



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

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# 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

May 23, 2018

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

# Fundamentals of Property Taxation (PT)

Property Taxation remains the **best way to support local public expenditures**

Reasons?

- its **progressivity** -relative to taxes on consumption,
- its **familiarity** to taxpayers,
- the **difficulty of tax avoidance** (De Cesare 2012),

# Why decentralize the Urban Property Tax to Subnational Governments?

Much of the great potential of **local revenue is still wasted**, especially Property Taxes (IDB 2012).

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

# Methodology

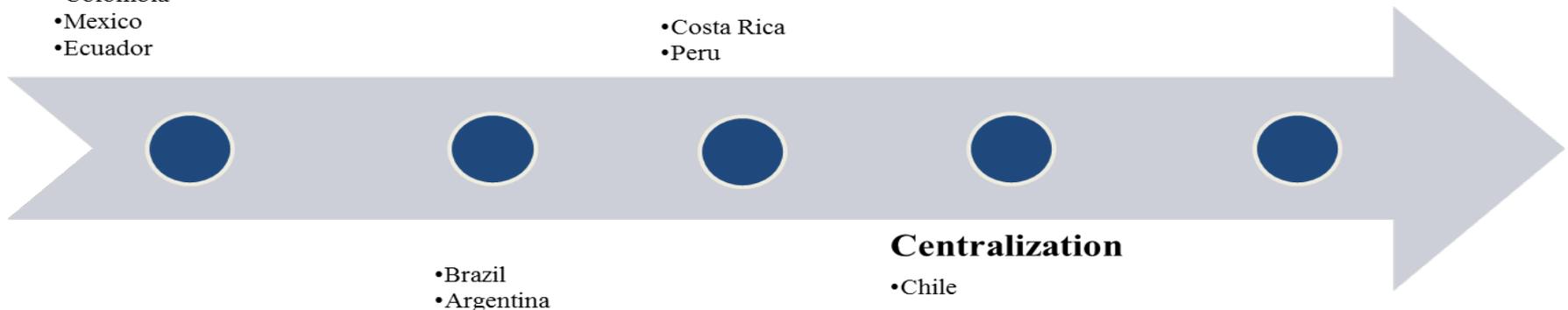
1. Review of the literature (international and LAC) on decentralization of PT
  - Framework against which comparing the Argentine situation and proposal for reform.
  
2. Construction of an ex-ante simulation model for medium sized cities of Argentina
  - to estimate **potential benefits and costs** of decentralization
  - 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. This includes the granting of taxing faculties according to the political institutions of each country.

