



Initiative for Policy Dialogue

**Challenging the Norm in Post Crisis Argentina:
Alternative Tax Policies and Social Cohesion**

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OVERVIEW

Following the Argentinean fiscal crisis in 2001, the province of Buenos Aires experienced a dramatic decline in tax revenue. Not only did tax collection in the province of Buenos Aires reach an absolute low point but also Buenos Aires—equivalent in population size and economic development to the country of Chile—was one of the worst performing provinces in Argentina in nationwide tax collection. The sweeping tax reforms rolled-out in 2002 by the Buenos Aires Department of Public Revenue focused on creating a culture of voluntary taxpayer compliance, as well as on administrative and technological improvements in the four key locally administered taxes: 1) on gross income; 2) on real estate; 3) vehicle license fees; and 4) fiscal stamps. The reforms succeeded in substantially boosting tax revenue in the province.

BACKGROUND

Mr. Montoya began his presentation with an overview of the negative impact of the 2001 Argentinean fiscal crisis on tax revenue in the province of Buenos Aires. By 2002, the political and economic crisis had ruptured the social contract between state and society, the relationship which defines the obligations of citizens towards government. Tax collection reached a low point, having declined 20% from 1998 to 2001. Moreover, Buenos Aires ranked lowest in terms of tax collection in comparison to all over provinces (except Formosa).

Problems with Taxpayer Behavior, Administration, and the Culture of Taxpayer Compliance

The Department of Public Revenue detected numerous problems in taxpayer behavior. While citizens had a high awareness of the problems associated with tax collection, they generally had no sense of their duties and obligations as citizens to pay taxes; no sense of involvement in the tax process; no fear of punishment for evasion; and did not perceive the system to be fair. The Department concluded that boosting revenues would require addressing the problem of jeopardized citizen identity and social cohesion.

Major problems also existed in tax administration. The system was highly regressive; tax policy was not enforced; and the quality of management, taxpayer services, and information availability all were poor. One example of the cumbersome nature of the system was that taxpayers had to report individually to one of the few authorized banks in the province to pay their taxes. The Department of Public Revenue determined that administrative governance was in jeopardy and there was a major need to recover rule of law in tax administration.

Moreover, the Department of Public Revenue felt that cultural problems impeded tax collection. These problems included an obsolete legal system; low probability of abrupt and major policy changes; a low acceptance level for policy innovation (a status quo bias); and low support on behalf of workers' unions for change. On the other hand, there was high support for tax reform among political officials at various levels. This political will among officials and politicians stemmed from the fact that Argentina, after defaulting on its debt, no longer had ready access to loans. The government had no choice but to collect more revenue domestically. The Department of Public Revenue concluded that it needed to change the culture of taxpayer compliance.

The Recovery Strategy

The primary focus of the recovery strategy was to create a culture of taxpayer compliance. The Department proactively fostered taxpayer compliance not only by creating new and more efficient methods for tax collection but also by bringing more social groups into the process. Improving tax collection methods included improved monitoring and data collection, registering payments, and tracking down of evaders. The major guiding principles behind these administrative reforms were to improve equity and transparency.

To regain social cohesion, the Department actively pursued debtors, evasion and tax fraud, especially by going after the wealthy, which constituted the biggest group of evaders. They also employed new communication methods to simplify and streamline the process, and extended participation in the process to all social actors involved, encouraging direct cooperation between public and private sectors. To facilitate these changes, the Department turned to electronic government as the primary interaction tool, making possible citizen-centered administration. Reliance on electronic technology and web services was extended to making payments, reporting, exchanging documents, and issuing tax identification cards. Finally, the Department employed an "on the field" presence to enforce tax collection, relocating agents from bureaucratic tasks to action "on the field" to promote more proactive enforcement (more below). The program was financed by UNDP program resources, which were primarily used to design the reform; and by provincial budget resources.

THE NEW TAX PROGRAM: 2002-2007

In line with the recovery strategy outlined above, the four key, locally-administered taxes targeted for reform were: 1) the tax on gross income; 2) the vehicle license fees; 3) the tax on real estate; and 4) the stamp tax.

The Tax on Gross Income

The tax on gross income is a cascading sales tax that applies to each stage of the production process, with some exceptions. It therefore has a related base to the value-added tax (VAT) administered at the national level. The main problems with the Gross Income Tax included a high level of underreported income; the presence of an active black market that made assessment difficult; a low level of compliance; and a paper-based tax reporting schema. As a result, the Department estimated that only 15% of taxpayers properly declared their taxes, while 40% were dramatically under-reporting and 45% were not declaring revenue at all.

