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# **Subnational Tax Powers in Argentina**

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## ABSTRACT

The existence of own tax revenues, and fiscal transfers from other governmental levels, in the sphere of subnational jurisdictions, are essential in all federations, to ensure an adequate financing of expenditures. Subnational taxation has recently gained strong interest in academic and policy areas in the international arena, and research has been conducted on its importance, in the provision of resources to meet fiscal needs in decentralized levels of government.

Subnational taxation has not gained attention in OECD countries alone. Developing and non-OECD countries now show a growing interest in the practice. This is especially true in Latin America, where the achievement of an enlarged fiscal space is fundamental to attaining economic and social development.

In examining a Latin American case, such as Argentina, it is necessary to explain the historical and empirical facts which shaped the evolution and conformation of present day Argentina, and also the constitutional and legal frameworks of the country within which subnational taxation (provincial and local) operates.

This paper outlines the main aspects of the federal fiscal scheme. It also addresses other economic, legal, and practical issues related to the tax revenues imposed and collected by the provincial and local governments in Argentina. This is based on data from the first decade of tax reforms, and the beginning of this century's second decade.

The Forum of Federations organized The International Meeting on Subnational Tax Powers in Non OECD Federations, in New Delhi, India, in November 2011. This event generated stimulating experiences and insights pertinent to the issues raised in this paper.

*October, 2015*



## Introduction

Taxation by a subnational unit of a federation raises a number of economic, institutional and local issues, as tax authority, A. Maslove has pointed out.<sup>1</sup> Geography, demography, politics and history can also be considered when the specific experience of a particular country is examined.

Subnational taxation has recently gained much interest, and research has been done to determine the crucial role of such taxation in financing the expenditures of subnational governments. In addition to the growing attention given to subnational taxation in the OECD countries, there has been increasing interest in subnational taxes in the so called Global South, specifically in Latin America<sup>2</sup>, where the achievement of an enlarged fiscal space is fundamental to the process of achieving economic and social development<sup>3</sup>.

Usually, in the context of multilevel finance, each layer of government has a mix of resources, some of which are exclusive or own source revenues; others are shared, while the rest are received as transfers. This is often the case for intermediate governments, such as regions, states, cantons or provinces, as well as communes or municipalities.

The position taken in recent research is that Latin American countries receive lower subnational tax yields than the OECD countries. This lower tax yield is harmful because it makes it difficult to create the fiscal space for the improvement of its national priorities.<sup>4</sup>

To analyze the evolution and nature of the subnational

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1 See Maslove, Allan M. (1993), p. xi.

2 Not without some controversial assumptions the Global South incorporates the majority of countries once included in the category “Third World”, in essence the developing or less developed nations. The “dual” classification and North-South divide originates in the task of the Brandt Commission in the early 1980’s, whose conclusions were considered in the North-South Report (1980).

3 See Brosio, G. and J. P. Jimenez (2012). For local governments in Latin America, see Eguino, H., Porto, A. *et al* (2010). For the concept of “fiscal space”, see Peter Heller (2005) and Allen Schick (2009).

4 See J. P. Jimenez y Andrea Podestá (2009), pp.12-21.

tax powers in a Latin American country (like Argentina), it is important to explain the historical and empirical facts which shaped the evolution of present-day Argentina, on the one hand and the constitutional and legal framework of the country on the other. In this context, subnational powers, whether provincial and local, must be included when describing the architecture of the federal finances of the country. The role of some particular taxes also deserves separate mention.

This paper will outline the main aspects of the federal fiscal scheme, and briefly discuss other legal and practical aspects related to the tax revenues imposed and collected by the provincial and local governments in Argentina. The focus will be on data from this century's first decade. However, the paper will also examine data from the beginning of the second decade.

### **The country**

Argentina extends from the tropical to the cold southern latitudes in the meridional extreme of South America and is flanked by Chile, Bolivia, Paraguay, Brazil and Uruguay. Argentina has a surface area of more than 2.8 million square kilometers, close to the dimensions of India. On a global scale, it is the eighth largest country in territory, after Russia, Canada, China, USA, Brazil, Australia, and India.

The Andean region extends along the western border like a dorsal spine. In the rest of the territory (apart from pre-Andean ranges and some mountainous region in Cordoba), there are plains known as the Pampas. The main rivers are the Paraná (4,500 km) and the Uruguay, both of which join to form the Rio de la Plata, short in length but enormously wide.

The country, in spite of a modest population of about 40 million people, is highly urbanized. Its population is to a great extent concentrated in the area of Buenos Aires and the Pampean region, also including some important cities like Córdoba, Rosario, Mendoza and Tucuman. In general, population density is low, and vast expanses are sparsely populated.



**Table 1: Argentina and its Provinces: Demographic and Economic Indicators<sup>5</sup>**

Province	Total Population	Percentage of Population	Population Density (inhab/km <sup>2</sup> )	GDP per Province (Millions of Pesos in Constant Prices)
Buenos Aires	15,625,084	38.95	50.8	96,939.6
Córdoba	3,308,876	8.25	20	22,183.6
Santa Fe	3,194,537	7.96	24	22,084.0
Ciudad Autónoma de Buenos Aires	2,890,151	7.2	14,450.80	71,034.2
Mendoza	1,738,929	4.33	11.7	11,136.8
Tucumán	1,448,188	3.61	64.3	5,706.2
Entre Ríos	1,235,994	3.08	15.7	6,395.9
Salta	1,214,441	3.03	7.8	4,107.8
Misiones	1,101,593	2.75	37	4,018.6
Chaco	1,055,259	2.63	10.6	3,326.1
Corrientes	992,595	2.47	11.3	3,452.8
Santiago del Estero	874,006	2.18	6.4	2,577.8
San Juan	681,055	1.7	7.6	2,807.0
Jujuy	673,307	1.68	12.7	2,423.6
Río Negro	638,645	1.59	3.1	4,223.1
Neuquén	551,266	1,37	5.9	5,122.8
Formosa	530,162	1.32	7.4	1,505.3
Chubut	509,108	1.27	2.3	3,931.0
San Luis	432,310	1.08	5.6	2,837.8
Catamarca	367,828	0.92	3,6	1,092.0
La Rioja	333,642	0.83	3.7	1,452.2
La Pampa	318,951	0.8	2.2	2,355.4
Santa Cruz	273,964	0.68	1.1	2,601.0
Tierra de Fuego, Antártida e Islas del Atlántico Sur	127,205	0.31	0.1	1,673.6
<b>Total</b>	<b>40,117,096</b>	<b>100</b>	<b>10.66</b>	<b>285,788.2</b>

In spite of recent difficulties, the Human Development Index (HDI) of Argentina is one of the best in Latin America. The Gini

<sup>5</sup> Demographic data originates in the National Census of 2010 and information on provincial GDP is provisional and is the latest available.

Coefficient, once one of the better in the area, is not so good, although it has improved recently because of a decade of economic growth in the country as a world producer of commodities<sup>6</sup>. At present, the republic is composed of twenty-three provinces and the Autonomous City of Buenos Aires, which are very different in size, population, and income.

### Historical facts

The origin of Argentina lies in the ancient Viceroyalty of Rio de la Plata, whose capital was Buenos Aires. In 1810, the country seceded from Spain, although formal independence was not declared until 1816. The old Viceroyalty territories gave way to the independent countries of present-day Bolivia, Chile, Paraguay, Uruguay and Argentina. The huge deposits of silver in the *Cerro Rico* of Potosí, in the interior mainland of that colonial region - now part of Bolivia - generated an area of what was called the “silver economy”, embracing the Alto Perú and the present northwestern provinces of Argentina, although its effects expanded as far as the then-emerging region of Rio de la Plata. After the development of the leather industry, and close to the beginning of independence, the Viceroyalty area was divided in two parts, one in the interior linked to taxation on silver and mining, and the other linked to commerce, near the Atlantic.<sup>7</sup>

After different governmental essays, in particular the organizational attempts embodied in the failed Constitutions of 1819 and 1826, it was the Federal Pact of 1831 which became the basis of the Argentine Confederation. This attempt was led by Juan M. de Rosas, governor of Buenos Aires, until he fled to England in exile, following the battle of Caseros in 1852, which was the gateway for the organization of the country under a national constitution in 1853. It took ten years for the powerful “State of Buenos Aires” to accept a real federal union with the thirteen smaller provinces. After two great battles, Buenos Aires

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6 Argentina remains a middle income level country in the international comparison. In the 2014 UNDP’s Human Development Report, Argentina was included among countries that rank very high in the Human Development Index (HDI), in the position 49. Considering the Human Development Index Inequality-adjusted (HDIIA), the country improves its position reaching the position 40.

