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Urban Property and Land Taxation in Argentina

The Challenge of Decentralization

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November 21st, 2017

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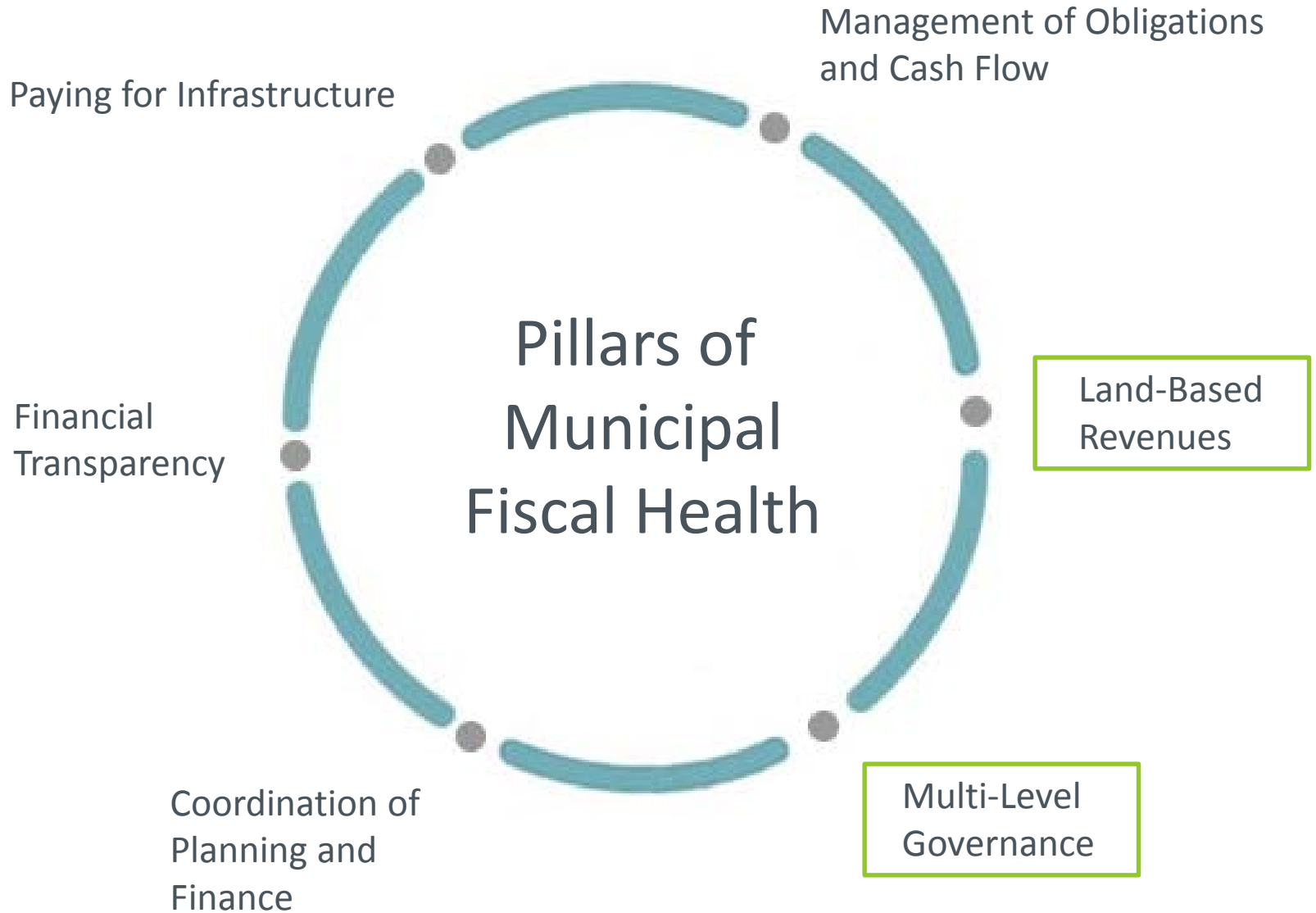
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The quality of life for billions of people rests on the ability of local governments to deliver public services and invest for the future.



