Economic Analysis

Mexico | A Remittance Tax Would Be Unfair, Regressive, and Contrary to International Commitments, but Would Have Limited Effects and No Significant Impact on the Balance of Payments

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- **The U.S. House of Representatives proposed a 5% tax on remittances sent by undocumented migrants to any global destination. This tax would be unfair, regressive, and contrary to international agreements, but would have limited effects and would not significantly affect the balance of payments.**

- **In 2024, Mexico received $62.5 billion in remittances from the United States, sent by 8 million Mexican-born individuals with legal status (citizens or residents), in addition to millions more second-generation Mexicans. The universe potentially affected by a tax would be the approximately 4 million undocumented Mexicans residing in the United States.**

- **With the tax, the cost of sending $350 from the U.S. to Mexico would increase from $6.00 to $23.50 (almost four times the current cost). This significant price distortion would force undocumented migrants to seek alternative ways to send money.**

- **Three alternatives have been identified that could be used to avoid the tax: 1) seeking support from family members or friends with U.S. citizenship or residency; 2) opting for banking access to receive remittances through interbank transfers; and 3) using informal remittance channels.**

- **If the tax promotes the use of informal channels for sending remittances, and these become stronger, it could encourage the participation of criminal organizations in these activities.**

- **In an initial estimate, the remittance flows that could be most affected by this tax would be, in an extreme scenario, those from Tamaulipas (-4.4%), Guerrero (-4.3%), Puebla (-3.6%), Oaxaca (-3.6%), and Veracruz (-3.4%).**

- **Mexican authorities and financial institutions must respond to this challenge by increasing the level of financial inclusion, which would contribute to the current administration's digitalization agenda.**

U.S. Bill Proposal: 5% Excite Tax on Remittance Transfers Sent Abroad

On Tuesday, May 12, the U.S. House Committee on Ways and Means (2025) introduced a legislative reform package colloquially known as "**The One, Big, Beautiful Bill**". This initiative aims to provide legal and financial support for the programs and projects of President Trump's new administration within the fiscal year 2026 budget.

Section 112105 of this proposal establishes an **excise tax on remittance transfers** sent abroad, with the following features:

- A 5% tax would be applied to all remittance transfers sent from the United States to foreign countries, to be paid by the sender at the time of the transaction.
- The remittance service provider would be responsible for collecting the tax and transferring it to the U.S. Department of the Treasury.
- U.S. citizens (including nationals) would be exempt from this tax. To qualify, the remittance provider must be certified to properly verify the sender's identity and citizenship.
- Although the language is not entirely clear, it is anticipated that individuals with a valid Social Security number (e.g., permanent residents or Green Card holders) may be entitled to a tax credit to recover the amount paid.

In summary, **this proposed 5% remittance tax would primarily target the undocumented migrant population sending money to their countries of origin.**

On Friday, May 16, the initiative was halted due to opposition from some Republican lawmakers. However, on the evening of Sunday, May 18, the House Budget Committee gave the green light to move forward with the bill. We believe there is a significant likelihood that the remittance tax will be included in the final approval of the fiscal year 2026 budget. Since it only affects undocumented individuals, the political cost could be relatively low.