7 See Cortés Conde, Roberto (1998), pp. 79-113 and 114-130.

accepted the national constitution with some modifications, and in 1862, the country acquired the essentials of a federal structure, with the national government and the subnational units regulated by a new constitution.

After the impressive record of growth in the second part of the nineteenth century, which accelerated in 1880, and embraced the first decades of the twentieth century, the country achieved the tenth-highest per capita income in the world. This was with an economy based on wool, meat and grain exports. During the rest of the century, the performance of the country was unstable and weak in economic and political terms, including some periods of military rule.

Since 1983, Argentina's democracy established roots with changing economic performance, which included the impact of its external debt in the "decade of loss" of the 1980s, the pegging of Argentina's peso to the US dollar in the 1990s, a major default and economic crisis at the beginning of the new century in 2001, and a strong recovery in the following decade ending in 2011.

### **Evolution of financial arrangements and subnational taxation in Argentina**

In modern Argentina, as in other federations, any analysis of the financial arrangements among the different levels of government implies laying out the country's fiscal constitution. In a federal fiscal constitution, there are different norms involved, each of which comes from the different levels of political authority.

**Table 2: Sources of the Fiscal Constitution**

Statutes/ Norms	Legal Instrument	Political Mechanism
1	National constitution	Special national convention
2	Provincial constitutions	Special provincial conventions
3	National/Provincial laws	National Congress/provincial legislatures
4	Local charters/norms	Municipal assemblies or councils
5	Accords nation-provinces	Laws in national and provincial level

Since the beginning of the 1910s, the fiscal federal evolution of the country has proven to be quite extensive and difficult. Argentina's constitutional financial framework comes from the early second half of the nineteenth century, when the 1853 Constitution was approved and then amended in 1860 and 1866. The first of these constitutions granted all the customs revenue to the new national government in its formative stage at the time. The second constitution temporarily limited the government's taxation power on exports, and the third reassigned them to the national government. The 1860 constitution aimed at reflecting the model of the United States of America in eliminating taxes on exports. The final constitution left both taxes, on imports and exports, in the central government's hands as did the constitutions of countries like Switzerland (1848) and Canada (1867).

In this "tax separation" scenario, direct taxes were left in the provinces' hands. In a backward country not fully integrated into the world, taxes which were difficult to collect were left at the subnational level, while the important ones were assigned to the national government. In return, as it was the case of the "Swiss compensations" or the "Canadian subsidies", the national government had to assist the provinces "...when their budgets were not enough to cover their ordinary expenditures." This was a system we have in Argentina called "concentration in the pinnacle". Since the central government has the power of assistance in this system, we have also called it "concentration and subsidization" from the national government.<sup>8</sup>

In the decades which followed, there were different disputes about indirect taxes in the nineteenth century, and a transitory imposition of the new income tax in the twentieth century.<sup>9</sup> During the depression of the 1930s, the national government was

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8 See Asensio, M.A. (2008). For the formative process of Argentine federalism, see Asensio, M.A. (2010).

9 This situation happened because of the 1890 economic crisis which caused a remarkable reduction in taxes on foreign trade - taxes which had financed the national government. Faced with this situation, and given the lost revenue from external taxes, the government increased the rate of internal taxes to compensate for that loss. Consequently, not only the provinces but also the national government would give in and implement internal indirect taxation (external taxation being the exclusive power of the national government).

responsible for formulating a system for major tax collection. The taxes were then shared among the provinces according to a set of established proportions. The provinces continued legislating and receiving a minor group of direct taxes on property, and some other less important indirect levies.

As a consequence of these changes and innovations, the system had undergone many different stages. In the first stage, the principle of income division which had been established in the 1853 Constitution<sup>10</sup> was implemented. In the second stage, starting in 1890, a concurrence of limited tax sources were empowered; and during the third stage, which took place during the decade of the 1930s, a wide concurrence on taxation was expressed and implemented in what was called the co-participation system.

**Table 3: Stages in the Allocation of Taxation Powers in Argentina<sup>11</sup>**

Taxes	(I)Separation	(II)Concurrence	(III)Participation
External	Nation	Nation	Nation
Direct	Provincial	Provinces	Common
Internal on consumption	Non-explicit	Nation/provinces	Common

In the area of expenditure assignment, the original constitution created a strong central government, although it was explicit in bestowing on the provinces the responsibility for primary education, administration of justice and the establishment of municipalities. The provinces also retained those competencies that had not been delegated to the national government.

<sup>10</sup> This principle of dividing the tax revenue would be clearly expressed by Wheare: “Each general and regional government must have under its own independent control enough financial resources to carry out its exclusive functions...” although the author admitted the difficulties of dividing these revenues so that both the tax revenues and the governmental functions expanded or contracted together, “adjusting in harmony one to the other.” To this end, and for such cases as the Argentinian one, it was suggested that unconditional transfers be used as a solution for the vertical imbalances in federal countries (Wheare, K., 1964, pp 93, 94 and 97).

<sup>11</sup> See along the same line, Núñez Miñana, Horacio (1994), whom we follow regarding this viewpoint.

## From revenue separation to revenue sharing

The constitution had envisaged a system of revenue separation which was to be abandoned with the intervention of the national government in the field of indirect taxation in the 1890s, and then in 1934, the revenue sharing or co-participation system was created and legitimized by the Supreme Court. In 1994, in the last constitutional reform, the co-participation system reached its highest status when it was explicitly guaranteed by Article 73<sup>o</sup>. Revenue sharing implies two different kinds of distribution of the “shareable mass.”<sup>12</sup> The first one is called *primary distribution*, consisting of separate shares for the national government and the provincial governments.<sup>13</sup> The *secondary distribution* is a sharing among provinces, based on fixed rates established by the law, not by an objective procedure of determination.<sup>14</sup>

Considering the governmental spheres involved, it is a mixed pattern which combines the nation and the subnational units’ own source taxes with shared ones, concentrating important taxes in the central government sphere, with an automatic proration of the collected taxes to the different parties - the nation and the provinces.

In this design, the provinces legislate and collect indirect taxes, such as tax on gross receipts and a stamp tax, and, at the same time, they do the same for direct taxes on real estate and automobiles, adopting similar but not strictly equal tax bases.<sup>15</sup> Appendix I shows the structure of tax collection of the two main

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12 It does not include foreign trade taxation (exclusively assigned to National Government). Given its rigidity, the emergence of financial problems generated “pre-coparticipation detractions” creating a *formal* primary distribution, on one hand and a *real one*, in the other, essentially orientated for the benefit of the national government.

13 A form of evading the maintenance of the original coefficients between nation and provinces is the creation of non-shareable taxes by the national government, the enactment of particular tributes with sharing of individual taxes and the mentioned “pre-coparticipation schemes”, which the author called “punctures in the bag.”

14 It is easy to see that the rationality and objectivity in determining the coefficients is the key for success in such a scheme.

15 With regard to the gross income tax (gross receipts tax) some provinces tax liberal professions and others do not (Entre Ríos *vis a vis* Santa Fe).

levels of government. Appendix II shows the contemporary distribution in terms of the revenue sharing scheme, and Appendix III contains the provincial rates in the Gross Income Tax. At the same time, local governments also receive participation from the “common pool” of revenue sharing, while in parallel they legislate, administer and collect their own real estate and indirect taxes that are similar to the provincial ones.