Webinar Speakers

Urban Property and Land Taxation in Argentina: The Challenge of Decentralization



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**LINCOLN INSTITUTE
OF LAND POLICY**

Presentation

Urban Property and Land Taxation in Argentina: The Challenge of Decentralization

Centro de Investigación de Política Urbana y Vivienda (CIPUV)
Universidad Torcuato Di Tella
Argentina

November 21st, 2017

This study was developed by a team under the direction of Cynthia Goytía (Director of CIPUV). Marcela Cristini oversaw the technical coordination. Guillermo Bermúdez and Priscila Ramos contributed different chapters of the study. Ramiro Mosteirín and María Soledad García Tejada oversaw the Survey to provincial and municipal governments. Authors are grateful to Mario Piumetto for his generous information about Cadasters in Argentina. We gratefully acknowledge the support of the Lincoln Institute of Land Policy for this research.

Objective of the study

- To evaluate the advantages and disadvantages of decentralizing the organization and collection of the Urban Property and Land Tax from the provincial governments to the medium sized cities of Argentina in order to:
 - Increase fiscal revenues,
 - Improve local government's accountability,
 - Create larger fiscal space for local management of urban development.

Fundamentals of Property Taxation

Property Taxation remains the best way to support local public expenditures for several reasons:

- its progressivity relative to taxes on consumption,
- its familiarity to taxpayers,
- the difficulty of tax avoidance (De Cesare 2012),
- much of the great potential of local revenue is still wasted, especially Property Taxes (IDB 2012).

Why decentralize the Urban Property Tax to subnational governments?

- Bringing government decisions closer to citizens improves their capacity to satisfy the social demands and allows for more effective accountability.
- If local governments do not finance services themselves, the connection between expenditures and revenues is lost and the choice of services will not be based on an accurate perception of their costs. Moreover, demand for services could increase disproportionately if local users are not taxed to cover the expenditure.

Methodology

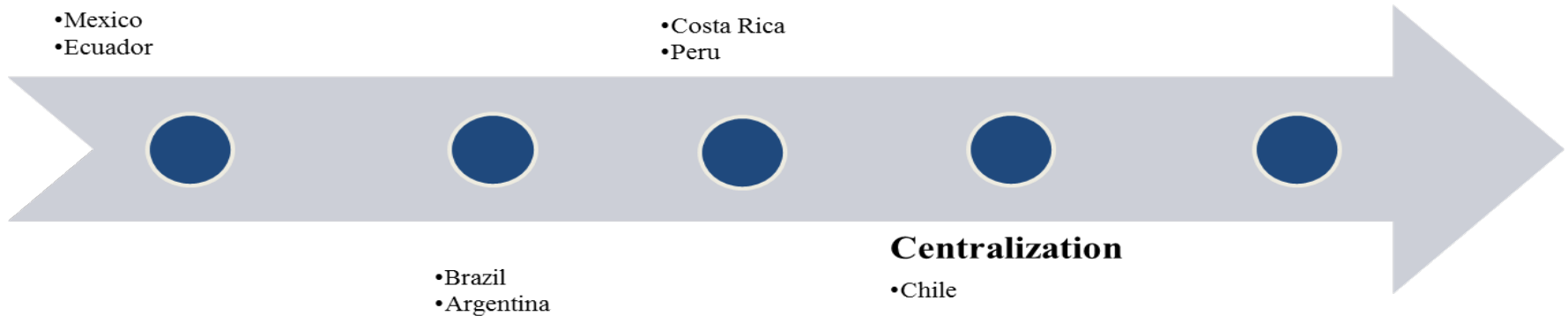
1. Review of the literature on international and Latin-American cases on decentralization of this tax to develop a framework against which to compare the Argentine situation and the proceedings of a proposal for reform.
2. Construction of an ex-ante simulation model for medium sized cities of Argentina to estimate the potential benefits and costs of decentralization and exploration of new sources to widen the scope of the Property Tax.

