



# 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/tCO<sub>2e</sub>.
  - For products not currently under excise taxes, such as carbon, coke, fuel-oil, rates start at USD1/tCO<sub>2e</sub> beginning 2019 and increase by USD1/tCO<sub>2e</sub>/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/tCO<sub>2e</sub> implemented over 10 years for all fossil fuels.

## 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:
  - 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<sub>2e</sub> 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<sub>2e</sub> beginning 2019 and increasing by USD1/tCO<sub>2e</sub>/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/tnCO<sub>2</sub>; Congress enacted USD10/tnCO<sub>2</sub>.
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/tnCO<sub>2</sub> 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.

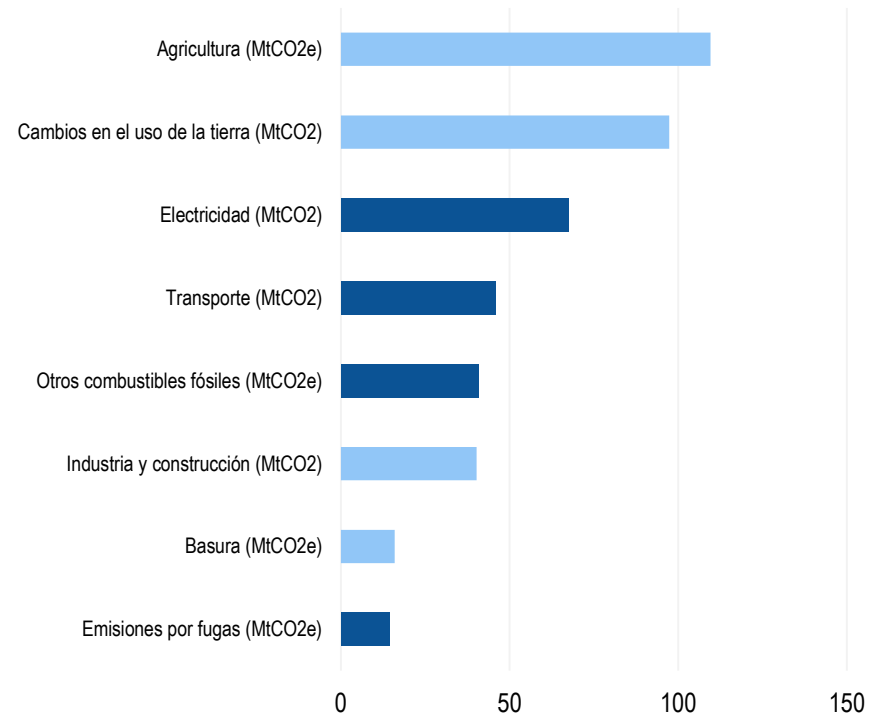
## Other policies pushing for mitigation & effective carbon rates

- 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 is quickly increasing the share of energy demand covered with renewable energy generation.
  - Energy efficiency, improvements on mass transit and logistics infrastructure.
- Also: reductions in demand-side subsidies for energy of about 3% of GDP.
- 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 by Argentina's Rural Lands Act (though enforcement is imperfect).
- Future opportunity for a carbon tax + cap and trade system.

## Argentina's CO2 emissions by origin



**THANK YOU.**



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