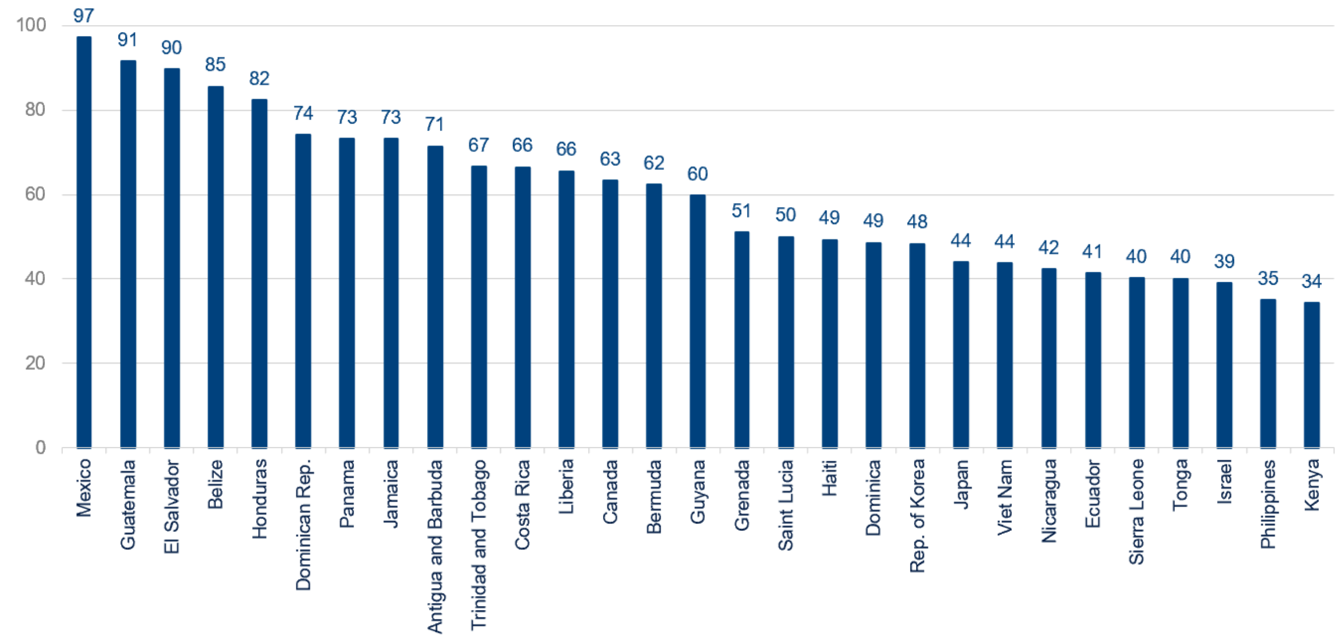
97% of Remittances Received by Mexico Come from the United States

The World Bank estimates that the **United States is the source of 25.6% of all remittances sent globally** (World Bank, 2022). For 2024, the global remittance flow is projected to reach 905 billion, of which approximately 230 billion would originate from the United States.

Based on data from the Bilateral Remittance Matrix compiled by the World Bank (2022), it is possible to estimate the share of remittances from the U.S. received by each country. In Mexico's case, 97% of its remittances come from the U.S., making it the country with the highest dependency on resources sent from the United States.

Chart 1 shows that in many Central American and Caribbean countries, a significant share of remittances also comes from the U.S. In Honduras, Belize, El Salvador, and Guatemala, between 82% and 91% of total remittances originate from that country.

Chat 1. **PERCENTAGE OF REMITTANCES RECEIVED FROM THE UNITED STATES OUT OF TOTAL, MAIN COUNTRIES, 2021** (%)



Note: Some island countries were not included in the chart.
Source: BBVA Research based on data from the World Bank, 2022.

With the Tax, Sending $350 from the U.S. to Mexico Would Increase from $6.00 to $23.50 (Almost Four Times Higher); Alternatives Would Be Sought

The Mexican Federal Consumer Protection Office (Profeco, 2025) estimated that during the first weeks of May, the average cost of sending $350 from the U.S. to Mexico was around $6.00. Imposing a 5% tax on the amount sent would add $17.50 to that cost, raising the total cost per transaction to $23.50. This would represent nearly four times the current remittance cost.

A tax increase of this magnitude could distort the market and drive migrants to seek alternative methods to send money to their countries of origin. Three categories of alternatives that senders might use to avoid paying the tax have been identified:

1. Many undocumented migrants could turn to family and friends with U.S. citizenship or residency to send remittances on their behalf.
2. Other migrants and their families in Mexico might choose to become banked, allowing them to receive these funds through interbank transfers, which would not be subject to the tax.
3. It is possible that multiple informal channels for sending and receiving these funds and remittances may emerge and develop.