Property Tax system in Latin American countries based on the degree of autonomy of local governments

Decentralization

- Bolivia
- Colombia
- Mexico
- Ecuador

- Costa Rica
- Peru



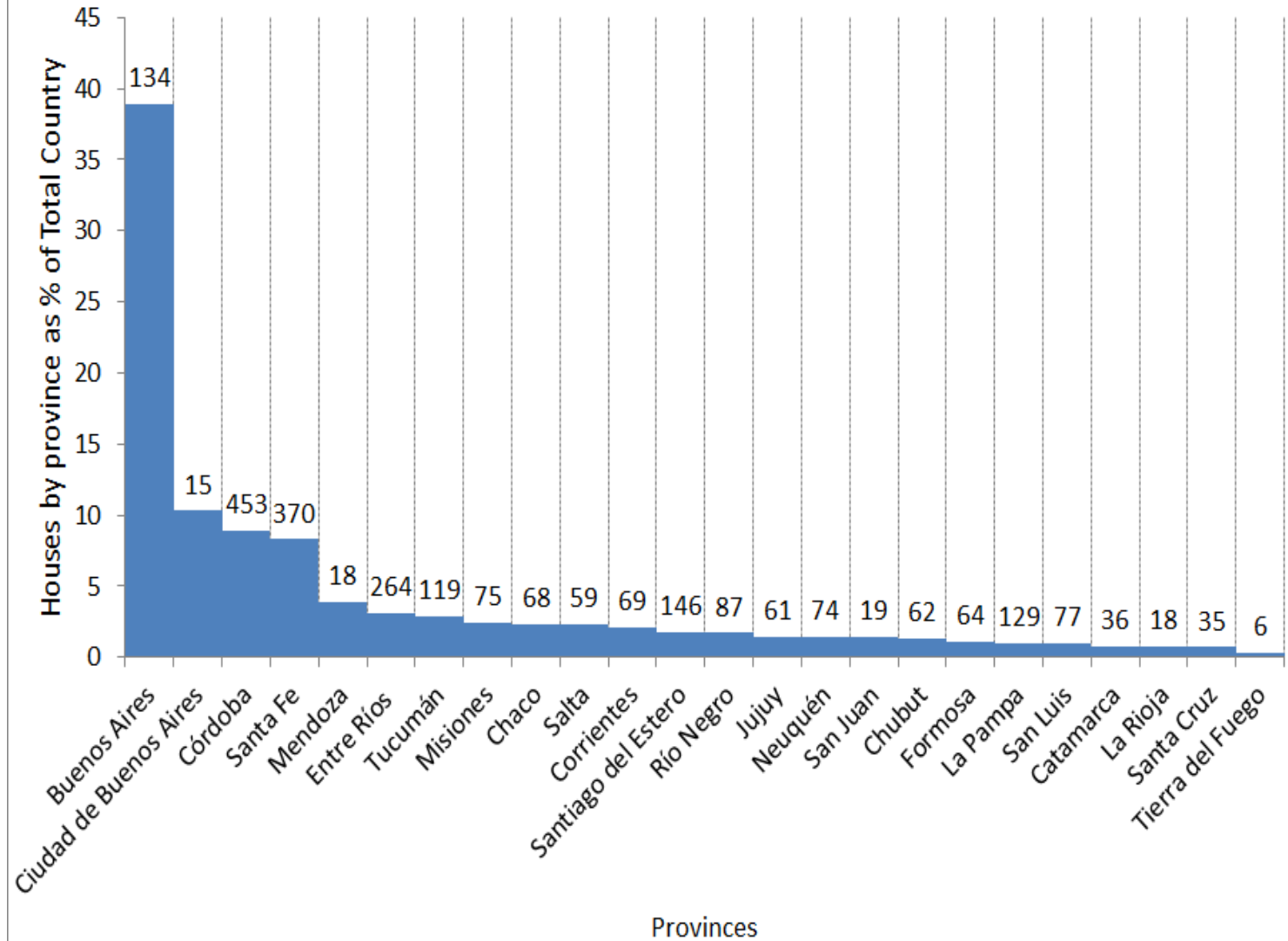
Institutional agreements and consensus must be reached to ensure that local governments have the resources needed to act as agents of development.

For decentralized spending to be sustainable, the own-source resources of local governments must be strengthened.

