

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

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## **Abstract**

The unsatisfactory operation of the fiscal federalism in Argentina has resulted in new reform initiatives to reduce the imbalances between collections of own resources and expenditures between the central and sub-national government levels. The objective of this study is to evaluate the advantages and disadvantages of decentralizing the organization and collection of the Urban Property and Land Tax from the provincial governments to the medium sized cities of Argentina, to increase the revenues, improve the local government accountability, and create larger fiscal space for local management of urban development.

As a first step of the analysis we reviewed the extensive literature on international and Latin-American cases on decentralization of this tax to develop a framework against which to compare the Argentine situation and the proceedings of a proposal for reform. Our second step was to elaborate an ex-ante simulation model for medium sized cities of Argentina to estimate the potential benefits of decentralization comparing the revenues collected by the provincial government under a centralized organization and the ones collected by the municipal governments. We also explored new sources to widen the scope of the Property Tax.

Our results showed that there is space to increase the collection of this tax by improving its administration. In practical terms, the collection of the Property Tax in Argentina is very responsive to increases in: the property valuation, the rate of the tax, and the rate of effective collection. Gains for reduction in the informal tenure are less important since they affect low value properties.

In a scenario where tax reform is urgently needed, the decentralization of the Urban Property Tax could be considered as a good first step in the right direction. However, we also pointed out that the Provinces that potentially concentrate most of the gains will need to implement institutional changes to proceed with the Property Tax decentralization.

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

## **Introduction**

The objective of this study is to evaluate the advantages and disadvantages of decentralizing the organization and collection of the Urban Property and Land Tax from the provincial governments to the medium sized cities of Argentina, to create larger fiscal space for local management of urban development.

To carry out our goal we evaluate the feasibility of decentralization of the tax to large and medium sized cities and assess the potential benefits and costs of this initiative. For these calculations, we construct and apply a set of stylized ex-ante simulation models for medium sized cities of Argentina. We estimate the potential benefits of decentralization comparing the revenues collected by the provincial government under a centralized organization and the ones collected by the municipal governments exploring new sources to widen the scope of the Property Tax.

The study is organized in six sections following this introduction. The next section is devoted to the description of the operation of the Property Tax in Argentina including institutional and administrative details. The third section analyzes the initiative for decentralizing the tax in Argentina while fourth section describes the international and, particularly, the Latin-American experience in the Property Tax decentralization. The fifth section presents the details of a Survey to Provinces and Municipalities on the operation of this tax and the sixth section develops a simulation model for large and medium sized urban centers in Argentina to assess the benefits and costs of decentralizing the Property Tax. Finally, the last section summarizes the findings and presents the main conclusions.

## **Property Tax in Argentina: National and Sub-national Responsibilities**

In order to understand the operation of the Urban Property Tax in Argentina and the prospects for decentralization, it is useful to organize the analysis in two stages: a) the study of the different levels of government that participate to establish, organize, and collect the tax; and b) the description of how the Property Tax is organized in terms of the operation and components (cadastre, fiscal valuation, tax rates, effective coverage) and which are the organizations in charge of each component.

## **Fiscal Federalism and the Property Tax**

Argentina is a federal country. The political and fiscal organization of the country is highly decentralized to the 23 Provinces (states) and the capital city, Ciudad Autónoma de Buenos Aires.<sup>1</sup> Each province has its own Constitution, following the principles of the National Constitution that grants political, financial, and fiscal autonomy to these subnational governments. In contrast, even when “autonomy” of the municipal governments is warranted by

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<sup>1</sup> Since the reform of the National Constitution in 1994, Buenos Aires City (CABA) counts as a province in practice.

the National Constitution (since 1994 when the last Constitutional Reform took place), each province has the right to organize the municipal regime by a provincial law, defining the degree of autonomy granted. In practice, each province adopts different modalities and a few have not applied the autonomy principle yet (Mendoza, Santa Fe, La Pampa, and Buenos Aires) (Molinatti 2011). See Box 1 for details.

### **Box 1: Municipality definition and Municipal Government attributes**

Each province establishes its own municipal regime. Not every urban agglomeration is considered a municipality with a right to a municipal government. Legal provisions to define the requisites for a Municipality vary among provinces. In most cases, a minimum population is demanded. Provinces characterized by low population density demand 500 inhabitants while higher densely populated provinces demand between 2,000 and 5,000 inhabitants (despite some exceptions that require more). Many provincial Constitutions state municipal regimes that create smaller government units that are not granted fiscal autonomy, like rural or urban “comunas”, municipal commissions or other hierarchical categories of urban agglomerations. Four provinces allow only one category of municipality, five provinces use two categories and the rest admit three or four municipal categories. Each category differs in the degree of autonomy. The largest municipalities, in general, are authorized to organize themselves enacting their own “Organic Charter” (around 130 municipalities in the country). The number of local governments by province is heterogeneous. Córdoba is the province with the largest number of local governments, 427, while Tierra del Fuego has only three local governments.