5% Tax Would Only Affect Remittances Sent Directly by Undocumented Migrants

The majority of the Mexican migrants in the United States is documented. According to estimates from the Current Population Survey (CPS), approximately 12.7 million Mexican migrants resided in the United States in 2024. Of that total, 4.5 million are U.S. citizens, around 3.7 million are permanent residents or have another form of regular immigration status, such as a visa, and an estimated 4.5 million are undocumented.

Within this last group, about 400,000 are beneficiaries of the Deferred Action for Childhood Arrivals (DACA) program, which grants protection from deportation and work authorization. Therefore, the segment of the Mexican migrant population that could be directly affected by the current tax proposal amounts to approximately 4.1 million people. The remaining 8.6 million Mexican migrants, who also send remittances, in principle, would not be affected by this tax.

An undocumented Mexican migrant may rely on a supportive family or community network to help them send remittances without paying the tax. For example, they could seek assistance from a son or daughter, siblings, uncles or aunts, grandparents, cousins, or trusted acquaintances who are U.S. citizens or hold legal immigration status. We believe this will be the first alternative undocumented migrants will turn to in order to avoid paying the new remittance tax.

Additionally, it is known that second-generation individuals of Mexican origin, those with at least one parent born in Mexico, also send remittances, though at lower rates. In contrast, third-generation individuals almost never send remittances. Far from being a limitation, this represents an opportunity: there are 8.0 million adult second-generation Mexicans and 7.9 million adult third-generation Mexicans who could assist undocumented Mexican migrants in sending remittances, thereby helping them avoid the tax.

Table 1. **MEXICAN POPULATION POTENTIALLY SUBJECT OR NOT TO THE PROPOSED 5% REMITTANCE TAX, 2024**

MUST pay the tax for sending remittance	
4.1	millions of undocumented Mexican migrants without DACA benefits
Tax would be charged, but they would receive a tax credit for reimbursement (4.1 million)	
3.4	millions of Mexican migrants with permanent residency (Green Card)
0.3	millions of Mexican migrants with another type of regular immigration status (e.g., visas)
0.4	millions of Mexican migrants considered undocumented but beneficiaries of Deferred Action for Childhood Arrivals (DACA)
WOULD NOT be charged the tax for sending remittances (20.4 million)	
4.5	millions of Mexican migrants with U.S. citizenship
8.0	millions of second-generation Mexicans aged 18 or older (with a Mexican-born parent)
7.9	millions of third-generation Mexicans aged 18 or older (self-identified as of Mexican descent)

Source: Estimates by BBVA Research based on data from the Current Population Survey, Annual Social and Economic Supplement (CPS ASEC), 2024; and Passel & Krogstad (2024), Pew Research Center (PRC).

There Is an Opportunity to Increase Financial Inclusion for Migrants in the U.S. and Their Families in Mexico

A significant share of remittances sent from the United States to Mexico is processed through money transfer companies, with transaction fees ranging from 5 to 10 dollars for amounts between 300 and 500 dollars (the average remittance is 386 dollars). This cost can be reduced to around 5 dollars if the transaction is made from a bank account, prepaid card, mobile app, or online platform, and if the funds are deposited directly into a bank account in Mexico. In contrast, when money is sent in cash from a store or commercial location in the U.S. and received in cash at a counter in Mexico, the cost tends to approach 10 dollars.

With the implementation of a 5% tax on the amount sent, the cost of transferring 350 dollars would rise from 6.00 to 23.50 dollars, making interbank transfers a more cost-effective alternative, in addition to being safer and more convenient. An international bank transfer from the U.S. to Mexico has an average cost of between 25 and 40 dollars per transaction, allowing for the transfer of much larger sums (up to 100,000 dollars or more) in a single operation. In contrast, traditional remittance services often impose monthly limits of up to 2,000 dollars per person in some institutions.

With the tax in place, making four 350 dollar transfers would cost nearly 100 dollars. In comparison, sending 1,400 dollars via an interbank transfer would cost between 25 and 40 dollars, making it a significantly more economical option.