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

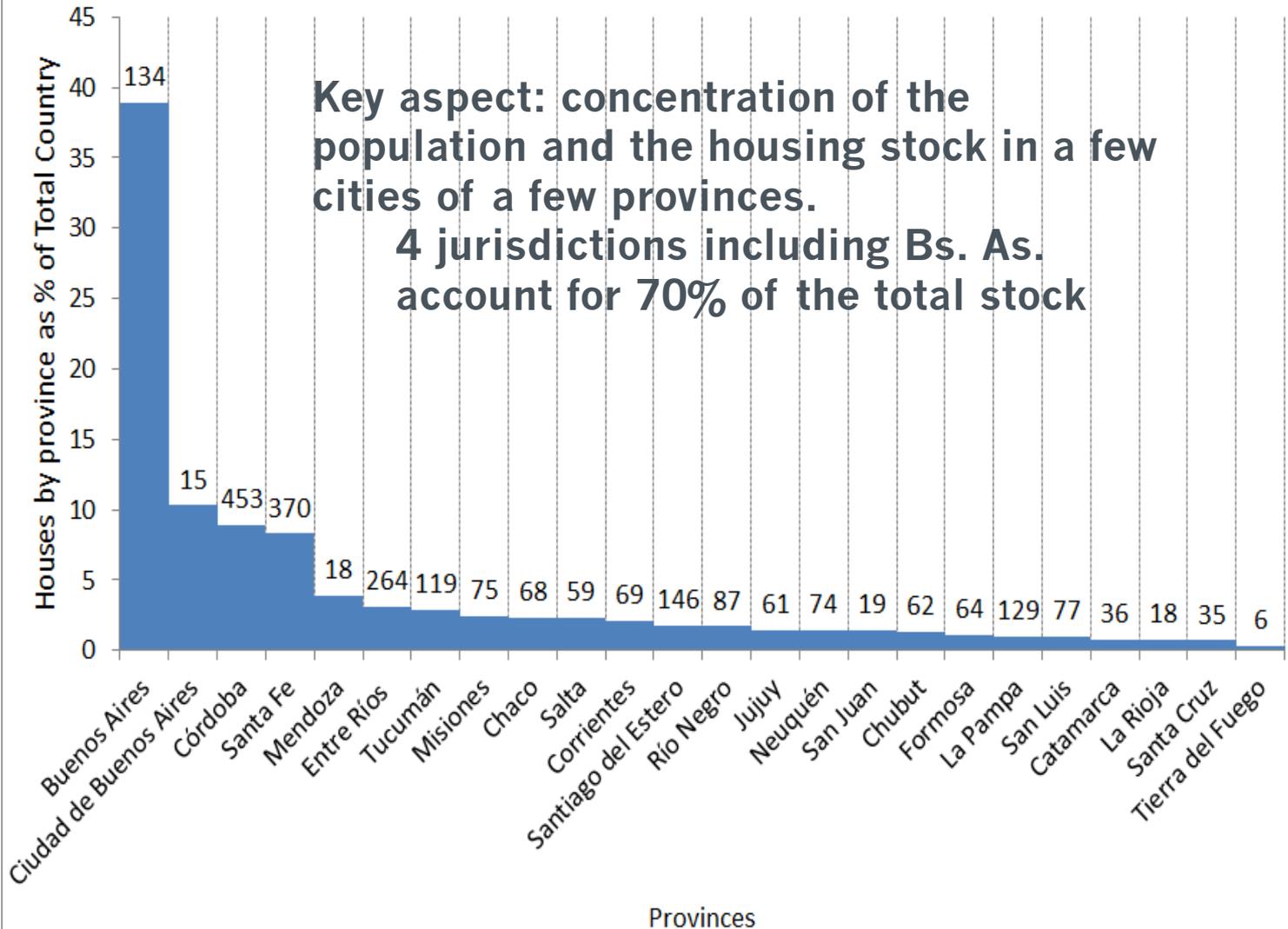
# The Argentine case: strategy to study the case

- 1. To analyse the feasibility of the decentralization of the tax: we review the institutional organization of the government in Argentina but also the urban structure of the country to identify the type of subnational government able to organize and collect the urban property tax.
- 2. To evaluate the convenience: we list the major benefits and costs of decentralizing the tax
- 3. To assess the potential results: we elaborate a simulation model where the value of the structural parameters (tax rate, cadastral structure, effective collection) were provided by a own survey to subnational governments. We provide various exercises comparing the baseline situation with a situation where the decentralization proceeds.

