informality is through incentives and support programs rather than coercion or punishment. This approach enables informal businesses to recognize the benefits of formalizing, contributing to the creation of an economic ecosystem where small and medium-sized enterprises can thrive within the legal framework.

A key element for advancing tax enforcement, on which several authors agree, is the need for transparency in the use of tax revenues. Taxpayer trust in the fiscal system largely depends on how collected revenues are perceived to be spent. If citizens see that their taxes translate into improvements and tangible public spending, they will be more willing to comply with their tax obligations.

In terms of practical implications, the findings of this research offer useful evidence for the design of both fiscal and labor policy. From a fiscal standpoint, the importance of efficient and progressive tax collection is emphasized, as it enables the funding of social policies without creating incentives for evasion or informality. At the same time, from a labor perspective, the results suggest that increasing the minimum wage can be a viable strategy, provided it is supported by a strong and well-designed fiscal framework. Therefore, policymakers could use these results as an empirical basis for developing comprehensive measures that strengthen formal employment and improve income distribution without compromising labor market stability or competitiveness.

Finally, although this research has focused on the government's role, ongoing collaboration between the public and private sectors is also essential. Establishing dialogue between tax authorities and business organizations is crucial for designing strategies that promote both effective tax collection and economic growth.

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