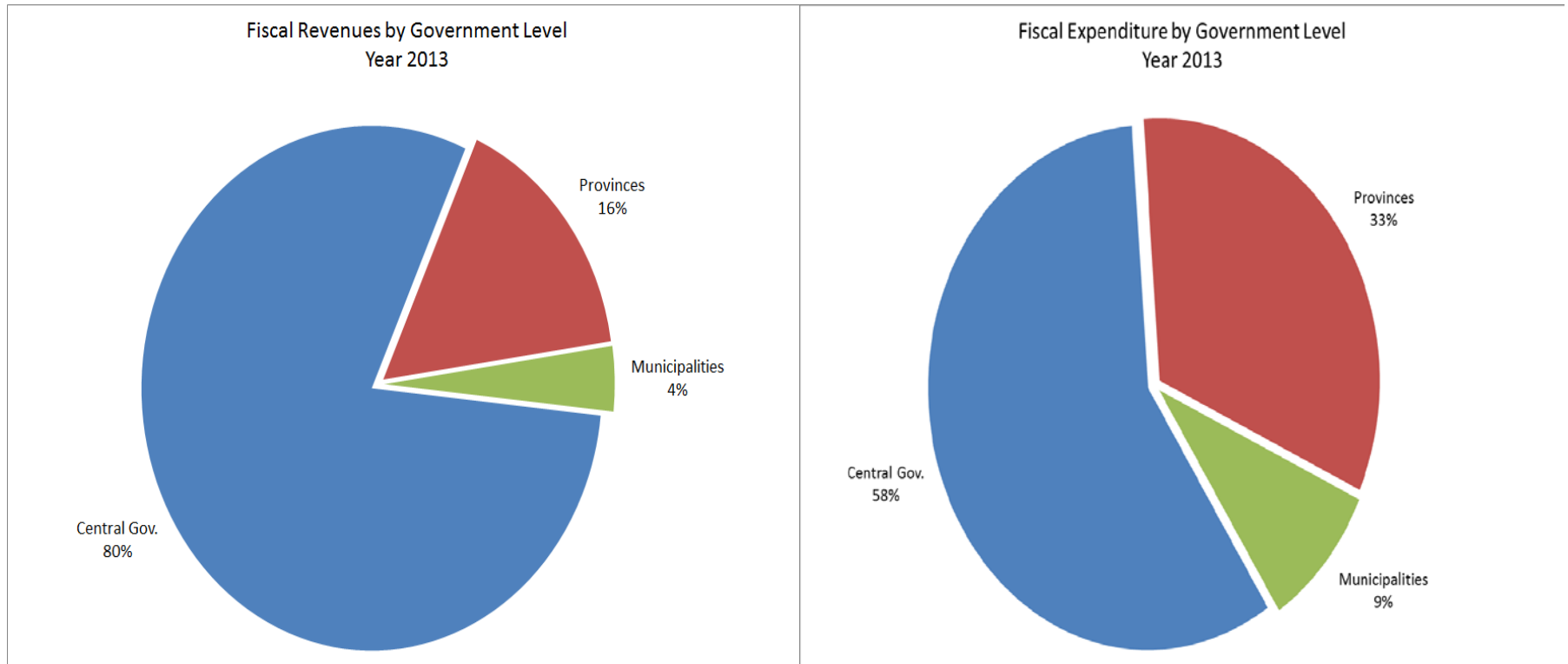
Why decentralize the Urban Property Tax to subnational governments in Argentina?

- Argentina is a federal country. Each province (state) has the right to organize the municipal regime by a provincial law, defining the degree of autonomy granted to municipalities.
- The number of local governments is estimated at 2252, out of which there are 1148 municipalities.
- The population is highly concentrated in a few large municipalities.
- Around 90 percent of the municipalities have populations smaller than 10,000 inhabitants. This feature is called “infra-municipalism”.