A major component of improvements to the Gross Income Tax was the switch to an electronic system (IIBB Series Systems, XML Applications), which allowed for direct reporting and gave tax collection officials greater control over monitoring a pre-determined base. SIFERE-OSIRIS was also introduced for multi-jurisdiction taxpayers. Additionally, to close the tax net on goods in transit, the Department began issuing an Electronic Fiscal Transport Code (COT) based on the value of goods being transported. "On the field" tax officials periodically stopped trucks transporting goods to check whether they had the proper code. If they did not, the goods were subject to confiscation. This reform signaled not only an improvement in registration and monitoring but also in on-the-ground enforcement.

Vehicle License Fees

Problems with the vehicle license fees included poor information on property; a black market for used cars; a lack of legal devices for enforcement; a paper-based tax reporting system; and a low voluntary compliance level. Prior to reform, vehicles were registered through Vehicle Property Registries, but these agencies had no connection to the tax authority. As a result, the necessary information was not making it to the Department of Public Revenue. Thus, the city and province of Buenos Aires instituted a radical reform integrating the Vehicle Property Registries with the Department of Public Revenue. Using a GERCYDAS Series web system, client applications collected by the Vehicle Property Registries were connected to the Department's server. Statements were available electronically (in the form of XML documents).

Mr. Montoya pointed out that enforcement of the new rules led to highly visible successes, which in turn helped to create a more broad-based culture of taxpayer compliance. In one instance, a wealthy individual, when approached by tax officials trying to collect a delinquent fee, locked himself in his car and refused to exit. The standoff attracted the attention of the media, with public sentiment generally supporting the Department in its effort to clamp down on tax evasion among the wealthy. Similar high-profile incidents helped to convince taxpayers that evasion would no longer be tolerated, regardless of social status. Overall, reforms and strengthened enforcement helped the Department of Public Revenue increase vehicle license collection from 20% of target revenue collection to 91%.

Tax on Real Estate

Similarly, the tax on real estate suffered from poor information on property ownership; a lack of legal devices for enforcement; a paper-based reporting system; and a low level of voluntary compliance. Reforming the real estate tax required greater reliance on Cadastral offices, the Provincial Property Registry, and external actors like measurement officers and actuaries.

Cadastral offices, which employ survey techniques to measure the size of land holdings, allowed the Department of Revenue to assess land and property with greater accuracy. This was especially important because many wealthy individuals lived in gated communities to which tax officials have not had access. Reforms included digitalization of cadastral records, the use of GIS and satellite imagery on a block-by-block basis, and the institutions of a web-based system to facilitate information exchange among tax officials, measurement officers and actuaries.

Cooperation with the Provincial Property Registry similarly included establishing both a web-based system for monitoring transactions and information exchange, and an online index of property domains.

Actuaries played an important role as information and collection agents. They also transitioned to using a web-based system for real-estate tax collection. This included the switch to XML applications (SIPRES series) for collecting fiscal stamps.

Reforming the Payment System

Problems with the payment system were also widespread. They included: limited channels for collection; poor records of payments; slow responses to lack of compliance; and confusion caused by multiple currencies. Reforming the system primarily included giving taxpayers ciphered keys and creating separate accounts for each ID. Rather than having to pay taxes in cash at authorized banks, taxpayers could opt for debit from bank accounts, payment via ATM machines, the web, or by phone.

These reforms included the issuance of a *Rentas Global* card, which not only made payment easier but also was attached to an innovative awards program. Under the slogan “Those who comply, earn” this program awarded “well-behaved” taxpayers with a reduction in their payment obligations and/or discounts at privately owned stores, cinemas and other outlets. In order to qualify as a “well-behaved” taxpayer, one had to pay taxes accurately and consistently for at least three consecutive years. Awards went into effect in the fourth year. While public service provision (such as police protection, healthcare and infrastructure) remained suboptimal in the eyes of many citizens, the *Rentas Global* program created positive incentives for voluntary taxpayer compliance.

RESULTS

As a result of these wide-ranging reforms, the province of Buenos Aires succeeded in keeping pace with revenue collection undertaken by the Federal Agency for Public Income (AFIP), the national-level agency that took control over all national taxes in 1997. Moreover, Buenos Aires surpassed provinces, such as Santa Fe and Mendoza, which had not instituted similarly dramatic reforms. As a result, Buenos Aires consistently met its revenue obligations to the national government between 2002 and 2005. For 2005-2006, the provincial government projected a revenue increase of 20%, but the national government projected

only an increase of 11%. For the first time since the start of the reform, however, collection in 2006 was not sufficient to cover the deficit. Officials will continue to monitor the situation.

FUTURE CHALLENGES

Mr. Montoya concluded with an assessment of the challenges still facing the Department of Public Revenue. In particular, he saw the need for further integration and cooperation among federal government, provincial and municipal tax authorities. He also pointed out the need for further system reform to avoid regressive taxes and include additional fair taxes (like 'green' taxes). Finally, improvement of tax collection in Argentina would require additional electronic and technological innovation (one-stop government), and ongoing quality management.