According to estimates by BBVA Research, 85% of adult Mexican migrants in the United States have a bank account. This high level of banking penetration is due to the fact that many services and payments —including rent and utility bills— must be made through the formal financial system, regardless of a person's immigration status.

The challenge in receiving remittances through the banking system lies in the low level of financial inclusion among recipients in Mexico. Whether due to convenience, habit, or fear of government scrutiny, remittance recipients prefer to receive the money in cash at the counter. However, if the remittance tax is implemented, the search for lower-cost options could indirectly drive greater financial inclusion among recipient households in Mexico, which would bring benefits in terms of reduced crime, increased digitalization of the economy, and improved well-being for recipient families.

Multiple Informal Channels for Sending and Receiving Remittances May Emerge and Develop

Those who are unable to rely on a relative or acquaintance with citizenship or legal residency to send remittances, and who also lack access to the banking system, will likely seek alternatives through informal channels to send and receive these funds. One of the main risks associated with the approval of a high remittance tax in the United States is that it could create favorable conditions for the emergence and development of informal remittance mechanisms, which may be either legal or illegal.

Among the legal alternatives that could reemerge or be strengthened in response to the rising cost of sending money from the United States to Mexico are:

- **Independent remittance couriers who charge a fee.** During the 1980s, it was common for individuals to offer remittance or goods delivery services from the United States to Mexico in exchange for a commission. With the expansion of formal remittance companies and the growth of electronic transfers beginning in the mid-1990s, these informal services largely disappeared. However, a significant increase in remittance costs could once again encourage the return of these informal agents.

- **Cross-border e-commerce.** Another option is the purchase of goods and services online, paid for in the U.S. and delivered directly in Mexico. This includes both products physically shipped from the U.S. and arrangements with binational companies that manage deliveries from warehouses within Mexican territory. This mechanism allows households to meet their needs without the need to send money directly.
- **Sale of digital wallets and gift card balances.** In response to rising remittance costs, a market could emerge for digital wallets and gift cards purchased in the United States and used in Mexico to make purchases. This option would allow migrants to provide economic support to their families without resorting to traditional cash transfers.

However, if the tax encourages the use of illegal informal channels for sending money, and those channels grow stronger, it could also incentivize the participation of criminal organizations in these activities. In other words, the current legislative proposal could disrupt an efficient, competitive, formal, and legal cross-border money transfer market and create the foundation for the expansion of an unregulated informal remittance market.

Tamaulipas (-4.4%), Guerrero (-4.3%), Puebla (-3.6%), Oaxaca (-3.6%), and Veracruz (-3.4%) Are Estimated to Be the States Most Affected by the Remittance Tax

Estimating the impact of the current proposal to impose a remittance tax is extremely complex due to the market distortions this measure would create. As previously mentioned, it is likely that senders will seek alternatives to maximize the value of the money sent to their families in Mexico, which could result in some of these flows no longer being officially recorded as remittances. The exercise presented below represents an extreme case of reduced remittance flows, as it does not consider the use of alternative channels.

Moreover, each migrant or migrant community in the United States has specific characteristics that can either facilitate or hinder their ability to adopt mechanisms to avoid paying the tax. Some individuals may easily rely on family or friends to send the money, others may use bank transfers, while others will have no choice but to pay the corresponding tax.

For this analysis, a series of simplifying assumptions were made in order to provide an initial estimate of the possible impact of the tax on the volume of remittances received. While these assumptions do not fully reflect the real-world complexity of the issue, they help outline a baseline scenario. The main assumptions are as follows:

1. Migrants maintain their remittance-sending behavior without attempting to avoid the tax; in other words, demand is assumed to be perfectly inelastic, with no substitution effect.
2. Migrants do not increase the total amount spent on remittances; instead, they reduce the amount sent by a percentage equivalent to the tax cost (a 5% reduction).
3. The annual amount of remittances sent by undocumented migrants is assumed to be similar across Mexican federal entities.
4. There is no disaggregated data distinguishing the proportion of remittances sent by citizens or residents versus undocumented migrants. **Based on qualitative observations, this exercise assumes that 50% of all remittances received in Mexico are sent by undocumented and/or temporary migrants.**