## Feasibility and Convenience: 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

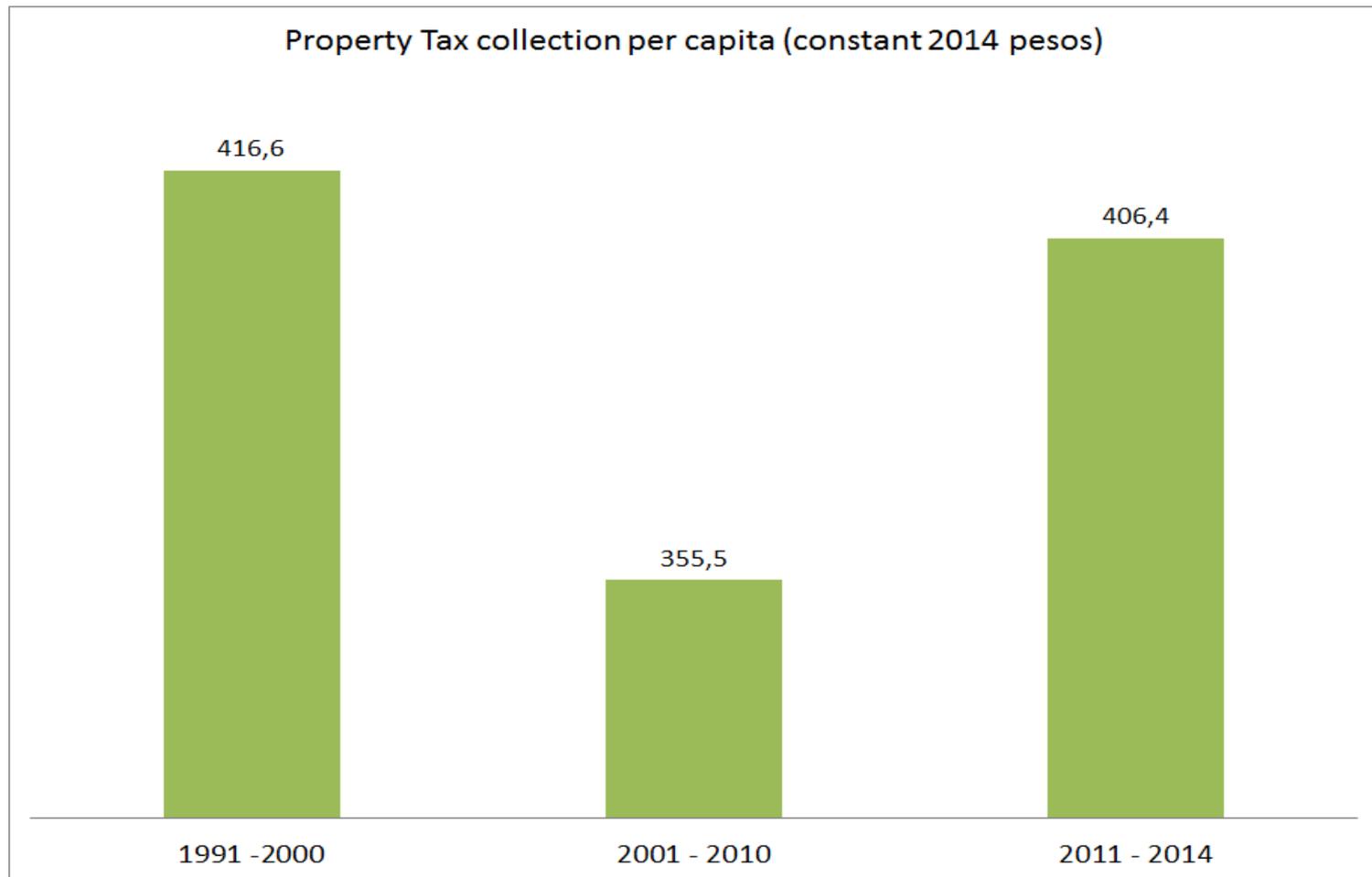


# Urban Property Tax: selected facts

The importance of this tax decreased sharply over time. From 0.63 percent of GDP in 1990s to only 0.38 percent of GDP in 2014.