Houses by Province and number of urban centers

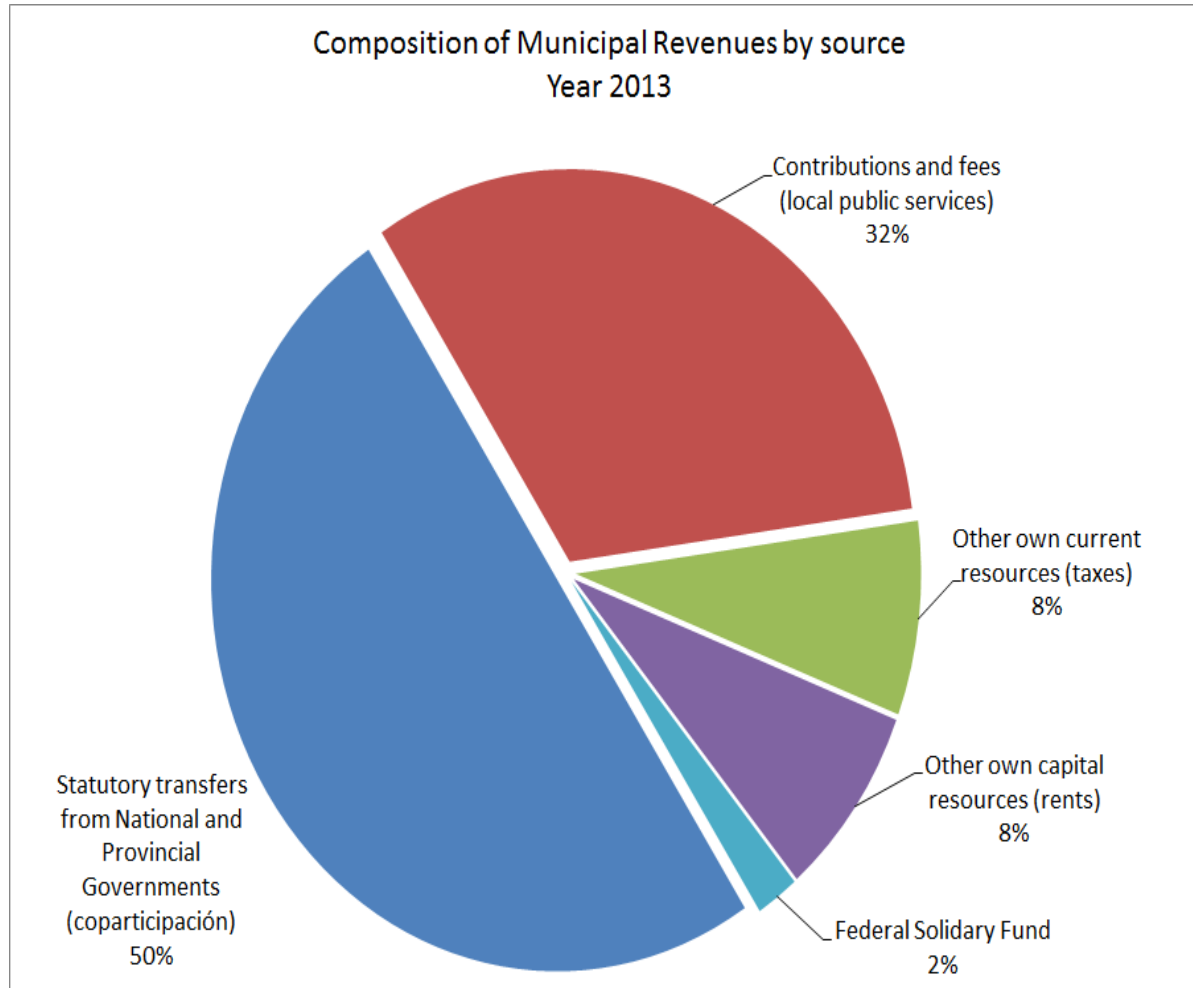


Argentina: Vertical Fiscal Imbalance



The “vertical fiscal imbalance” is also reproduced by the fiscal relationship between each province and its municipalities

Municipal fiscal resources and the Urban Property Tax



- The Property Tax corresponds to 2 percent of total Provincial fiscal revenues (2010) . It is equivalent of 0.35 percent of GDP.
- Urban property is taxed by the three levels of government.
- Each time that provinces or municipalities update their cadasters or fiscal valuations they are also increasing the tax base for the national taxes on property.
- Decentralization of the tax on property from provinces to municipalities only took place in seven provinces out of 23.