**Table 4: Resources of the Different Levels**

Order	Levels of the System	Composition of fiscal resources
1	National government	Own resources + shared resources from the federal co-participation regime
2	Provincial governments	Own resources + shared resources from the federal co-participation regime
3	Municipal governments	Own resources + shared resources from the national or provincial regimes of co-participation

From what we have seen so far, the financial equations that emerge for all the levels are formed with a mix of shared and own source funds coming from some national or provincial pool, because the provinces must also transfer part of their collected taxes to the municipalities under their jurisdiction. Nonetheless, during the 1990s, a new co-participation or revenue sharing law was not passed, even though the new constitutional revision of 1994 demanded it. Instead, the previous legislation was modified by a process of amendments orchestrated through the so-called fiscal pacts between the national and provincial governments.<sup>16</sup>

Such intergovernmental fiscal agreements were expressions of coordination between different levels of government. They represent a vertical coordination. However, there are also mechanisms of agreement utilized for governments at the same level of constitutional authority. These we refer to as horizontal coordination, which occurs among the provincial governments.

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<sup>16</sup> This process was extended until to the year 2002. This period was known as “The Era of the Pacts” (Asensio, M. A., 2006).

**Table 5: Types of Fiscal Agreements**

Order	Levels of Government	Nature of the Agreement
1	Different Levels (Nation-Provinces)	Vertical Coordination
2	Same Level (Provinces)	Horizontal Coordination

The main horizontal agreement currently in force in Argentina is the one related to the gross income (receipts) tax, which was called the Multilateral Agreement, legally sanctioned in the last quarter of the past century, more than three decades ago.<sup>17</sup> This Agreement organizes the sharing of tax bases, not tax revenues.<sup>18</sup>

Apart from revenues, the present assignment of expenditures shows a distribution of powers that in some cases represents a common pattern in relation to existing federations and in the others shows a particular profile. Many functions are carried out by more than one level. The revenue side reserves the larger tax revenues, those from value added tax (VAT) and income tax, to the national government.

**Table 6: Federal Financial Arrangements in Argentina**

Expenditures	Assignment	Taxation-Revenues	Tax Power
National Defence	N	Imports and Exports	N
Foreign Affairs	N	Income Tax	N
Foreign Trade	N	Value added Tax (VAT)	N
Macroeconomics	N	Private Assets	N
Social Security	N,P,M	Gasoline	N
Identity of Persons	N	Wage Taxes	N
Transportation	N,P	Gross Income Tax	P
Interprovincial Highways	N	Urban-Rural Property Tax	P
Provincial Highways	P	Vehicles Tax	P
Communal & Local Roads	L	Stamp Tax	P
Higher Education	N	Royalties	P
Secondary Education	P	Local Sales Rate	L
Primary Education	P	Local Property Rate	L
Evaluation of Education	N,P	Others	N,P,L

17 This agreement, which came into force in 1977, regulates interjurisdictional transactions.

18 See Bulit Goñi, Enrique (1994).



Health Services	P	Coparticipation Transfers N-P	
Security	P	Coparticipation Transfers P-L	
Drugs and Narcotics	N,P	Other Vertical Transfers	
Water and Sewerage	P, L		
Recreation and Parks	N,P,L		
Fire Protection	P, L		
Environment	N,P,L		
Urban Services	L		

### The place of natural resources

Prior to 1994, the national government retained essential powers over natural resources. The new Article 124, second paragraph, of the reformed constitution in 1994, reads: "...gives (it is assigned) to the provinces the original power over natural resources existing in their territories." This is a fundamental reform that changes the former criteria, which had awarded this power to the national government. The result was for the country to adopt a particular but hardly unique solution.<sup>19</sup> As H. Piffano has pointed out, Argentina confronted two alternatives. The first one was to consolidate a system of decentralized taxation with a centralization of natural resource revenues. However, Argentina opted instead for the contrary - centralization of taxation and decentralization of natural resource revenues.<sup>20</sup>

As this constitutional reform has established provincial control of natural resources, it is possible to imagine a new fiscal map of the country. In this map, the tax revenue profile can be grouped differently, according to the weight that royalties have within their respective budgets.

**Table 7: Argentina: Profiles of Provinces' Own-Source Revenues**

Group	Main Taxes	Provinces by Region
1	Traditional Tax Matrix	Central+Pampean+North East
2	Strong Revenue from Royalties	Patagonia+Central West+North West
3	Traditional +Some Royalties	Mesopotamia+La Pampa

<sup>19</sup> This is the case in Canada, among other countries with important natural resources.

<sup>20</sup> There is one well-known customary assignment of revenue from natural resources: give it to the center. Piffano, H. (2004), p. 291.

For this analysis, we will assume that the new scheme of subnational (provincial) resources is affected by, or limited to, a few specific factors. One is the discoveries made in the mining and hydrocarbons sector. The second is the pace and rhythm of the variation in international prices of oil, gas, and mineral products.<sup>21</sup>

From the start of the new constitutional regulations, the provinces advanced their own legislation and actively promoted investment for exploration and exploitation of mineral resources, with the result of capturing royalties from them. It has changed the public finances of some provinces profoundly. This fact has been measured by the revenue autonomy index. The index has clearly increased, as it concerns the rest of the provinces. As a consequence, the weight of royalties has greatly increased the finances available for public spending. They have covered about 30% of expenditures of the group of oil-producing provinces.<sup>22</sup>

This shows how important such revenue has recently become for jurisdictions with deposits of minerals or hydrocarbons. Interestingly, it has happened in a time of increased environmental claims. These claims confront the developmental goals of provincial governments with increased social conflict over resource depletion and contamination, especially from “mega mining.”<sup>23</sup>

There was a pressing need for more uniform regulations for new technologies and procedures in the hydrocarbon sector -- technologies which used unconventional techniques and equipment for oil production. To meet this need, an agreement was signed between the national government and the provinces to provide more homogeneous norms on royalties and licenses obtained and granted by subnational jurisdictions.<sup>24</sup>

21 This is of serious concern, given the recent fluctuations in the international prices for crude oil and other natural resources which cause “fiscal stress” in various countries, including those in Latin American. [See OECD-CIAT-IDB-ECLAC (2015)], pp. 34-42.

22 See Mansilla and Burgos Zeballos (2010) and Piffano, H. (op.cit. p. 287).

23 Very intensive at publication time, considering the deposits of gold, copper and other minerals such as lithium, in provinces like La Rioja, Catamarca and San Juan, among others.

24 National Law 27.007, October 2014, thus, the more immediate

## The beginning of the twenty-first century, the crises and the federal fiscal scheme

The strong vertical fiscal imbalance is the lasting and structural characteristic of the federal fiscal scheme in Argentina, favouring the position of the national government *vis a vis* the provincial ones. In a time of crisis, this profile could be sharpened by additional disputes on existing resources.

To understand this, it is important to examine the “individual trees” and the “whole forest” as we examine the federal finances of Argentina. On the revenue side, for a hundred and fifty years, the system evolved into one with a strong accumulation of revenue channeled to the national government, leaving a small resource margin to the provinces and municipalities. Ultimately, differing from the expenditure side, the entire revenue system became centralized. This did not happen outside the disciplinary power that the basic federal legislation imposes to the provinces and municipalities for the utilization of their taxation faculties. Under such a framework or “umbrella legislation”, provincial and local governments could not establish taxes which were similar to those distributed by the co-participation regime (VAT, Personal and Corporate Income Tax, etc.). The respect for avoiding such similarity when applying their own tax policy is a condition to access the “common cake” of the tax participation.<sup>25</sup>

With regards to the spending powers, there was an important decentralization of expenditures resulting from the transfer of public services from the national government to the provinces. This decentralization took place in the late 1970s, early 1980s, and even more throughout the 1990s. These transfers mainly encompassed the sectors of secondary education and health, and clearly enlarged the scope of expenditures for the provinces.

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scenario for oil-producing provinces is one of “regulated decentralization.”

25 For a more detailed explanation of the tributary role of the municipalities in that pattern, see Asensio, M. A. (2004), page 349.

