



FISCAL IMPACT OF BILL 0016-PE-2023 TO MODIFY INCOME TAX

Gabriel Esterelles
OPC Director

Martín López Amorós
Director of Fiscal and Tax Analysis

Marcela De Maya – Pedro Velasco
Analysts
Directorate of Fiscal and Tax Analysis

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Introduction

This report is prepared at the request of the Budget and Finance Committee of the Honorable Chamber of Deputies of the Nation in relation to Bill 0016-PE-2023, which proposes a modification of the Income Tax for income defined in subsections a), b) and c) of Section 82 of the Income Tax Law, revised in 2019 as amended. The purpose of this paper is to estimate the impact of this measure in relation to a baseline scenario in which the tax is not modified.

To this end, this report is structured as follows: in the first place, the details of the Bill, including the content of its sections, are described. In the second place, the results of the estimated revenue impact of the amendment under analysis are presented. Finally, an annex is included in which the assumptions and methodology used for the estimate are explained, and an alternative estimate of the revenue impact of the Bill is presented, under the assumption that the nominal parameters of the tax would be updated throughout 2024 with the same criteria as in 2023.

Bill details

The Bill submitted by the National Executive Branch, which proposes the amendment of the Income Tax Law, as amended in 2019, consists of nine Sections.

The estimates of this report were made based on Sections 6 and 7 which introduce a "Schedular tax on higher income of workers under employment relationship, pensions under privileged conditions and others", as Chapter III in Title IV following Section 101 of the Income Tax Law, revised in 2019, as amended, which consists of five Sections.

This Chapter proposes a separate treatment for the subjects currently included in subsections a), b) and c) of Section 82 (first unnumbered Section within Chapter 6), with the purpose of ensuring that the tax currently levied on the income of a portion of workers under employment relationship and pensioners, to be determined separately from the progressive scale of Section 94, starting from an annual non-taxable minimum of one hundred and eighty minimum, vital and mobile salaries (SMVM), and without the possibility of applying any other deduction established in the law (second unnumbered section within Chapter 6 of the Bill).

Table 1 shows a comparison of the different parameters applicable to the income of paragraphs a), b) and c) of Section 82, with the regulations in force and with the amendment under analysis, considering the value of SMVM projected to July 1, 2024, based on the assumptions detailed in the methodological Annex.

Table 1. Estimated parameters for fiscal year 2024¹

In ARS of 2024

Parameters	Current regulation	Bill 0016-PE-2023
Non-taxable minimum	1,027,522	38,213,472 (*)
Special Deduction	4,932,104	-
Spouse deduction	957,922	-
Child Deduction	483,084	-
Exempt Monthly Salary	919,189	-
Exempt Supplemental salary	919,189	-

(*) The Non-Taxable Minimum under the Bill was calculated as 180 times the SMVM in effect as of July 1, 2024. Using the assumptions detailed in the Methodological Annex, the SMVM of July 2024 was projected at ARS212,197. This implies a total annual non-taxable minimum of ARS38,213,472 (180 x ARS212,297), which results in a monthly value of 15 times the SMVM.

SOURCE: OPC based on Bill 0016-PE-2023

The Bill proposes transferring the income of most of the subjects included in paragraphs a), b) and c) of Section 82 to the new schedular tax, which will be subject to a progressive scale with marginal rates between 27% and 35% on the amount exceeding the non-taxable minimum, expressed in multiples of the SMVM, and updated every six months as per the evolution of the SMVM (third unnumbered section of Chapter 6 of the Bill), as shown in Table 2.

Table 2. Progressive scale of the schedular tax under Bill 0016-PE-2023

Cumulative net taxable income over 180 SMVM		Will pay		
Over ARS equivalent to	ARS equivalent to	ARS equivalent to	Plus %	On the excess of ARS equivalent to
0 SMVM	12 SMVM, inclusive	0 SMVM	27	0 SMVM
12 SMVM	36 SMVM, inclusive	3.24 SMVM	29	12 SMVM
36 SMVM	60 SMVM, inclusive	10.20 SMVM	31	36 SMVM
60 SMVM	84 SMVM, inclusive	17.64 SMVM	33	60 SMVM
84 SMVM	More than 84 SMVM	25.56 SMVM	35	84 SMVM

SOURCE: OPC based on Bill 0016-PE-2023

As detailed in the second paragraph of the third unnumbered Section within Chapter 6, the SMVM to be used as a basis for the calculation during the first half of the year will be the SMVM in force as of January 1, and for the second half of the year the SMVM in force as of July 1 will be used, with the adjustment on the withholdings made during the first six months of the year.