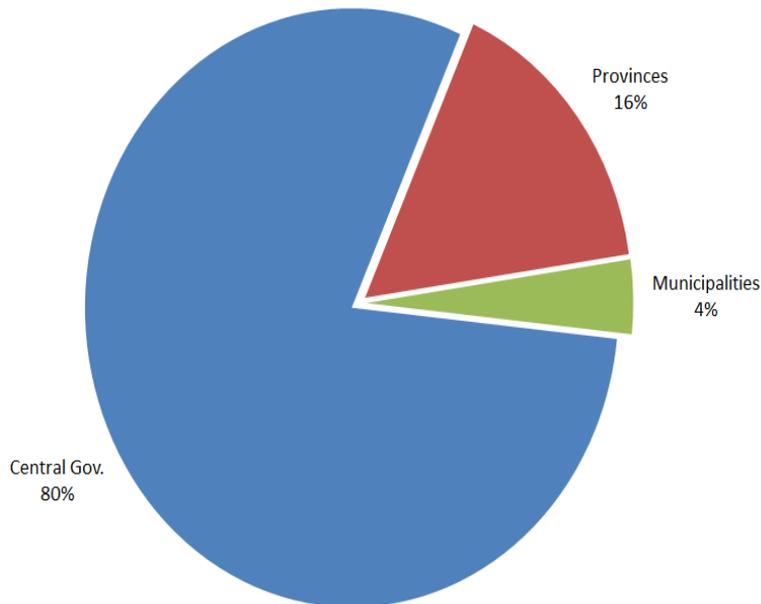
- The Property Tax lost importance in relative terms within the provincial tax collection but kept its value in real terms. Provincial resources were widened by new taxes or by increasing the burden of existing ones that were less visible to voters.



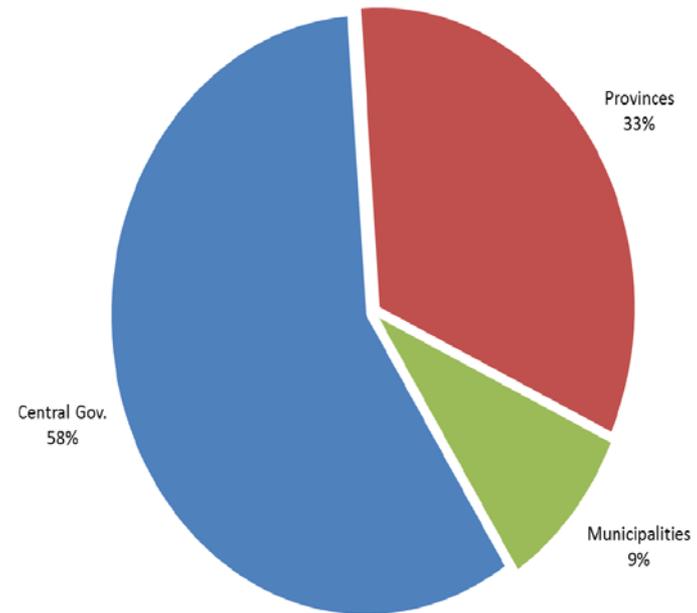
# Argentina: Vertical Fiscal Imbalance

Central government collects most taxes- expenditures by provinces and local gov.