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. According to the Population Census 2010, around 90 percent of the municipalities have populations smaller than 10,000 inhabitants. This feature is called “infra-municipalism” and has been identified as a burden to the fiscal organization due to the higher costs of supporting public services and administrative structures devoted to serve very small urban centers.

Source: see Sanguinetti et al. (2001), Cravacuore (2007), Molinatti (2011), Iturburu (2001), INDEC (2009)

Traditionally, analysts have supported legal power decentralization (in our case from Provinces to Municipalities) based on the principle that bringing government decisions closer to citizens improves their capacity to satisfy the social demands and allows for more effective accountability (Dalla Vía and Garat 1998; Piffano 1999). However, the actual organization of Argentine fiscal federalism has failed to these standards.

One of the most salient (negative) features of Argentine fiscal federalism is the “vertical imbalance” that is reflected in the fact that Provinces oversee 33 percent of total fiscal

expenditure while their own total revenues are only 16 percent of total fiscal revenues (figures of 2013), approximately.

If local governments do not finance services themselves, the connection between expenditures and revenues is lost and the choice of services will not be based on an accurate perception of their costs (Bird and Slack 2013). Moreover, demand for services could increase disproportionately if local users are not taxed to cover the expenditure.

In Argentina, fiscal organization resulted in a complex system of tax sharing (*co-participación*)<sup>2</sup> and compensatory direct transfers that give pace to a permanent political negotiation over fiscal resources (see Table 1 and Tommassi et al. 2001).

**Table 1: Fiscal Revenues and Expenditures by Government Level (2013)**

<b>Level of Government</b>	<b>Revenues (% of the total)</b>	<b>Expenditure (% of the total)</b>
<b>Central Gov.</b>	80%	58%
<b>Provinces</b>	16%	33%
<b>Municipalities</b>	4%	9%

Source: own based on DNCFP-MECON

The “vertical fiscal imbalance” is also reproduced by the fiscal relationship between each Province and its municipalities, but variations between jurisdictions are important due to the differences in the laws that rule the operation of municipalities in each Province.

In the rest of this section we will focus our attention in the tax responsibility distribution between the provincial governments and their municipalities, and particularly, in the case of the Property Tax.

*Contributions to finance local public services:* Municipalities oversee 9 percent of total fiscal expenditure of the country while their own total revenue is only 4 percent of the total fiscal revenues (figures of 2013), reproducing at this sub-national level the feature of unbalanced fiscal federalism. The most important municipal own revenue (65 percent of municipal own revenues) comes from the contributions to finance urban public services.<sup>3</sup> Collection of revenues to finance these city services generally use the same tax base of the Property Tax, but the amount collected is directly linked to the service cost, approaching a service fee rather than a proper tax.

<sup>2</sup> Law N° 23.548 states The Federal Tax Revenue Share System by which Provinces agree not to apply local taxes like national ones. Fiscal Codes and Tax Laws by Province state every feature of local taxes: tax bases, structure of the rates, coverage, exceptions, etc. (Fortes et al. 2012).

<sup>3</sup> Notice that provinces and their municipalities also present a wide array of cases about the kind of services included in their local supply. City services may cover not only basic street lightning and cleaning but also social services like public health. Collection of revenues to finance them generally use the same tax base of the Property Tax, but the amount collected is directly linked to the service cost, approaching a service fee rather than a proper tax.

**Table 2: Composition of Municipal Revenues by Source (2013)**

Type of Municipal Revenue	Composition in %
Statutory transfers from National and Provincial Governments ( <i>coparticipación</i> )	50%
Contributions and fees (local public services)	32%
Other own current resources (taxes)	8%
Other own capital resources (rents)	8%
Federal Solidary Fund	2%

Source: own based on DNCFP-MECON

The importance of these contributions to finance public services slightly varies according to the size of the municipality. Large municipalities collect 33 percent of their total revenue under this revenue label. This share is lower for smaller municipalities, 29 percent. In Greater Buenos Aires agglomeration (GBA), the importance of these contributions grows up to 50 percent of total own revenues (Martino et al. 2012).

The main services financed by these contributions are public lightning, street maintenance, and garbage collection. However, in some municipalities, the financing of local social services is also included. For instance, in Salta province, the Organic Municipal Law states that each municipality must allocate 10 percent of the annual revenues to education funding.

