



ARGENTINA'S COMPREHENSIVE TAX REFORM ITS NEW CARBON AND LIQUID FUELS TAXES

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Ministerio de Hacienda
República Argentina

Quick summary

- On Dec 28, 2017 Congress enacted Tax Reform Act nr. 27.430 and with it Argentina's new Carbon Tax ("Impuesto al Dióxido de Carbono").
- It taxes the implicit GHG emissions in fossil fuels given typical usage by adopting fixed, standard emission factors by volume or mass.
- At the rate of USD10/tCO₂e.
 - For products not currently under excise taxes, such as carbon, coke, fuel-oil rates start at USD1/tCO₂e beginning 2019 and increase by USD1/tCO₂e/year.
- All products with emission factors (by heat content) higher than that of gas/petrol are taxed.
- The Executive's Tax Reform Bill original draft differs significantly from what Congress enacted as Law, which called for a USD25/tCO₂e implemented over 10 years for all fossil fuels.

The previous structure of excise taxes over liquid fuels

- Up to the Tax Reform, there were 4 different taxes established by 5 different laws over liquid fuels*:
 - Mostly ad-valorem.
 - Excise tax (upstream & customs, for imported goods).
 - The fuels taxed were gasoline, diesel, natural gas and LPG for automobile usage. (BUT: diesel has significant tax rebates for businesses.)
 - The 4 tax laws had slightly different tax bases and reporting requirements.
 - The 4 laws had different and very complex earmarkings for, among others: general tax revenues of the national and provincial governments, the Social Security System, road construction, public housing, **water infrastructure** and public transportation subsidies.
 - Several important fossil fuels are untaxed: natural gas, jet fuel, fuel oil, coke, mineral carbon, etc.

*Law 23.699 (amended by Decree 2579/2014), Law 26.028, Laws N° 26.181 and 26.784, art. 63., Law 25.565 art. 75.

The Tax Reform Act

- The Tax Reform Law (as well as the Fiscal Consensus accord reached with the provinces) enacted significant supply-side tax cuts:
 - Corporate Income Tax: from 35% in 2017 to 30% from 2018 and 25% from 2020 onwards (0,8% of GDP).
 - Provincial Turnover Taxes (1,5% of GDP, concentrated on tradables).
 - Bank Transfers, Deposits and Withdrawals taxes (0,7% of GDP).
 - Employer's Mandatory Social Contributions (0,8% of GDP).
 - Accelerated VAT credit reinbursements for capital goods and other investments.
 - And others.
- This will increase GDP growth rates by at least 0,5%.
- This facilitates the adoption of the carbon tax.

The current structure of specific taxes over fossil fuels, as per the enacted law

- A single law with a single criteria for reporting and tax bases replaces the previous system:
 - Significantly simplifies tax administration.
 - Earmarkings are also vastly simplified without affecting funding levels, increasing transparency.
- Ad-valorem excise taxes are replaced by two specific rates:
 - A carbon rate, uniform for all taxed products, of USD10/tCO_{2e} and based on standard emission factors.
 - Liquid fuel rates which, in addition to the carbon rates, leave (ceteris paribus) the overall tax rates on previously taxed liquid fuels unchanged.
 - (The specific tax structure means that, vs. a counterfactual based on the ad-valorem tax structure, the overall tax rate will be higher –lower– if the fossil fuel prices are above –below– those used when designing the Tax Reform Bill in november 2017.)
 - Newly taxed fossil fuels: fuel oil, coke, mineral carbon starting at USD1/tCO_{2e} beginning 2019 and increasing by USD1/tCO_{2e}/year.
 - Fossil fuels still exempt: natural gas, LPG, jet fuel, bunker.
- Therefore: all products with emission factors (by heat content) higher than that of gas/petrol will be taxed at a uniform rate.