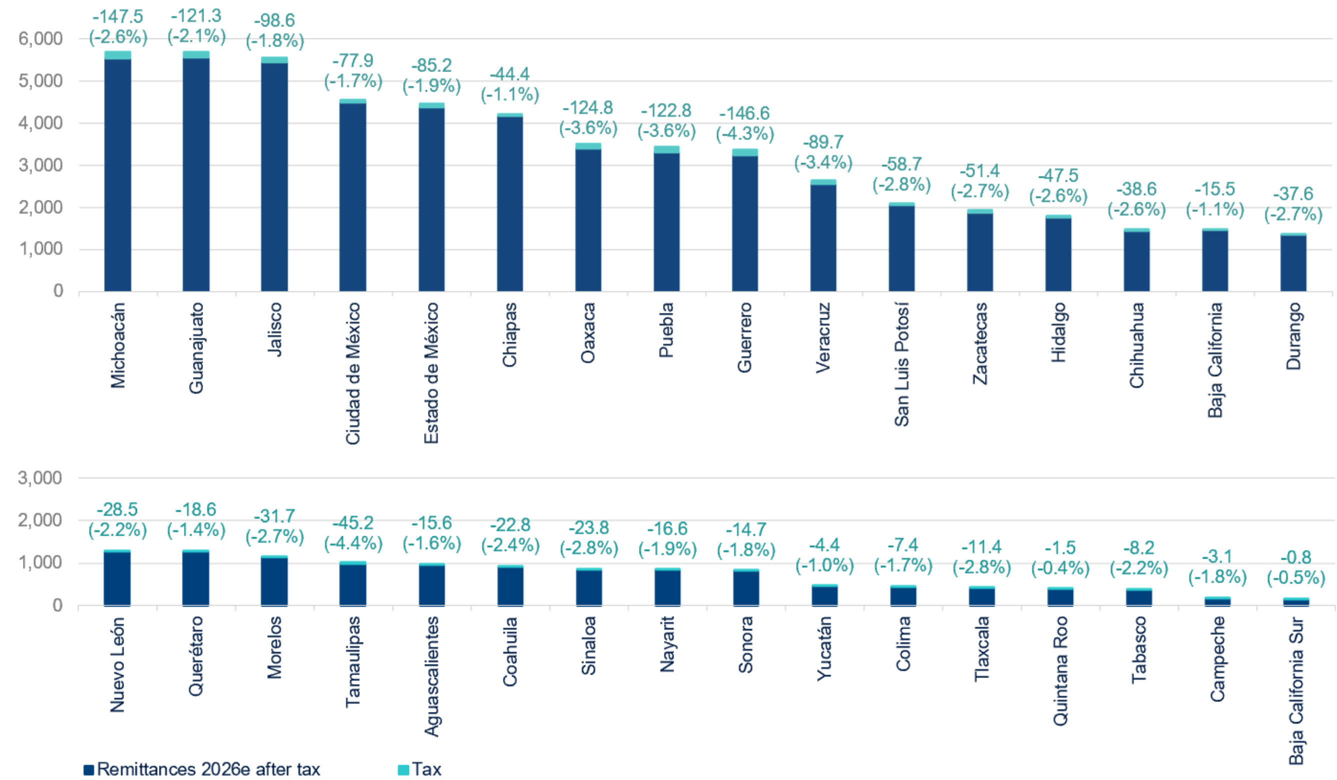
5. To estimate the geographic distribution of the 4.1 million undocumented migrants potentially affected by the tax, the average percentage of consular ID issuances from the Institute for Mexicans Abroad (IME) for the years 2021, 2022, and 2023 was used. This ID certifies the nationality and identity of the holder and is commonly issued to undocumented migrants.

In 2024, Mexico received 62.5 billion dollars in remittances from the United States. Based on these assumptions, the impact in Mexico of a 5% tax on remittances sent by undocumented migrants (62.5 billion / 2 = 31.25 billion dollars) would amount to: 31.25 billion × 5% = 1.563 billion dollars for 2026.