López Accotto and Macchioli (2015) studied the fiscal situation of a sample of 277 municipalities distributed across the country. Regarding contributions for public local services they found that, on average, this revenue almost covers the costs of the provided services but results are different considering the size of the municipalities. In fact, medium sized municipalities collect revenues above costs while small municipalities are short to cover the full costs of the services. This means that in medium sized municipalities part of these contributions can be considered as part of a proper Property Tax. The possibility of this mismatch between revenues and expenses in the case of municipal public urban services is acknowledged by the provincial governments. For instance, in Santa Cruz and Tierra del Fuego provinces their Organic Municipal Laws establish that revenues from contributions to cover local public services and other provided services must be allocated, firstly, to financing the provision of those services. This does not imply that contribution collection should be larger or lower than the cost of the services but only that in case of being lower; all revenues must be allocated to the financing of the service provision.

In many cases, the rules to organize the collection of the Property Tax and the collection of contributions for public urban services are similar. In those cases, duplication of cadastre and valuation activities may arise (De Cesare and Lazo Marín 2008). For instance, López Accotto and Macchioli (2015) found that 24 municipalities (out of 277 in their survey) used a proper fiscal valuation to calculate contributions for public urban services based on urban cadastres; 13 municipalities used the linear front meters of the lot; six municipalities used the location zone of the property and the rest distributed the costs of public local services according to the size or

urban category combined with other property attributes. The rate of compliance with payment of these contributions was estimated around 65 percent.

*Decentralization of the Property Tax:* Decentralization of taxes from Provinces to Municipalities has proceeded over time in very different modalities. For instance, in Río Negro province, they allow municipalities to create and collect their own taxes and contributions. In contrast, Buenos Aires province delegates some actions but not tax competences (López Accotto and Macchioli 2015).

Table 3 exhibits the number and type of taxes decentralized by each province to their municipalities. The Car Tax and the Urban Property Tax are the most frequent decentralized ones. Notice that decentralization of taxes took place only in 10 out of 23 provinces. In the case of the Urban Property Tax, the number of decentralizing provinces is even lower, only seven.

**Table 3: Delegated Tax Competence**

Provinces	Sales Tax	Urban Property Tax	Rural Property Tax	Car Tax
Chaco	No	Yes	No	Yes
Chubut	Yes	Yes	Yes	Yes
Córdoba	No	No	No	Yes
Corrientes	No	Yes	No	Yes
Formosa	No	Yes	No	Yes
Jujuy	No	No	No	Yes
Neuquén	No	No	No	Yes
Salta	No	Yes	No	Yes
Santa Cruz	No	Yes	No	Yes
Tierra del Fuego	No	Yes	No	Yes

Source: López Accotto and Macchioli (2015), Molinatti (2011)

Molinatti (2011) differentiates two groups of provinces where decentralization of taxes on properties have or can proceed: i) Chaco, Corrientes, Formosa, Misiones, Neuquén, Río Negro, and Santa Cruz where decentralization is allowed by their Constitutions; and ii) Chubut, Santiago del Estero, and Tierra del Fuego, where decentralization is enacted by the corresponding Provincial Organic Municipal Law. Another group of provinces define generic tax faculties for municipalities (Córdoba, Entre Ríos, Jujuy, San Juan, Tucumán, Buenos Aires, San Juan, and Santa Fe), opening the possibility to decentralizing in the future. In these cases, the municipalities usually collect the contributions to finance public urban services. Finally, five

provinces do not recognize any tax faculty to their municipalities (Catamarca, La Pampa, La Rioja, Mendoza, and San Luis).

One salient feature of the Property Tax in Argentina is that urban property is taxed by the three levels of government. At the National level, the Central Government imposes two taxes on urban property: the tax on Personal Assets and the tax on Real Estate Transactions. The base of the first one includes a wide array of assets (cars, real estate, financial assets, etc.) and it has been estimated that 40 percent of this tax collection corresponds to real estate. Both taxes amount to 0.4 percent of GDP, approximately (figures of 2013). Notice that any time that provinces or municipalities update their cadastres or fiscal valuations they are also increasing the tax base for the national taxes on property. The range of the Personal Assets tax rate varies from 0.5 percent to 1.25 percent, depending on the value of the asset. Very recently, the tax on Personal Assets has been reformed to reduce its burden significantly. In fact, well-functioning tax systems avoid adding cumulative layers of state, local, and federal taxes upon the same base since it could increase the excess burden of a tax and render it unpopular.