The Executive's Tax Reform bill and its differences with the enacted legislation

The enacted legislation differs significantly from what the Executive branch proposed to Congress:

1. The bill set a carbon tax of USD25/tnCO₂; Congress enacted USD10/tnCO₂.
2. The bill proposed to tax all the relevant consumption of fossil fuels not reached by the previous complex of excise taxes, including natural gas, jet fuel (for domestic flights), LPG.
3. The bill also taxed these previously unburdened fossil fuels: fuel oil, coke and mineral carbon. These will still be taxed according to the enacted legislation, but beginning 2019 at the rate of USD1/tnCO₂ and increasing by the same amount every year, for 10 years. Every fossil fuel with higher emission factors than gasoline/petrol will therefore be taxed.
4. In the enacted law the Executive retains the proposed delegated power to raise the specific tax by up to 25%, but it lost the originally proposed faculty to include other previously untaxed products at the common rate. (Thus: taxing natural gas, LPG, others would require an act of Congress.)
5. In the bill, 25% of the additional revenue generated by the previously untaxed products would have financed the energy transition. In the enacted law, no such earmarking is present.

Other policies pushing for mitigation & effective carbon rates

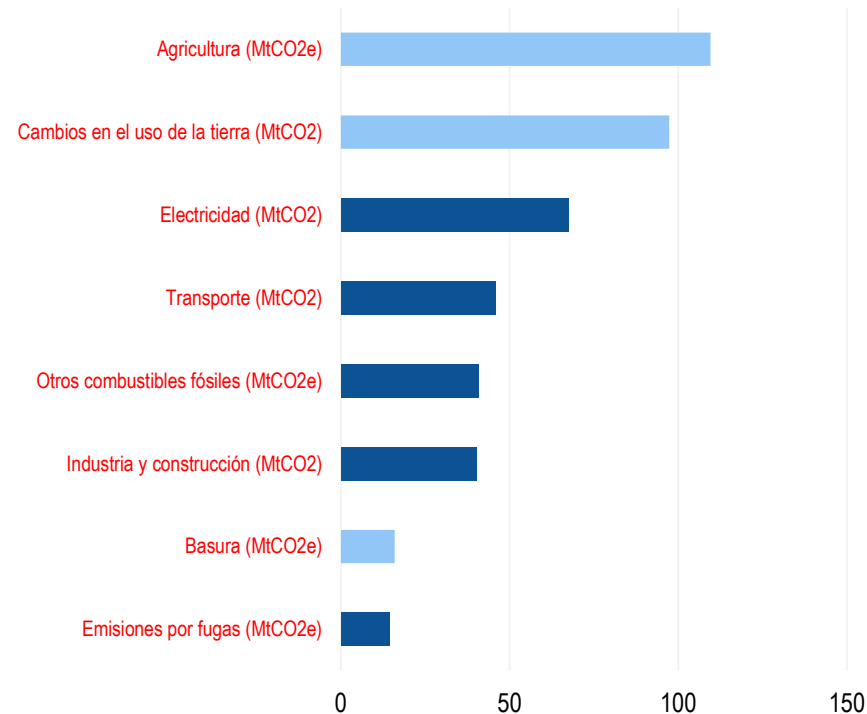
- Several policies aim at increasing the supply of low emissions energy sources and energy efficiency:
 - The RenovAr and other programs awarded renewable energy projects which will take the share of energy demand covered with renewable energy generation from 2% in 2017 to 10% in 2022. Several large hydro projects are also underway.
 - Energy efficiency, improvements on mass transit and logistics infrastructure.
- Also: reductions in demand-side subsidies for energy exceed 2% of GDP since 2014.
- The gold-standard for a carbon tax requires uniform carbon rates for all emission sources. Argentina's enacted law's headline rates aren't (due to e.g. the natural gas exemption).
- However: other mitigation-assisting policies such as regulations, economic subsidies, tax expenditures, etc. have implicit effective carbon rates.
- Therefore:
 - We achieved significant decreases in the relative prices of lower carbon energy sources (via the “other policies” + the carbon tax on fuel oil, mineral carbon, coke).
 - Effective carbon rates aren't as uneven as they seem (in the energy and transportation sectors, at least).
 - Analysis should go beyond headline rates.

Which emissions are taxed?

Argentina's Carbon tax would, by design, only mitigate energy and transportation emissions. It doesn't tax GHG emissions from industrial processes (eg. cement production), nor those originated by livestock, waste disposal or land use changes.

Land use, land-use change, and forestry emissions are indirectly taxed by Argentina's Rural Lands Act (though enforcement is imperfect).

Argentina's CO2 emissions by origin



THANK YOU.



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Poner este chart???

Convergencia del gas natural a precios internacionales e Impuesto al CO₂-e