Urban Property Tax: selected facts

- The importance of this tax decreased sharply over time. In the late 1990s, it represented 0.63 percent of GDP while in 2013 it was only 0.38 percent of GDP on average.



- The Property Tax lost importance in relative terms within the provincial tax collection but kept its value in real terms. Provincial resources were widened by new taxes or by increasing the burden of existing ones that were less visible to voters.



Definition of Urban Property Tax revenues

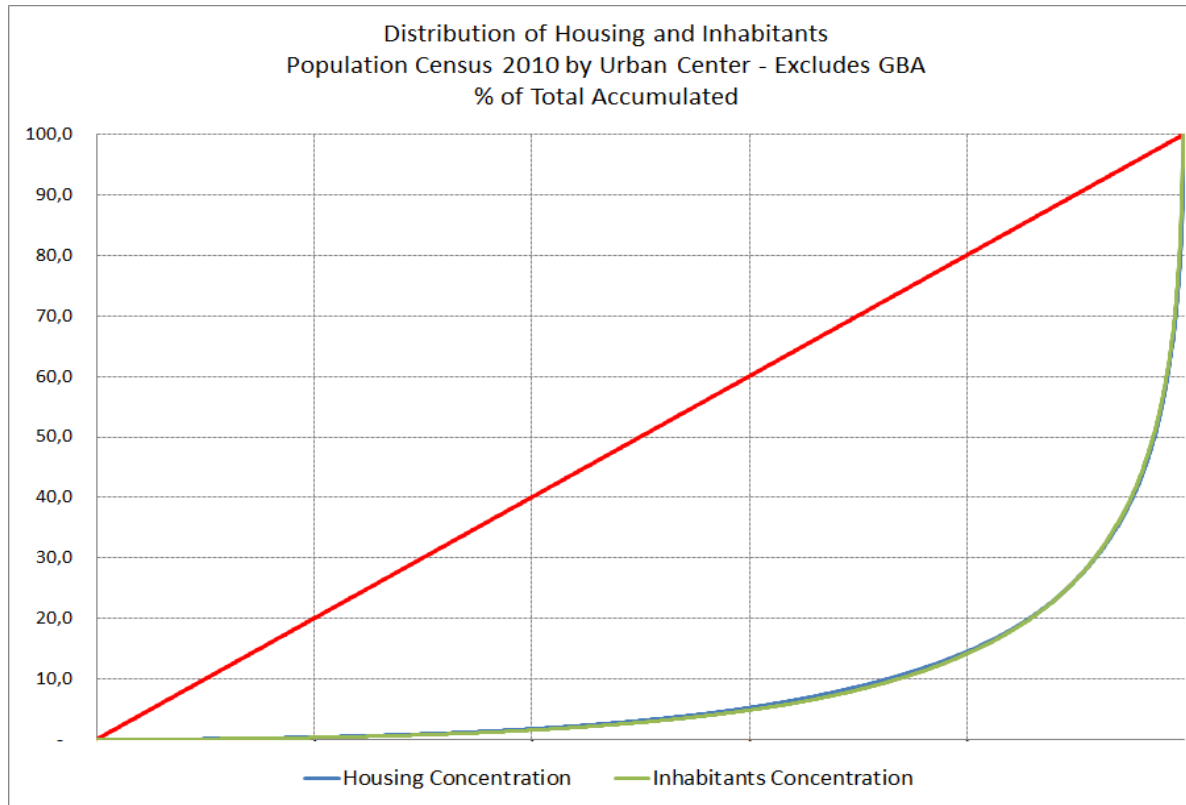
Urban Property Tax net revenue =

$$\mathbf{U(\text{Cadaster}) * P(\text{Valuation}) * t(\text{progressive or flat tax rate}) * C(\text{effectiveness}) - Co(\text{administrative efficiency})}$$

where:

- U: taxable units in m2 that depend on the Cadaster and its updates.
- P: price by m2 of the taxable unit, which depends on the valuation system, the price updates and the market price.
- t: tax rate, that may be flat or progressive.
- C: ratio of tax bills to total taxable units times the ratio of paid tax bills to total tax bills, which depends on exemptions and collection effectiveness.
- Co: administrative costs of tax organization and collection.