Fiscal Revenues by Government Level  
Year 2013

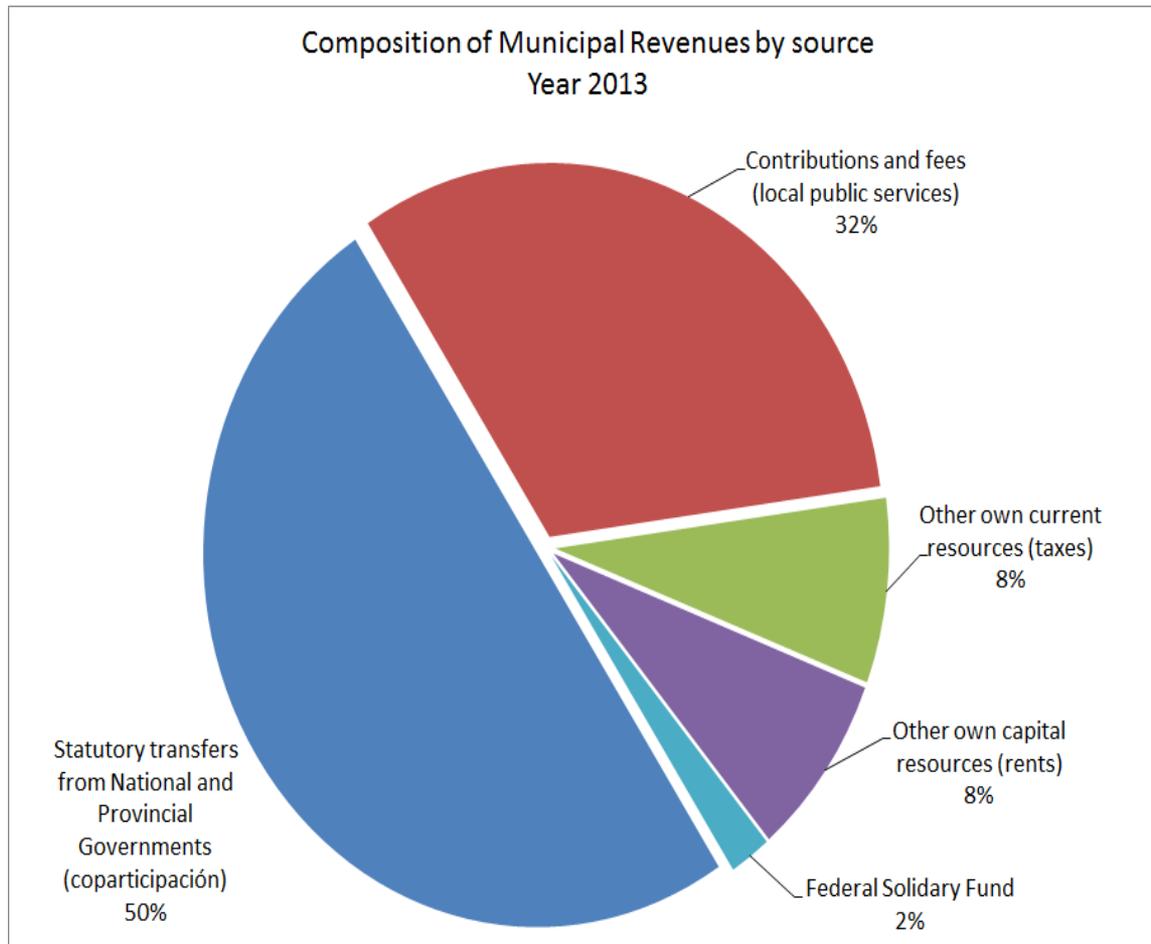


Fiscal Expenditure by Government Level  
Year 2013



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**.
- **Contributions for local public services** (street maintenance, public lights, garbage collection) are **65% of total own resources at the municipal level**
- They are calculated using the **same base as the property tax**.
- **PT Decentralization** from provinces to municipalities only took place in **7 provinces out of 23**.