**Table 8: Argentina's National and Subnational Revenues and Spending**<sup>26</sup>

Levels of Government	Percentage of Tax Revenue	Percentage of Public Spending
National	74.6	51.2
Subnational Aggregated	25.4	48.8
<b>Subnational by Level:</b>		
Provincial	15.0	40.6
Municipalities	10.4	8.2

As is evident, national tax income represents three quarters of the total amount collected by all the governmental levels. The final quarter is collected by the subnational governments. If this is broken down, it shows a 15% share for the provinces, and a little more than 10% for the municipalities.

On the expenditure side, there is higher decentralization, as the subnational governments participate in almost 50% of the total (40.6% and 8.3% for the provinces and municipalities, respectively). In a way, part of the highest concentration of income is balanced out by a decentralization of the expenditures. It is not surprising, therefore, that the imbalance between income and expenditure allocation is settled by the transfers of the co-participation. Even though tax participation is important in other countries (like Brazil), and other cases in Europe and the OECD, it reaches a significantly greater role within the system of fiscal coordination in Argentina.<sup>27</sup>

Importantly, this system, painted in “broad brush strokes”, would confront two fundamental crises in the first decade of this century. In late 2001, the first crisis was internal. It was an explosive end to the monetary regime of currency convertibility adopted in 1991 (and subsequently abandoned). The second crisis was caused by the international recession which began in 2008.

The 2001 crisis is noteworthy because of a strong growth in welfare assistance to fight the “new poverty”, which emerged from the crisis. More importantly, two new taxes were subsequently introduced. One was a tax on financial transactions known

<sup>26</sup> See Peralta, Liliana A. (2011).

<sup>27</sup> See Gómez Sabaini, J. C. and Giménez, Juan P. (2011) regarding the Latin American experience. Also see Ter-Minassian, T. (1997), Bird-Vaillancourt (1998) and Giambiagi-Alem (1999), among others.

as “tax on the cheque.” The other was the export tax, which would accrue, for the most part, to the already strong national government. With the economic recuperation beginning in 2002, the principal beneficiary of such tributary transformation was the national government, which, as a consequence, increased the vertical imbalance.

After these two measures were introduced, Argentina’s fiscal institutions were transformed by the Federal Law of Fiscal Responsibility (2004), and also by the passing of the Law of Education Financing (2005). The first instrument established the guidelines to expand the public expending binding it to the GDP. It also established a maximum indebtedness for the provinces, which in many cases was even more demanding than the one established by the provincial constitutions. Likewise, a new Organism of Supervision was created.<sup>28</sup> In the second case, the guidelines mandated a minimum of additional expenditure by the provinces on education.<sup>29</sup>

### Recent evolution of an asymmetrical system

The relative weight of the tributary revenue composition can be visualized by examining the structure of the tax pressure of the subgroups of nation and -provincial tax revenues. Table 9 shows that the emergent imbalanced fiscal relationship has a clear national predominance.

**Table 9: Tax Revenue as a Percentage of GDP**

Resources	2001	2002	2005	2008	2009	2010	2012	Change 2001/10	Change 2001/12
National	17.50	16.91	23.10	26.63	27.10	28.93	31,83	11.43	14,33
Provincial	3.64	3.39	4.12	4.40	4.63	4.76	5,63	1.12	1,99
Total	21.14	20.30	27.22	31.03	31.73	33.69	37,47	12.55	16,33

28 We refer to the *Consejo Federal de Responsabilidad Fiscal*. Because the *Comisión Federal de Impuestos* (CFI) (Taxes Federal Commission) already existed to control the regime of taxation and revenue sharing, the federal fiscal system had since then experienced a “dual” supervision or monitoring (see Asensio, M.A., 2009).

29 The objective supported by the law would be to reach a height of 6% of the GDP for the consolidated expenditures by all governmental levels in education (Asensio, M.A., 2008).

Such imbalances indicate that more than 80% of the joint tax collection is generated by national taxes. Likewise, dynamically speaking and in the long term, from 2001 to 2010, the increase between extremes of national collection more than double that of the provinces, 65% against 30.8%. Table 9 above shows that in spite of an improvement in 2012, the provinces remain as “backward partners” in the access to the fiscal pie.

The mentioned evolution is closely linked to the respective national and subnational structure of taxation. The whole tributary structure, embracing the different levels of government is affected, among others, by factors such as:

- the state of the economy shown by flexibility and elasticity of the resulting taxes in relation to the business cycle
- the weight of the indirect and direct taxes
- the role of fiscal revenues, particularly income and property taxes
- variations in the individual tax structure, such as its base and rates

The provinces and municipalities, besides collecting the indirect tax on gross receipts, also collect a tax on real estate which depends on two fundamental variables:

- 1) The cadastral or assessed value of the property
- 2) A progressive tax rate applicable to it

At the same time, the real estate tax is divided in two subtypes, one on urban and one on rural real estate. These taxes have suffered from a political failure consisting in an opportunistic and misguided political behaviour trying to avoid the taxpayers’ dissent. It occurs because raising such type of taxes has never been popular, given its particular “visibility”, the opposite to indirect taxes, with the additional effect that increasing its base causes an increase in another national tax, the tax on personal assets. Consequently, if the value of the provincial cadastral base is changed; taxpayers are confronted with a double increase in their taxes, one payable to the provincial government and another to

the national government. In the long term, the consequence has been a systematic worsening of tax collection, an important issue in a tax that could be more neutral to the ups and downs of the cycle.<sup>30</sup>

**Table 10: The Traditional Provincial Tax Matrix**

Order	Taxes	Tax Base
1	Gross Income Tax	Sales of goods and services
2	Real Estate Tax	Taxable value of real estate
3	Stamp Tax	Tax value of legal transactions
4	Tax on Motor Vehicles	Tax value of cars, trucks & other vehicles
5	Gambling	Income from gambling activities
6	Others	Miscellaneous tax revenues

This picture must not overlook issues of fiscal competition. Here there are: two levels of tax competition. One is competition between the national and provincial governments, and the other is competition among subnational governments; in other words, vertical and horizontal competition.<sup>31</sup>

In such a way, it is necessary to mention again the so called “retentions or deductions on the exports”. There is a significant role played by such an export tax captured by the national government. Whatever the tax base is, like the fiscal doctrine states, in the end all the taxes affect the income as a flow variable. When the individual taxpayers in a federal state employs its income for paying to one level of government they affect their capacity for paying to the others, given that they afford their tax obligations from the same pocket. Thus when the central government resorts to the export tax, it affects the tax revenues of all other levels of government.

30 The difficulties in property tax collection, linked to cadastres and assessment, have been increased even more in other Latin American countries by limiting subnational government revenues. See C. Sepúlveda and J. Martínez-Vázquez (2012), p. 172.

31 See the approach to fiscal competition in Breton, Albert (1993), p. 44.

A phenomenon called “the occupation of the tax room” then emerged, and began to cut into provincial tax revenues. Here, the national government encroached on agricultural income with the export tax, and this move decreased the provinces’ opportunities to raise their rates or valuations of their taxes on rural property. Clearly, this created a sort of “fiscal shifting” or “fiscal crowding out”, favouring the national government, which as the constitutional owner of the power to tax foreign trade, would absorb the total that this tax generated.<sup>32</sup>

The system evolution would be tested, beginning in the last trimester of the 2008, when the drop in the aggregated demand had a profound impact on revenues. Taking into account its static structure together with its dynamic evolution, it was noticed that, while the deceleration in tax collection in 2007-2008 was attributable to export taxes, the global outcomes in 2008-2009 were strongly influenced for the wage taxes used for the financing of social security. The result was that once the social security taxes were separated from the whole of fiscal revenues, the national government’s taxes collected in 2009 dropped 1.18% in proportion to the GDP, while the provincial revenues showed an increase of almost 0.25%<sup>33</sup>.

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32 To understand the concept of “tax room,” see Bird, Richard M. (1986). A 2009 national law ruled that part of the soy tax retention was to be shared by the provinces.