Argentina: Concentration of population in large municipalities



This distribution excludes GBA that represents 34% of Argentine total population

Characteristics by Quintile	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Number of houses (total)	37.765	128.180	328.194	866.544	8.031.538	9.392.221
Number of houses (% of the total)	0,40	1,36	3,49	9,23	85,51	100,00
Inhabitants (% of the total)	0,35	1,25	3,34	9,40	85,66	100,00
Average of houses	78	265	678	1.790	16.594	3.883
Average of inhabitants	197	707	1.886	5.302	48.335	11.299

Feasibility of Property Tax decentralization: Results from the simulation model

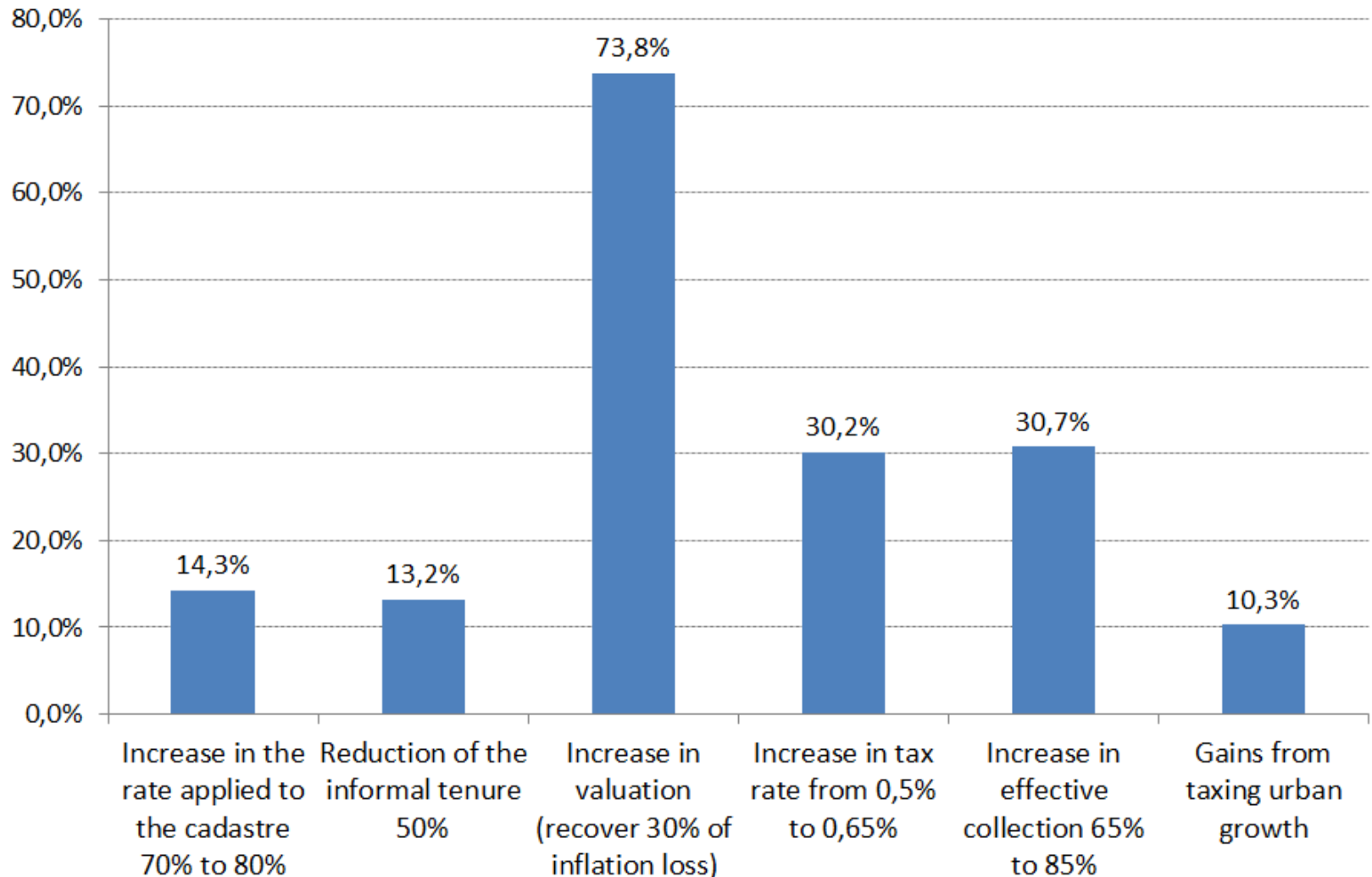
- $UPT_{revenue} = U(Cadaster) * P(Valuation) * t(\text{progressive in tax rate}) * C(\text{effectiveness}) * (1 - \text{rate of housing informal tenure})$.