# Simulation Exercise: definition of Urban Property Tax revenues

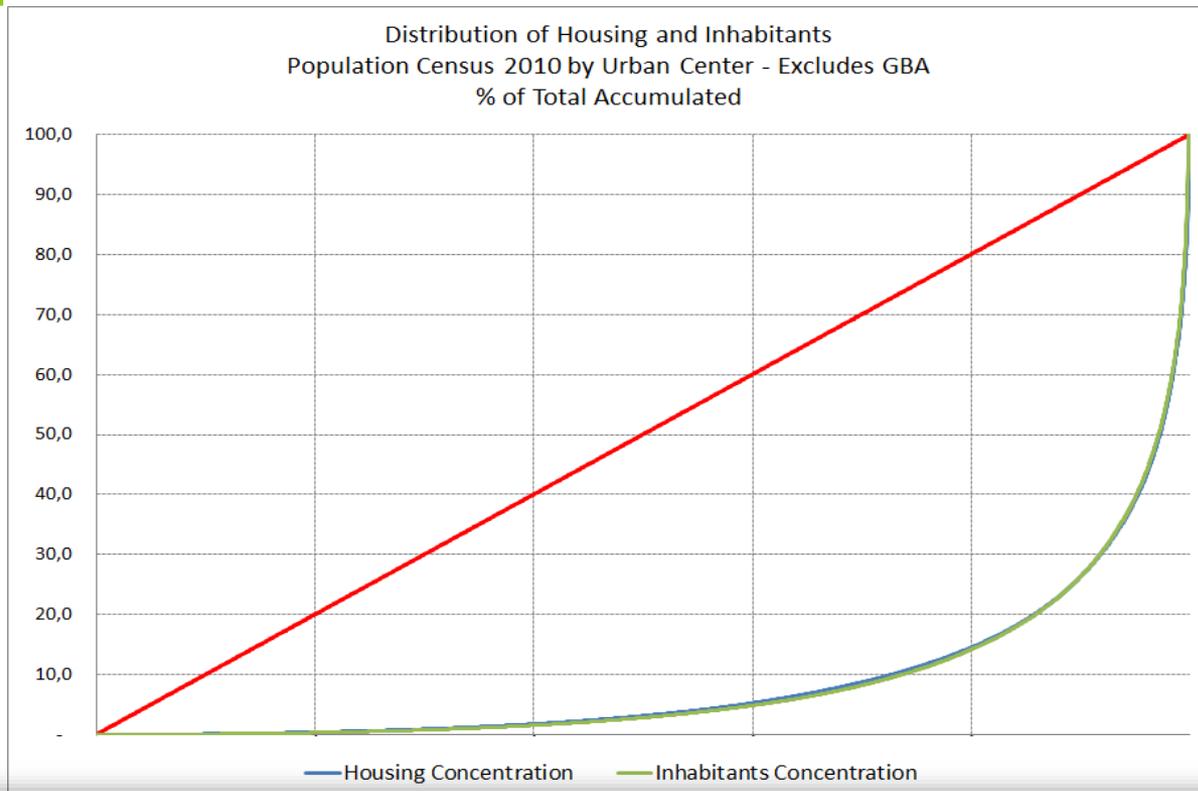
**Urban Property Tax net revenue =**

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

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



Evenly distributed population vs real distribution

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

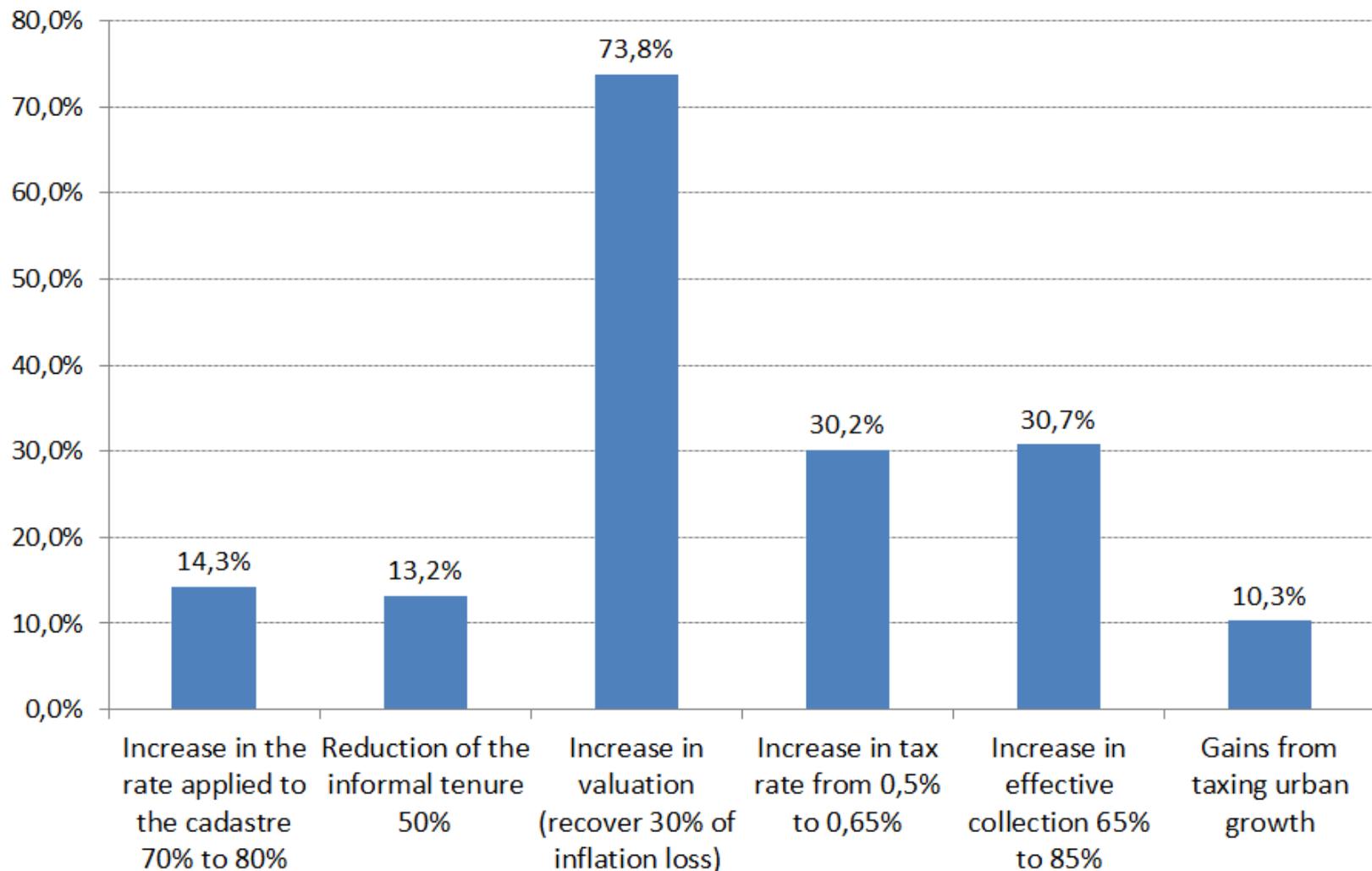
- $UPT_{revenue} = U(Cadaster) * P(Valuation) * t(\text{progressive in tax rate}) * C(\text{effectiveness}) * (1 - \text{rate of housing informal tenure})$ .