Likewise, the 22% increase in the amount of the non-taxable minimum for individuals living in the provinces and, as the case may be, in the district, referred to in Section 1 of Law No. 23,272 is maintained (fourth unnumbered Section within Chapter 6), and it is also established that the

¹ The values were estimated based on the assumptions presented in the methodological annex.

provisions of this law shall be applied supplementarily, in all matters not specifically regulated in Chapter III of Title IV (fifth unnumbered Section within Chapter 6).

On the other hand, the following cases will remain within the assessment method established for the "income from personal work under employment relationship and other income" of Chapter IV of Title II, excepted from the transfer mentioned in Section 82 (first unnumbered section within Chapter 6):

Subsection a): income of officials with a position equal to or higher than State Secretary and their equivalents, and Deputies and Senators of the Legislative Branch, as well as Judges, Officials and Employees of the Judicial Branch of the Nation and of the provinces and of the Prosecutor's Office of the Nation whose appointment had occurred as from the year 2017.

Subsection b): Income paid to directors, trustees, and members of supervisory boards of corporations and equivalent positions of administrators and members of boards of directors of other corporations, partnerships, foundations, and cooperatives.

Subsection c): Pensions and retirements originating in an employment relationship of directors of cooperatives, and monthly and lifetime allowances granted to presidents and vice-presidents of the Nation as provided by Law No. 24,018.

Likewise, Section 7 of the Bill repeals the fourth and fifth paragraphs of subsection c) of the first paragraph of Section 30 of the Law which currently establishes the increase of deductions to exclude from withholding those subjects with remuneration or monthly payment of up to a certain amount.

In addition, the following synthesis can be made with respect to the articulation with the rest of the law of the amendments to the Sections described:

Through Sections 1 and 2 of the Bill, several paragraphs of Section 25 in force are amended to establish the impossibility of offsetting losses of the other categories of the tax with high income under Chapter III of the added Title IV, equalizing the treatment with respect to those of the schedular tax already existing in Chapter II of the same Title.

The amendments made through Sections 3 and 4 of the Bill adapt several paragraphs of Section 26 to the new wording, because of the deletion of the 4th and 5th paragraphs of subsection c) of Section 30.

Section 5 of the Bill adjusts the heading provided for in Section 94 of the Law, to exclude from the table of rates the income included in the schedular tax of the new Chapter III of Title IV.

Finally, Section 8 provides for the entry into effect as from the date of its publication in the Official Gazette, to be applicable as from fiscal year 2024.

Estimated Impact

This section presents the estimate of the direct impact of the amendments set forth in Bill 0016-PE-2023. The estimate was made by comparing the theoretical collection under a base scenario (Base Scenario 2024), without any regulatory modifications, and under an alternative scenario that includes the amendments provided by the Bill under study (Bill 0016-PE-2023 Scenario).

It should be noted that the Base Scenario 2024 was calculated with the estimate of the nominal parameters of the tax in force as of January 1, 2024. It does not include measures for updating exempt salary, exempt Supplementary Annual Salary (SAC) or any other nominal parameter of the tax throughout the fiscal year, other than the annual update provided for in the regulations in force. An alternative calculation that does include measures of this nature in 2024 is presented in the Annex.

The values shown were estimated for the 2024 fiscal year, based on the macroeconomic projections reported in the 2024 Budget Bill. An average annual variation of the RIPTE (Average Taxable Remuneration of Stable Workers) of 101.8% year-on-year in 2024 is estimated, consistent with the increase in Social Security resources (+105.2% year-on-year) reported in the 2024 Budget Bill Message. This annual variation was calculated on a monthly basis using our own assumption, and these same monthly variations were used to project the SMVM, which determines both the non-taxable minimum in Table 1 and the values in Table 2.

It should be clarified that the impact estimate is of first order, since the effect of the modification under analysis on the collection of other national taxes is not calculated, nor is the possible reduction of effective income tax rates on other incomes that the creation of the schedular tax of Sections 6 and 7 could entail.

The Base Scenario 2024 includes the values of Personal Deductions, Exempt Salary, and Supplementary Annual Salary in force as from January 1, 2024, according to the RIPTE projection used. A nominal GDP of ARS352.4 trillion is used for 2024, which arises as an implicit average value of the tax burdens reported in the table in section 4.2 ("Estimated Tax Revenue") of the 2024 Budget Bill Message.