The states that would face the greatest monetary losses are estimated to be: Michoacán (-147.5 million dollars, md), Guerrero (-146.6 md), Oaxaca (-124.8 md), Puebla (-122.8 md), and Guanajuato (-121.3 md). Meanwhile, the largest relative impacts (as a percentage of total remittances received) would be observed in: Tamaulipas (-4.4%), Guerrero (-4.3%), Puebla (-3.6%), Oaxaca (-3.6%), and Veracruz (-3.4%).

As mentioned earlier, it is important to note that the actual effects on remittance flows are likely to be smaller than estimated, since it is probable that some of the funds will continue to be sent through alternative channels not captured in official statistics.

Chart 2. **ESTIMATED POTENTIAL IMPACT ON REMITTANCE INCOME FROM A 5% TAX ON REMITTANCES SENT BY UNDOCUMENTED MIGRANTS, WITHOUT CONSIDERING SUBSTITUTION EFFECT, BY STATE, 2026e** (MILLION DOLLARS AND %)



Note: Review the list of assumptions for the estimate. e/ BBVA Research estimate.
Source: BBVA Research estimates based on data from the Bank of Mexico and the Institute for Mexicans Abroad (IME) for 2021, 2022, and 2023.

The Measure Would Not Have Significant Effects on Mexico's Balance of Payments

As documented by Alejandro Werner, remittances are a fundamental component of Mexico's balance of payments. According to his analysis, without the remittance flow, the current account deficit would increase by 3.5% of GDP, reaching levels similar to those of the 1994 balance of payments crisis (Werner, 2024). However, based on our estimate of a 1,563 million dollars decrease, there would not be a significant problem for the balance of payments, as the current account deficit would rise by only 0.08% of GDP. It will be important to monitor a possible shift in the balance of payments, where a decrease in remittance flows could be accompanied by an increase in bank transfers.

It is also important to note that a larger drop in remittances could occur next year, likely due to a slowdown in U.S. economic activity stemming from erratic trade policies adopted by that country, which could lead to a rise in unemployment. This potential decline would not be related to the remittance tax.

Final Considerations

The current bill, which seeks to impose a 5% tax on remittances sent primarily by undocumented migrants, is part of a series of strategies promoted by lawmakers aligned with President Trump to further tighten the living conditions of these migrants in the United States.

Mexican migrants already contribute to the U.S. tax system by paying taxes on their income, even though many of them lack legal immigration status. Imposing an additional tax on the remittances they send to their families in Mexico would be an unfair measure, as it would amount to a form of double taxation.

The 10th Sustainable Development Goal (SDG) prioritizes reducing inequality within and among countries. One of its specific targets is to lower transaction costs associated with remittances sent by migrants. Imposing a tax on remittances runs counter to the international commitments made to reduce global inequality, as it increases transfer costs and limits the positive impact of these financial flows. Furthermore, the remittance tax is regressive, as it disproportionately affects undocumented migrants who have lower incomes and fewer options to avoid paying the tax.

The proposed legislation involves a significant increase in the cost of sending remittances for undocumented migrants, which will likely lead them to seek alternative channels to transfer these funds. Many will turn to family or friends with U.S. citizenship or residency to avoid the tax. Others will try to become banked in order to make interbank transfers from formal accounts.

However, some migrants may resort to informal channels to send money as a strategy to evade the tax. If the tax encourages the use of these unregulated mechanisms and they become more entrenched, there is a risk that criminal organizations could become involved in these activities.

As of this publication, the legislative package titled "*The One, Big, Beautiful Bill*", which includes the proposal to impose a 5% remittance tax, has been unblocked and continues its course in the U.S. House of Representatives for review and possible approval. In light of this situation, the government, businesses, and civil society must intensify their efforts to inform U.S. lawmakers about the potential negative consequences of this tax, both for Mexico and for the United States itself. If the measure is approved, it will be essential to design and implement strategies that provide support to the Mexican migrant population and their families in their communities of origin.

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