33 The reasoning included in the above paragraph attempts to show the importance and incidence in the fiscal outcomes or revenue annual results derived not only from the important contribution of the two main national taxes like the so called “retentions” or “deductions” on exports (export tax) but also the influence of the reinforced influx of wage taxation for financing social security that formerly was derived to the private pension plans and after the nationalization of the system transformed itself in national revenues, generating a transitional improvement in the global national mass of revenue hiding at least partially the evolution of the former revenue structure. The exercise of deducting export retentions and social security revenues responds to the idea of “what happens if...” we adjust the totals not considering these two big new sources of tax revenue.



**Table 11: Fiscal Revenue as a Percentage of GDP**

	2007	2008	2009	2010	2012	2008 - 2007	2009 - 2008	2010 - 2009	2009/ 2008	2010/ 2009	2012/ 2010
Revenues <sup>1</sup>											
National Resources	25.13	26.63	27.10	28.93	31.83	1.50	0.47	1.83	+ 1.76	+6.75	+10.02
Provincial Resources	4.22	4.39	4.63	4.76	5.63	0.17	0.24	0.13	+ 5.46	+2.80	+18.28
National Resources - Export Retentions	22.61	23.14	24.30	25.77	29.00	0.53	1.16	1.47	+ 5.01	+6.04	+12.53
National Resources - Social Security	20.62	21.54	20.36	21.83	23.52	0.92	-1.18	1.47	- 5.48	+7.22	+7.74

The aforementioned crisis of external origin would come first by a slowdown and then by a drop in the real value of the principal taxes collected. In a unified system of collection for the main taxes, the external crisis would filter down to all government levels, starting at the national level, then going into the provinces and finally reaching the municipalities.<sup>34</sup> This was also evident in the provinces and their municipalities for two reasons. Firstly, since the beginning of the decade<sup>35</sup>, the provinces have reduced their revenue capacity since they receive only a minority share from the tax on the financial transactions. Secondly, the provinces had lower tax revenues, due to their initial absence from a share of the national revenues collected from the export tax.

In the 2008-2009 biennium, the provinces responded to the situation by raising their own taxes through increasing both the rates and bases of their tax systems, thus, turning a negative trend into a positive one. Nonetheless, during 2010, its growth in terms of revenue was clearly inferior to the increase in the national tax collection. The data for year 2012 shows also an important provincial tax effort without a change in the structurally stronger national position (Tables 9 and 11).

### Revenues and taxes of the third level of government

Having considered the fiscal stance of intermediate or state governments, including their provincial “tax matrix” or taxation structure, we can examine the local ones as the third level in the federal scheme. In Argentina municipalities are financed with their own taxation (*tributos*) with transfers from other government levels and with credit. The term *tributo* (tax) includes taxes themselves and other duties based on the benefit principle. Clarifying this two-pronged revenue source is important, since most of Argentine municipalities levy *tasas* (rates), unlike the central and middle levels of the federation, which gain undisputed

34 Through the provinces, local governments received part of the national taxes that were shared with the provinces. Likewise, the provinces shared part of their own taxes with their municipalities.

35 Only 30% of the cheque tax was shared with the provinces. The rest accrued to the national government. The same happened starting March 2009, when *the Fondo Federal Solidario* was created and was transferred to the provinces with conditions attached. A total of 30% of the export tax was transferred from the national government to the provinces to fund infrastructure works in the provinces and their municipalities.

access to a broad range of taxes.<sup>36</sup>

Fiscal resources of local governments in Argentina are made up of three main types:

- their own tributary revenues levied according to constitutional and legal powers
- transfers from other levels of government and shares of national and provincial taxes
- fines, rates and duties of different types levied for providing certain services to residents.

Due to the small amount of the last type in this structure, the first two sources are much greater than the income from local duties and fees. The duties, fines, and user charges are quite numerous, but they generate costs for collection, supervision administration, and their output is poor. However, along with the first two sources, they represent specific tax revenues for local government, and are indicative of the municipal decision-making power. Credit, another important source of financing is not considered here given our focus on taxation.<sup>37</sup>

These revenue sources can be regrouped into two main categories:

- tributes and other duties collected as part of specific functions
- resources received as transfers or grants derived from the central or regional level, namely the nation and the provinces.

In the first group, in turn, *tasas* (rates) prevail. In the second, a share in higher level taxes (known in Argentina as *coparticipación*), a particular form of transfer mechanism operates.

In describing local source revenue, the particular form of taxation as the exercise of tributary power called or known as

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36 Including those based on the ability-to-pay principle.

37 See also in this respect J. P. Jimenez y Andrea Podestá (2009), pp. 6-8.

*tasas* are the main element, consisting of nearly two thirds of its own collection, followed by the rest of the duties, fines and user charges that produce one-third of local tax revenue.<sup>38</sup>

Municipal taxation capacity has been a major constitutional issue and there is no uniform position on it among jurists and legal experts. For years, prior to an important court case (in which one of the largest municipalities was a party), the Supreme Court regarded municipalities as “territorially-based, financially autonomous entities,” with those entities that lacked autonomy within the federal order being administrated under laws issued by provinces (Organic Laws), within the framework of their own constitutions and the national constitution.

With the approval of 1994 constitutional reform, municipal autonomy was recognized, but the definition of the aspects of this autonomy was required to be laid out in the respective provincial constitutions. Therefore, in spite of the undeniable development of local governments’ status, it is still in the hands of provinces to determine the scope of such autonomy.

Meanwhile, even before the constitutional reform, some provinces had already approved constitutions which set down the autonomy of their local governments. However, even at present, several of the most important provinces regard municipalities as financially autonomous entities, and in fact the provinces have not regulated municipal autonomy.<sup>39</sup> Therefore, as indicated in previous research, there is still a certain amount of confusion about the legal status of municipalities, and about what can impinge on their powers and competences.

At any rate, there is still a determining factor for local governments to be able to exert a full taxing power, i.e. raising, modifying and cutting out taxes, namely the one established by “*leyes convenio*” (*agreement-acts*) and intergovernmental tax agreements arranged between the national government and the

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38 It is necessary to take in account the importance of resource administration. Sometimes inefficiency in fiscal administration has been highlighted as a problem to address. See Asensio, M.A. (2011b).

39 This is the case, among others, for the provinces of Santa Fe and Buenos Aires, two of the four provinces with the largest populations. Córdoba, other one of these four, has instead established municipal autonomy.

provinces. Within that framework, it is the Tax Sharing Law (*Ley de Coparticipación*) of 1988 and the Federal Agreement of 1993 which have given such power.<sup>40</sup>

These pieces of legislation force provinces to set limits to local powers of taxation, because provincial governments are not able to raise taxes analogous to those which are nationally distributed through the sharing mechanism. The linking and interlacing among the three levels of government is completed by the same tax sharing law, which states that provinces must arrange a tax sharing regime with their local governments to be applied within their jurisdiction. If this local tax sharing regime is not implemented, they will not receive their share in the national taxes laid down in this law.<sup>41</sup>

The debate referred to about self-financing or autonomy of municipalities influenced their possibility of exerting full taxing powers on that level of government. Prior to the current constitutional legislation outlining the organization of the federation, Argentine Supreme Court decisions regarded municipalities as self-financed entities, not vested with the power to levy taxes but instead empowered to raise rates in compensation of services, a notion that was bolstered by the Tax Agreement of 1993.

In any case, according to the recent constitutional interpretations, local governments were not banned from raising taxes as long as these taxes were in harmony with those levied by the national and the provincial governments. Municipalities also had to comply in the main with the key “analogy principle” laid down in the Tax Sharing Law of 1988.

Yet in practice, even a majority of provinces have regulated local government autonomy. Municipal governments use the taxation powers implied by such autonomy in a restricted way as a consequence of the restraints. These restraints have regulated the unsteady inter-jurisdictional tax balance, the trends towards overflowing the tax burden due to the attempts to “take up fiscal

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40 See the section “The Country” in this paper. Also, we’ll come back to this issue in “The Place of Natural Resources.”

