



## **Initiative for Policy Dialogue**

### **IPD Tax Task Force**

#### **Summary from 30 March 2005 Task Policy Meeting**

##### **Argentina**

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Argentina is facing the greatest crisis of its history and taxation has played a crucial role in the genesis, development and, as present fiscal figures show, in its way out. In very general terms, the main problems of the Argentine tax system are related to five issues: solvency, instability, equity, informal sector and federalism.

In a very complex macroeconomic environment, dominated by fiscal crises (and debt, of course), the tax system has been insolvent. Revenues have been insufficient to finance the consolidated level of public expenditures. The instability of the macroeconomic environment has driven to a similar instability in the tax structure which has to accommodate to each particular situation, as we will see.

The distributive impact of taxation, then, became residual, but always remains the big problem related to the difficulty in reaching the informal sector. In addition, in each period, all these problems have to be dealt within the restrictions imposed by a highly federal country.

Solvency problems have to be considered in historical perspective. During the 20<sup>th</sup> Century the expansion of the Argentine State was only partially related to the traditional tax system (other sources of revenues have been pension system surpluses, inflationary tax, privatization, debt, etc.)<sup>1</sup>. In 2004, the tax burden reached 26.5% of GDP (22.7% of GDP from national taxes and the rest from provincial taxation), but these figures give a wrong idea of this solvency of the Argentine tax system. Such a percentage is the highest level in Argentine history, as Table 1 shows, and has to be related to very exceptional macroeconomic circumstances.

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<sup>1</sup> See Cetrangolo and Jiménez, "Política fiscal en Argentina durante el régimen de convertibilidad", Serie gestión pública 35, ILPES-CEPAL, Santiago 2003. <http://www.cepal.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/9/12419/P12419.xml&xsl=/ilpes/tpl/p9f.xsl&base=/tpl/top-bottom.xslt>

For example, during the 1990's, the consolidated tax burden has never reached 20% of GDP. During this period, Argentina had fixed exchange rate with the US dollar. After the 2001 crisis, during 2002, the peso was devalued by 200% in nominal terms and 130% in real terms; nominal wages remained almost constant. Simultaneously, as a result of the new macro scenario, some emergency taxes were introduced. Special attention must be paid to the fact that new export duties destined to catch a portion of the overvalued US dollar accounts for more than 2.5% of GDP. This is an example of the dependence of the tax structure on the macro environment. Conversely, during the nineties (when the convertibility program was in force) the need to improve private sector competitiveness pushed the reduction of payroll taxation.

**Table 1: National tax revenues 1932-2004 (in % of GDP)**

| Type of taxation                              | 32-40       | 41-50        | 51-60        | 61-70        | 71-80        | 81-90        | 91-01        | 02-04        | 2004         |
|---|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Income, benefits and capital gains            | 0,95        | 2,56         | 3,37         | 2,35         | 1,37         | 1,02         | 2,54         | 3,93         | 4,99         |
| Assets  | 0,32        | 0,25         | 0,47         | 0,54         | 0,61         | 0,54         | 0,35         | 0,59         | 0,65         |
| Taxes on goods and services                   | 3,52        | 3,69         | 4,73         | 4,85         | 5,47         | 6,17         | 8,74         | 9,57         | 10,76        |
| Taxes on international trade and transactions | 3,27        | 1,03         | 0,44         | 1,77         | 1,83         | 1,73         | 0,92         | 2,71         | 3,05         |
| Social security contributions                 | 1,37        | 3,01         | 4,86         | 4,20         | 4,51         | 2,94         | 4,31         | 2,90         | 3,04         |
| Others  | 0,00        | 0,06         | 0,12         | 0,15         | 0,17         | 0,40         | 0,49         | 0,15         | 0,19         |
| <b>National tax revenues</b>                  | <b>9,43</b> | <b>10,60</b> | <b>14,01</b> | <b>13,86</b> | <b>13,97</b> | <b>12,80</b> | <b>17,36</b> | <b>19,86</b> | <b>22,68</b> |

Source: Based on data from National Direction of Fiscal Research and Analyses.

Besides the need to recognize that this kind of taxation must be considered as exceptional and, because of that, it is not convenient to consider the present level of the tax burden as a new floor, it implies a significant change in the incidence of the tax system. These duties have to be considered as a proxy of income tax on the agricultural sector and, simultaneously, considered as a way to reduce the price of many wage goods. This form of taxation plus traditional income and property taxes, and some presumptive taxation on income, accounts for more than 40% of total tax revenues. Figure 1 shows the shift in tax structure between the mid 1990s and 2004.

Summing up, challenges ahead of the Argentine tax system are related to the sustainability of present tax burden after the normalization of macroeconomic behavior. Related to this, the main challenge has to do to the substitution of export duties for other forms of traditional taxation, including different varieties of presumptive taxation on assets and financial operations. Then many of the expectations rest on tax administration.

Finally, the federal constitution of the country has to be taken into account. Revenues of export duties are exclusively for the National level of government while other taxes replacing those revenues are shared with provinces. Financing of social security system is other area of eventual reforms in the future.

Figure 1: Tax structure 1990-2004. Selected years