Our simulation model reproduces the situation of the Property Tax collection in 2010 by group of urban center according to their size, including only the 5th quintile. Provinces with urban centers included in the 5th quintile are responsible for 80 percent of the total Property Tax collection, approximately (including GBA).

The value of the parameters in the model were informed by provincial and municipal governments through a survey

Parameters	Year 2010
% of the cadastral value of the housing unit taxed	70%
Tax rate (average of progressive rates)	0.5%
Effective collection	65%
Informal tenure	% average for each group according to 2010 Population Census.

Urban Property Tax Gains of Alternative Reforms



Main results of the analysis

- In Argentina, the collection of the Property Tax is very responsive to increases in: the property valuation, the rate of the tax, and the rate of effective collection. Gains from reduction in the informal tenure are less important since they affect low value properties.
- The decentralization of the Urban Property Tax could be considered as a good first step in the right direction to reduce fiscal vertical imbalance and empower municipalities in order to improve urban development.
- Substantial gains can be accrued through decentralization of this tax to medium sized cities in each Argentine Province.
- However, Provinces that potentially concentrate most of the gains will need to implement institutional changes to proceed with the Property Tax decentralization.



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Questions

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Urban Property and Land Taxation in Argentina: The Challenge of Decentralization

Working Paper WP17CG1

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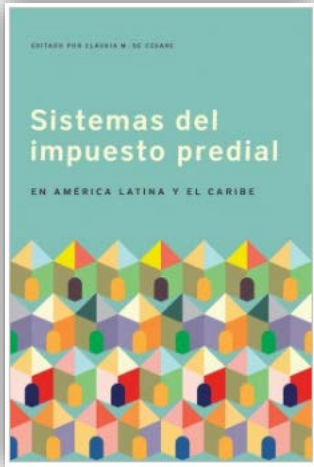
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The findings and conclusions of this Working Paper reflect the views of the author(s) and have not been subject to a detailed review by the staff of the Lincoln Institute of Land Policy. Contact the Lincoln Institute with questions or requests for permission to reprint this paper.
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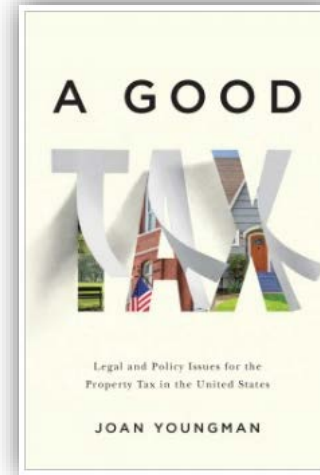
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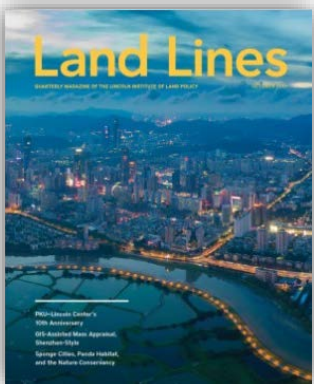
Sistemas del Impuesto Predial en América Latina y el Caribe

Claudia De Césare



A Good Tax

Joan Youngman



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Thank you

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