41 The tax-sharing regime is defined by the provinces and applies to the local governments in their jurisdictions.

space” and the requirement of fitting into the analogy principle.<sup>42</sup>

Accordingly, the most important municipal forms of taxation continue to be these:

- municipal tributes on property,<sup>43</sup> also known as real estate taxes, that finance typical services like street lighting and cleaning
- rates based on inspection, safety and sanitation

Both taxes have reached nearly two thirds of their own revenue, reaching in some cases more than 70 % of the same total.<sup>44</sup>

The tributary bases applied in these two tributes turn them into “masked or disguised taxes.” For the first tax (municipal tribute on property), the rate is levied on the cadastral value of property, whose base is equivalent to that of the provincial real estate tax. For the second case, the base depends on the gross income of taxpayers or of the respective economic activity, making its tax base again the same as that of the provincial gross income tax, which is actually a sales tax with a cascade effect.

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42 It resembles some cases of decentralization where “tax visibility” is a way that is avoided by local governments, like in Spain (see Salinas Jiménez, J. and Fernández Llera, R., 2009).

43 Rates are taxes collected in exchange for “divisible” services delivered to residents, being the cost of the service provision - a factor to be weighed in order to measure the magnitude of the “benefit” that each user receives from them.

44 We refer to own source revenues (not including tax-sharing and transfers from other levels of government).

**Table 12: The Local Tax Matrix and the Structure of Taxes<sup>45</sup>**

Types of Tax	Taxable Base
1. Gross Income Tax <sup>1</sup>	-Income on Sales of Goods and Services
2. Real Estate Tax <sup>2</sup>	-Cadastral Value of Real Estate Property
3. Motor Vehicle Tax <sup>3</sup>	-Value Assessed on Motor Vehicles
4. Street Lighting and Cleaning Charges	-The same Applied in Tax 2
5. Inspection, Safety and Sanitation Fees	-The same Applied in Tax 1
6. Betterment Tax	-Increase in Property Value from Public Works
7. Rate on Public Health	-m <sup>3</sup> Covered or Property Size
8. Traffic Violations	-Graded according to Violations
9. Electricity Charges	-Electric Power Consume

**Notes:** (1) Province of Chubut; (2) Provinces of Chaco, Chubut, Formosa, Salta, Santa Cruz and Tierra del Fuego; (3) Provinces of Córdoba, Chaco, Chubut, Formosa, Jujuy, Neuquén, Salta, Santa Cruz and Tierra del Fuego.

This resulted in the violation in practice of the principle of correspondence between the amount of revenue raised by the rate and the costs of providing local governmental services. The issue was supposed to have been solved by the alluded Tax Agreement of 1993, which stipulated that provinces should induce their local governments to set rates on services that do not outrun the costs of provision of such services. Results up to now are less than modest.<sup>46</sup>

In some instances, municipalities have used redistribution principles in regulating safety and sanitation fees, applying differential rates to certain sumptuary activities. The same has happened when applying higher rates in the local real estate tax according to the socioeconomic standards of different urban areas. Containing a good measure of logic in terms of public policy it implies a particular differentiation approach considering

<sup>45</sup> For this issue, see also Cetrángolo, O. y A. Goldschmit (2013), p. 13.

<sup>46</sup> Likewise, it is relevant to point out that ascribing unrestrictedly to the principle, without additional grants from the provincial government, could cause significant financial imbalances for Argentine local governments. The existence of indirect costs adds complexity to the issue.

the range of such governments, in view of the provisions of the normative fiscal federalism theory which reserves the distributive branch of fiscal policy to the federal government suggesting for local governments a focus in the efficient provision of local public goods.

The so-called “betterment tax” is a tax that attempts to put a price tag on the “urban added values” that come with the improvement of certain town areas as a consequence of the governmental activity by means of public works. Even if it is a resource of potential exploitation, its significance within the structure of specific taxes is not relevant inside the Argentine environment.<sup>47</sup>

In any case, there is a trend today towards increasing the search for such revenue sources. In technical terms, local governments are identifying mechanisms for “capturing increased values” linked to various governmental actions, and then enacting them in their regulations.<sup>48</sup>

### Local governments and tax sharing<sup>49</sup>

Previously, we spoke about a mix of shared and own source revenues for all levels of government. As it has been pointed out before, there is a national tax sharing system that transfers resources from the national tax collection to the provinces and through these to the municipalities. But furthermore, this system is based on laws that force provinces to reproduce inside their territory a system that shares tax revenues with local their own local governments. Coming back to Maslove, we can speak about a main mechanism of coordination, but sometimes these provisions imply constraints. In such a sense “coordination also means coercion.”<sup>50</sup>

In a certain sense, we are speaking of the “tax sharing

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47 See for that purpose Lukszan, A. (1990) and Secretariat of Regional Planning (1999).

48 See Virgolini, Edmundo, *et al* (2010).

49 For this point and the former one we follow with some enrichments, updating and modifications some of the concepts included in Asensio, M. A. (2006).

50 Maslove, Allan M. (1993), p., xi.



logic.”<sup>51</sup> For this reason, all of the provinces currently have in force tax sharing systems to meet the aforementioned federal law, in view of the fact that if they do not act accordingly, they face the possibility of losing the right to be granted the shared taxes distributed according to law.

In keeping with federal tax sharing, systems of sharing with local governments provide the main instrument of national-provincial-municipal fiscal relations and work as transfers without conditions. It does not prevent the existence of less significant transfers that originate in the provincial or the national governments. It does include the recently created shared revenues from exports taxes.<sup>52</sup>

These systems in effect in the provinces often enjoy a constitutional status. Constitutionally, this framework provides that the shared funds are made up of both national and provincial revenue resources, and this principle is reflected in the specific laws passed within the frame of such constitutional regulations. These laws set out how the national or provincial revenues and other specific and particular resources from some intermediate governments are to be distributed, as well as the royalties collected by provinces for the exploitation of natural resources such as oil, gas or hydroelectricity within their boundaries, even including resources from privatizations.<sup>53</sup>

Reflecting the pattern of the national tax sharing with provinces, provincial sharing with local governments completes in some important cases the idea of “tax union.” Under this approach, the diverse taxes collected by one level are bundled together and distributed among the participants of another level on a pro rata basis. The tax sharing in a stricter sense is of the type “tax-per-tax” and it is applied in another group of provinces.<sup>54</sup>

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51 In the same direction, see Asensio, M. A. (2011).

52 For the treatment of “export retentions” see the first part of this paper.

53 See in this respect Ministerio de Economía de la Nación (1999).

54 In other words, within the tax-sharing system we distinguish two approaches: “tax union” and “strict or specific tax-sharing” (global sharing and individual sharing).

## From reform projects to waves of conservatism

Starting from the 1950s, and continuing during the second half of the twentieth century, the taxes collected by the provinces included the gross income (receipts) tax (GIT), the tax on property – real estate – the stamp tax and the motor vehicles tax, and other taxes, including an inheritance tax.

The latter is a variety of tax revenue applied in some countries, including the states in the United States of America.<sup>55</sup> In Argentina, it was not very productive in terms of revenue, but contributed (to a certain extent) to the finances of the second level of government.

In the 1970s, the national VAT was introduced, following the experience of some European countries. When it came into effect in 1974, it was intended to eliminate the GIT at the provincial level as a measure of harmonization. The idea failed, and promptly, the taxpayers were confronted with a system whose profile included both taxes.

During the decade of the 1980s, there was a modification of rate structure of the gross income tax. The rate was fixed at 1% for primary sector, 1.5% for manufacturing, and 2.5% for commerce and services. From the beginning, there was an increasing or graduated scale from agriculture to tertiary activities. Also, at that time, the “taxation of the dead” was eliminated. So the inheritance tax was no longer subject to legislation and was not applied at the provincial level because it produced a low yield in the total tax revenue stream. The assumption was that other taxes, like the stamp tax, could replace the loss of income, with better results than the old tax.

Roughly speaking, this was the system in force until the first years of the 1990s. At that time, Argentina entered into the “era of the pacts.”<sup>56</sup> That period was characterized by governmental agreements between the national and provincial governments. These pacts made major changes in the fiscal-federal framework

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55 For an explanation of this see Musgrave-Musgrave (1992).

56 See Asensio, M.A. (2006).

and the federal relationship between the two levels of the federation. The New Constitution of 1994, on the fiscal side, also comprised a major pact, in fact, the main one.