Our simulation model reproduces the situation of the Property Tax collection in 2010 for Provinces with urban centers included in the 5<sup>th</sup> quintile ( size), responsible for 80 percent of the total Property Tax collection.

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

Parameters	Year 2010
<b>% of the cadastral value of the housing unit taxed</b>	70%
<b>Tax rate</b> (average of progressive rates)	0.5%
<b>Effective collection</b>	65%
<b>Informal tenure</b>	% 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,
  - 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.

## Speaker

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



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

Working Paper WP17CG1

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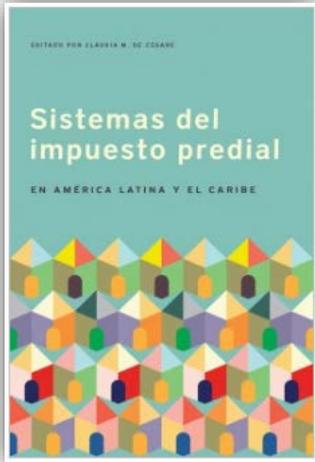
**August 2017**

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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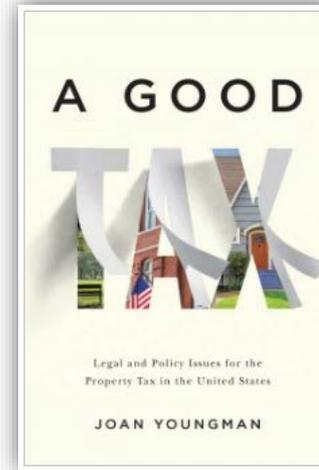
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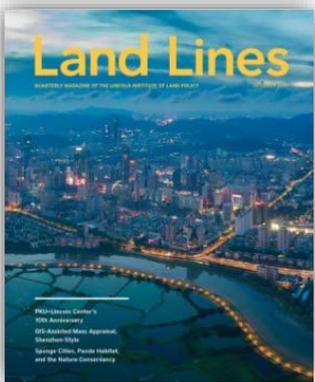
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