Table 3 shows the result of the impact calculation. **For the Treasury, a negative fiscal impact is estimated for 2024 equivalent to 0.30% of GDP** (ARS1.05 trillion at 2024 prices). Table 3 details the total revenue impact of the Bill, based on the allocation of revenues.

Table 3. Estimated fiscal impact of Bill 0016-PE-2023

In millions of ARS and as % of GDP, at 2024 values

Revenues allocation	ARS millions	% of GDP
Treasury	-1,054,993	-0.30%
AFIP	-55,615	-0.02%
Judicial Branch	-100,503	-0.03%
Contributions from the National Treasure	-28,715	-0.01%
Provinces	-1,687,299	-0.48%
TOTAL	-2,927,126	-0.83%

SOURCE: OPC

The Annex presents the estimated revenue impact from the Base Scenario in which the tax parameters are updated with the same criteria as in 2023.

Annex

This annex presents the assumptions and methodology used for the impact estimate shown in Table 3.

Assumptions

Table 4 shows the main assumptions used to estimate the impact of Bill 0016-PE-2023 on tax revenue. These assumptions were based on the macroeconomic projections of the Budget Bill 2024, which include the following projections that allow estimating the RIPTE and, secondarily, the SMVM:

- a) Year-on-year CPI variation in December 2023: 135.7% (p. 48)
- b) Year-on-year CPI variation in December 2024: 69.5% (p. 48)
- c) Real year-on-year variation of registered salaries in the private sector in December 2023: 1.8% (p. 46)
- d) Nominal variation in the collection of Social Security Contributions in 2024: 105.2% (p. 58)
- e) Year-on-year variation in real GDP in 2024: 2.7% (p. 47)
- f) Nominal GDP 2024: ARS352.4 trillion, estimated on the basis of the implicit GDP in the Table on p. 58

It should be noted that the combination of d) and e) allows estimating an annual variation of the RIPTE. This was then monthlyized with our own assumptions. On the other hand, the 2024 Budget Bill does not report a projected dynamic of the SMVM, so the same monthly behavior was assumed for the SMVM as for the RIPTE.

Table 4. Macroeconomic assumptions used for the estimate

Scenario	Assumption
RIPTE variation 2024	101.8%
SMVM variation 2024	107.0%
SMVM Jul-24	ARS212,297
NOMINAL GDP 2024	ARS352,4 trillion

SOURCE: OPC based on Bill 0016-PE-2023

Methodology

The tax revenue impact of Bill 0016-PE-2023 was estimated based on the theoretical calculation of the Assessed Tax for fiscal year 2024, under the parameters applicable under current regulations and under those that would be applicable in the event of implementing the amendments included in the Bill under analysis.

The theoretical Assessed Tax for fiscal year 2024 was estimated based on information on workers under employment relationship, grouped by income brackets and provinces (to include the impact of the 22% increase in deductions for workers in the Patagonian region). All parameters were projected to 2024 according to the assumptions shown in Table 4.

The information available is insufficient to include in the estimate the exceptions provided for in the first unnumbered Section of Chapter 6 of the Bill.

Alternative estimate

The results presented in Table 3 were calculated on a Base Scenario 2024 in which the nominal parameters of the tax remain constant throughout the fiscal year. However, in recent years the National Executive Branch has taken measures to update certain parameters of the tax in order to reduce the number of workers subject to withholding in view of the increase in nominal wages throughout the year.

The following measures have been implemented in 2023²:

- Executive Order 267/23: Increase of exempt salary, exempt SAC and Increased Special Deductions.
- Executive Order 316/23: Increase of exempt SAC.
- Executive Order 414/23: Increase of exempt salary and Increased Special Deductions.
- Executive Order 415/23: 35% increase in the values of the marginal tax rates.

Assuming a Base Scenario 2024 in which the nominal parameters of the tax were updated in the same way throughout the year, and maintaining the calculation methodology, the fiscal impact of Bill 0016-PE-2023 for the Treasury would be 0.24% of GDP, as shown in Table 5.

Table 5. Estimated fiscal impact of Bill 0016-PE-2023, with base scenario modified by measures

In millions of ARS and as % of GDP, at 2024 values

Revenues allocation	ARS millions	% of GDP
Treasury	-852,029	-0.24%
AFIP	-44,916	-0.01%
Poder Judicial	-81,168	-0.02%
Contributions from the National Treasure	-23,191	-0.01%
Provinces	-1,362,690	-0.39%
Provinces	-2,363,994	-0.67%

SOURCE: OPC

² Executive Order 473/23, the purpose of which was to introduce the amendments proposed by the Bill under study, is not included.

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This report does not contain binding recommendations.

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