**Table 13: Argentina’s Main National-Provincial Agreements**

Order	Main Features of New Agreements
1988	Regulation of the structure of GRT, tax sharing and “similarity” prohibited.
1991	Sharing of tax revenues from gasoline, VAT and others.
1992	Deduction of 15% of “common pool” resources for social security
1993	Encroaching on subnational tax powers (GRT [GIT], property, etc.)
1994	Nation constitutional concurrent power in indirect taxes and natural resources granted to Provinces. <sup>2</sup>

In such a scenario dominated by efficiency goals, any distorting taxes must be abandoned or significantly reduced, like the GIT on productive sectors, among others. This move affected the imperfect tax structures of the provinces, with high dependence on their sales (turnover) and stamp taxes, exposing them to the risk of collecting an insufficient level of taxes. This risk explains, in spite of some initial attempts of giving impulse to such reforms during the 1990’s, the final option for conservatism by the provinces in face of such major changes in the provincial-national tax structure. This was made visible from 2001 onwards when various jurisdictions reversed those measures reinforcing the old taxation system, in particular the gross incomes tax.<sup>57</sup>

After considering the Pact of 1993, the major constitutional revision of 1994, and after the later major crisis of 2001, it is possible to mention some additional changes within the subnational scenario. First, the move to make it possible for provinces to tax natural resources; second, the constraints imposed on provincial taxation by federal legislation; and third, the recent reappearance

<sup>57</sup> In the following paragraphs we enlarge this overview which in the end means that the reform of the decade of 1990 centered in the adoption of an RST (retail sales tax in the US or Canadian way) in place of the GIT concluded with the abandonment of such idea and the surviving of the mentioned GIT.

of old taxes, like the inheritance tax, particularly in the big province of Buenos Aires.

The new constitutional framework allowed royalties to appear in the provincial fiscal structure, and in some provinces significantly increased tax revenues, due in part to additional economic activity created by the development of mineral resources in several western provinces.

Thus, royalties are currently significant for the oil and gas producers from Patagonia and other provinces, plus the gold producers like San Juan and Catamarca. However, very recent national legislation, previously negotiated with oil and gas producing provinces, has introduced what we have called a “regulatory profile” in the decentralized scenario devised in the Constitution of 1994 for this economic sector.

As mentioned previously there was an explicit objective to progressively abandon the gross incomes (receipts) tax, and also to impose certain fiscal behavior in relation to property taxes in provinces. To implement the former, the elimination of the tax on manufacturing activities was encouraged. In the case of the latter, the main goal was to reach minimum levels for the rates charged on the taxable value of real estate. Both goals were clear in the Pact of 1993.<sup>58</sup>

A majority of provinces followed the path prescribed in this agreement during the second part of the 1990s. However, the appearance of the crisis of 2001 motivated a change in the attitude, given the fiscal needs of some important districts. The picture was changing again, and the elimination of the main provincial indirect tax became quickly a highly questionable idea. This was partly because some institutions of fiscal competition were kept alive among the provinces,<sup>59</sup> taxation on manufacturing in the Gross Income Tax (GIT) re-emerged, particularly in the provinces

58 By this time the *desideratum* consisted in reaching a substitution of GIT for a form of retail sales tax (RST). A mission from the provinces visited Canada and the United States to get information on the experience in RST in such countries. In the end, the idea did not progress any further. The same with respect to some suggestions for a subnational VAT, in face of the Brazilian experience with ICMS.

59 Apart from differences on rates there exists territorial legislation on “industrial promotion”.

where the economic structure gives weight to the secondary sector. In spite of efficiency goals, given the cascading effects of such taxation, the impact of such a measure on revenue productivity could be seen in face of the emerging fiscal constraints.<sup>60</sup>

Also, as the new century began, there was a proposal to reinstate the inheritance tax as a way of increasing the subnational tax powers, which had been eliminated during the “era of the pacts.”<sup>61</sup> The idea was not very popular at the time, but recently, given the financial crisis of the province, Buenos Aires, as the biggest partner in the federation, passed legislation to reinstate the old inheritance tax.<sup>62</sup>

Another contemporary development has been the application of the so called “road tax” by some provinces and municipalities. This issue has raised a new constitutional debate and claims have been brought to the courts. The advocates of this particular tax emphasize the end use of the revenues to the maintenance and reparation of regional and local roads.<sup>63</sup>

## Conclusion

It is not possible to consider subnational tax powers in Argentina without taking into account the whole system of federal finance. Some major historic changes did not originate at the subnational level, but at the national one. The design of subnational taxes must follow the “iron rule” of the analogy principle set out in federal legislation.

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60 See Appendix I. The tax burden of GIT/GRT in provinces represented 4.24% of GDP in 2012, more than doubling its weight of the year 2001.

61 In particular, it was mentioned by the Federal Secretary of Public Revenues, as it was announced to the press at the time.

62 It was enacted by Provincial Law N° 14.044 - enforced since 2010 - and tax-free transfers and donations of goods for an amount of more than \$ 3,000,000. Recently the base was lowered to \$200,000, raising issues of “regressivity.” In another scenario, like that of the Province of Santa Fe, the possibility of re-evaluating the feasibility of the old inheritance tax was mentioned in political circles.

63 The Provinces of Córdoba and Buenos Aires paved the way for this tax (“*tasa vial*” in Spanish) for which legislation has been passed at provincial and local level.

In general terms, the subnational governments are minority partners in the access to the fiscal pie. It is not the same with respect to the expenditure side, where such governments deliver important services with high manpower requirements, like security, primary and secondary education and health institutions. The aims embedded in national-provincial agreements in the 1990s followed the principle of eliminating or reducing any distorting subnational taxes, such as the gross incomes (receipts) tax and stamp tax, while getting more tax revenue from provincial and local property taxes, both urban and rural.

The logic of such reforms rested on the possibility of getting increased efficiency by reducing some well known effects such as *cascading*. The crisis of 2001 and the need for revenue fostered opposite ideas. While the national government introduced its own distorting taxes, like the “tax on the cheque” and the export tax, the provinces opted to maintain and extend the gross income tax GIT (GRT), and to reinstate the formerly abandoned “tax on the dead,” the inheritance tax.

Other measures were introduced in the traditional patchwork style. In such a way, the rich brother – the national government - created a special transfer to the provinces from part of the huge resources obtained from the export tax, stating the obligation for them to give a share to local governments in their jurisdictions. On the provincial and local side, also, the provinces were given the power to tax on natural resources - though such income can fluctuate drastically and some provinces and municipalities have introduced road taxes for the improvement of provincial, regional and rural roads.

Meanwhile, the discussion about the implementation of a new and comprehensive revenue sharing scheme, the central mechanism of financing for all levels of government, continues without legal implementation. This major step has been postponed and delayed, waiting for an improved scenario and changed political conditions.

**APPENDIX I****Argentina: Jurisdictional Structure of Tax Collections****(% of GDP)<sup>64</sup>**

Taxes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2012
Income Tax	3.99	3.04	4.30	5.26	5.49	5.31	5.44	5.30	4.97	6.47
Property Taxes	1.43	1.77	2.03	2.13	2.15	2.14	2.22	2.26	2.19	2.41
Value Added Tax	5.71	4.88	5.57	6.92	6.93	7.20	7.71	7.77	7.63	8.80
Excises (cigarettes, etc.)	2.09	2.17	2.08	2.07	1.99	1.78	1.62	1.59	1.70	1.89
Services Taxes	0.28	0.09	0.06	0.05	0.03	0.07	0.08	0.07	0.10	0.10
Import taxes	0.59	0.42	0.61	0.73	0.73	0.79	0.86	0.87	0.67	0.77
Export taxes	0.02	1.61	2.45	2.29	2.32	2.25	2.52	3.49	2.80	2.83
Simplified taxation	0.13	0.09	0.08	0.15	0.16	0.21	0.14	0.15	0.28	0.22
Social Security	3.23	2.83	2.83	3.04	3.27	3.78	4.51	5.09	6.74	8.31
<b>National Taxes</b>	<b>17.50</b>	<b>16.91</b>	<b>19.98</b>	<b>22.67</b>	<b>23.10</b>	<b>23.57</b>	<b>25.13</b>	<b>26.63</b>	<b>27.10</b>	<b>31.83</b>
Real Estate Tax	0.61	0.53	0.58	0.59	0.53	0.44	0.37	0.38	0.37	0.45
Stamp Tax	0.28	0.23	0.27	0.29	0.32	0.34	0.36	0.34	0.34	0.49
Vehicles Tax	0.29	0.21	0.23	0.23	0.24	0.24	0.24	0.24	0.28	0.30
Gross Incomes Tax	2.08	1.97	2.35	2.58	2.75	2.82	2.97	3.18	3.45	4.24
Other	0.37	0.46	0.37	0.35	0.28	0.32	0.28	0.26	0.19	0.15
<b>Provincial Taxes</b>	<b>3.64</b>	<b>3.39</b>	<b>3.81</b>	<b>4.04</b>	<b>4.12</b>	<b>4.17</b>	<b>4.22</b>	<b>4.40</b>	<b>4.63</b>	<b>5.63</b>
<b>Total Nation-Provinces</b>	<b>20.94</b>	<b>20.30</b>	<b>23.79</b>	<b>26.70</b>	<b>27.22</b>	<b>27.74</b>	<b>29.35</b>	<b>31.03</b>	<b>31.73</b>	<b>37.47</b>

64 National Ministry of Economics and Public Finance. National Direction of Research and Fiscal Analysis (DNIAF), Buenos Aires.

**Appendix II. Argentina: Example of the Structure of Coparticipation Transfers (Nation and Provinces), 2010 (Figures are in Pesos).**

Order	Description	Gross Distribution	Total Federal Coparticipación	Federal Participation (Law 23548)
1	Total Destination	243,477,457,093.07	163,338,547,056.21	150,899,414,938.12
1.01	National Government	142,706,114,576.69	81,538,521,303.30	81,530,821,303.30
1.01.02	ANSES	42,622,718,342.31	24,500,782,058.37	24,500,782,058.37
1.01.03	National Treasury	95,626,911,427.98	55,647,157,594.96	55,647,157,594.96
1.01.04	Transfer for services	7,700,000.00	7,700,000.00	
1.01.05	Ministry of Interior Grants	2,971,384,631.06	1,382,881,649.97	1,382,881,649.97
1.01.06	Housing Funds	1,311,418,741.94	0.00	
1.01.08	Electric Found (FEDEL)	145,712,595.95	0.00	
1.01.09	Popular Libraries Grants	20,268,837.45		
1.02	C.A.B.A.	1,936,060,335.61	1,936,034,309.96	1,376,072,192.69
1.02.01	G.C.B.A.	1,936,060,335.61	1,936,034,309.96	1,376,072,192.69
1.03	Provincial Governments	98,788,299,549.84	79,863,991,442.95	67,992,521,442.13
1.03.01	Buenos Aires (Aditt.)	2,211,652,789.03	2,136,008,967.47	1,712,504,486.11
1.03.02	Buenos Aires	17,701,624,448.61	15,232,552,892.13	11,881,763,604.41
1.03.03	Catamarca	2,651,669,320.71	2,174,525,400.04	1,944,313,501.87
1.03.04	Chaco	4,953,458,232.26	3,891,501,253.16	3,453,140,352.12
1.03.05	Chubut (Aditt.)	201,853,286.19	194,949,420.43	170,229,996.66
1.03.06	Chubut	1,444,825,464.45	1,086,382,185.32	896,063,601.45
1.03.07	Córdoba	8,801,501,574.50	6,987,386,786.74	6,061,746,587.56
1.03.08	Corrientes	3,796,614,587.63	2,926,935,682.12	2,511,875,085.68
1.03.09	Entre Ríos	4,838,282,903.45	3,859,204,161.04	3,413,764,593.19
1.03.10	Formosa	3,580,869,841.75	2,857,946,858.19	2,580,710,914.38
1.03.11	Jujuy	2,839,212,347.85	2,253,350,325.30	1,955,030,107.10
1.03.12	La Pampa	1,843,776,066.81	1,499,240,045.59	1,331,260,203.18
1.03.13	La Rioja	2,021,573,460.83	1,645,462,100.83	1,447,105,697.01
1.03.14	Mendoza	4,158,625,854.68	3,307,932,512.51	2,759,560,622.42
1.03.15	Misiones	3,398,410,350.33	2,611,083,259.98	2,118,945,798.78
1.03.16	Neuquén (Aditt.)	201,853,286.19	194,949,420.43	169,493,366.89
1.03.17	Neuquén	1,596,836,549.55	1,192,559,830.55	995,627,724.16
1.03.18	Río Negro	2,513,630,178.70	1,992,858,933.58	1,748,878,485.72
1.03.19	Salta	3,906,185,448.06	3,029,368,915.18	2,545,960,534.58
1.03.20	San Juan	3,288,721,653.86	2,666,572,082.43	2,386,299,345.04
1.03.21	San Luis	2,250,994,813.63	1,807,656,362.56	1,620,244,768.37
1.03.22	Santa Cruz (Aditt.)	201,853,286.19	194,949,420.43	183,774,885.37
1.03.23	Santa Cruz	1,389,758,254.34	1,070,682,185.32	967,361,456.64



1.03.24	Santa Fe	8,906,111,805.65	7,042,192,403.57	6,166,813,660.36
1.03.25	Santiago del Estero	4,105,867,644.87	3,248,088,101.29	2,834,809,109.60
1.03.26	Tierra del Fuego	1,246,151,404.03	1,004,017,153.09	911,474,715.03
1.03.27	Tucumán	4,736,384,695.,67	3,755,634,783.67	3,223,768.238.45
1.04	Municipal Governments	46,982,630.93	0.00	

### Appendix III. Rates For Gross Incomes Tax In Argentina<sup>65</sup>

Jurisdiction	GRL	AGR	MIN	GC	SC	MAN	CON	OTH
Buenos Aires		3	3	4.5	4.5	3	3.5	3.5
CABA		1	1	3	3	3	3	3
Catamarca		0	1	2.5	3	1.5	2.5	5
Córdoba	4	1	1	0.25 /2.00	1.5 /3.5	0 /1.5	2.5	
Corrientes		1	1	2.25	2.5	1.5		
Chaco	3			2.5	3	1.5	2.5	
Chubut		1	1	3	3	1.5	3	
Entre Ríos	3.5	1	1	1.6	3.5	2.5	1.6	
Formosa		1.5	1.5	3	3	1.5		
Jujuy		1.2		2.5	2.5	1.8		
La Pampa		0.5	0.5	2.5	2.5	1.5		
La Rioja	2.5	1	0-1.63	2.5	2.5	1.5	2.5	
Mendoza		2	4	4	3.5	3	4	
Misiones		-	-	2.5	2.5	2.5	2.5	
Neuquén	3	3	3	3	3	-	-	
Río Negro				3	3	1.8	3	
San Luis		1		4.1	3.5	1.5	2.3	
Santa Cruz	3	1	2	3	3	1.75	3	
3Santa Fe (*)	3.5	1.5 OJ	1.5 OJ	2.8	3.5	1.5 OJ	-	
San Juan	3	1		3	3		2	
Santiago del Estero		1.5	1.5	3	3	1.5	3	
Tucumán		1.4		2.5	2.5	1.8	2.5	
Tierra del Fuego	3	-	-	-	-	-	-	

65 Column Headings: GRL: General; AGR: Agriculture; MIN: Mining; GC: Great Commerce; SC: Small Commerce; MAN: Manufacturing; CON: Construction; OTH: Others.



### ARGENTINA

- BUENOS AIRES Capital de Nación
- VIEDMA Capital de Pcia
- Tahí Viejo Localidad

— Limite Internacional  
- - - Limite Provincial

1) Limite del lecho y subsecho  
2) Limite exterior del Rio de la Plata  
3) Limite lateral marítimo Argentino-Uruguayo



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