At the provincial level, or at the municipal level in the case of the seven provinces that have already decentralized taxes, real estate is taxed using the Urban Property Tax. In the case of the provincial collection, this tax is equivalent of 0.35 percent of GDP and corresponds to 2 percent of total Provincial fiscal revenues (figures of 2010). Unfortunately, information on the collection of the Urban Property Tax at the municipal level is not available. Real Estate tax collections expressed as a fraction of the provincial GDPs are higher for provinces with higher population density, suggesting that urban properties account for most of the collections of this tax.

Finally, as already described, at the municipal level most governments collect contributions to finance local public services.

### **General characteristics of the Operation of the Urban Property Tax**

Bonet et al. (2014) point out that variations in the Property Tax collection among subnational governments in Argentina are due mostly to different structural, institutional, and policy factors. They mention a wide variety of factors, namely, the tax base size, the geographic location of municipalities, touristic zones delimitations, resident and business income levels, population size, institutional, technical and administrative capacity of local governments to administer the Property Tax (limitations in cadastre updates, incorporation, registration, and valuation of properties), audit and collection methods, and human resources to administer the tax. One last limitation argued by these authors is the lack of knowledge about their tax responsibilities by taxpayers.

To present and understand the information about the general features of the urban Property Tax and assess the importance of each feature in Argentina we will focus in the following simple definition of the tax revenue:

$$(1) \text{ Urban Property Tax net revenue} = U(\text{Cadastral}) * P(\text{Valuation}) * t(\text{progressive or flat tax rate}) * C(\text{effectiveness}) - Co(\text{administrative efficiency}),$$

where:

U: taxable units in m<sup>2</sup> that depend on the Cadastre and its updates.

P: price by m<sup>2</sup> 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.

*Cadastral*: De Cesare and Lazo Marín (2008) assert that determination of Property Tax depends on the elaboration of a cadastre that identifies property rights and valuations and that continuous maintenance of updated cadastrals requires considerable financial and human resources.

In Argentina, cadastrals are organized mainly at the provincial level.<sup>4</sup> Municipalities in each province oversee providing the cadastral provincial agency with the changes due to urban growth and renewal. The compliance with this obligation varies among municipalities due to a lack of incentives to provide accurate information. For instance, those municipalities that estimate the local contributions for public services using linear meters instead of a cadastral valuation do not see the benefit of engaging in an administrative cost to produce cadastral information for the provincial government. In turn, large municipalities have their own cadastrals for urban planning and to be used in the collection of their own resources. In several cases, these cadastrals are more accurate than the provincial ones, such as in the cases of Córdoba city, Rosario, San Miguel de Tucumán, and Posadas (Piumetto 2009).<sup>5</sup>

Castro et al. (2014) analyzed cadastral improvements over the last decades. They evaluated the results of a broad project initiated in the early 1990s to improve the cadastrals of 14 provinces and to establish a federal Territorial Information System (SIT). According to their assessment, even though the bill of the Property Tax increased around 40 percent, the effective revenue only increased 12 percent (due to lack of compliance) and the costs were higher than the benefits.<sup>6</sup>

*Valuation*: In Argentina, the tax base of the Property Tax is determined by the fiscal valuation of dwellings and land. In many cases, this valuation largely differs from market values. An

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<sup>4</sup> A recent national Law (2006), updated the cadastral organization, that has a quite long tradition in Argentina. The Federal Cadastral Council was created to coordinate and promote the cadastral activity among provinces.

<sup>5</sup> The case of Córdoba city is a successful example to reform the operation of the municipal cadastre combining high skilled professionals, existing information and access to geographic systems and satellite images. After the reform, the Property Tax collection raised 113 percent (Bonet et al. 2014).

<sup>6</sup> These authors identified San Juan Province as a pioneer case in the implementation of upgraded and systematic cadastral information. The province introduced modern techniques, new equipment and inspection methods. The province succeeded in increasing the revenue of the tax but the improvement was not stable over time.

important problem with urban Property Tax in inflationary countries like Argentina is the lack of valuation updates. There are provincial cases where fiscal property values had been determined decades ago, remaining outdated for a long while.

According to Fortes et al. (2012), the declination in participation of the Property Tax in total fiscal revenues in Argentina is due to the lag in fiscal valuations and administrative difficulties to identify and value properties. López Acotto et al. (2014) also studied the gap between urban property market values and the Property Tax collection arriving to a similar conclusion. For instance, in Buenos Aires City, a reform of the tax took place in 2010.<sup>7</sup> The tax was split into two components: the contribution to finance public services and the Property Tax so that the taxpayers could assess the costs of the services against their actual supply. They also replaced the method of property valuation. Before the reform, properties were valued considering the cost of the lot and dwelling less depreciation of the construction. As a result, well located old properties faced a very low tax burden. Under the new method, characteristics of the lot and the construction plus varied property attributes reflected in the market prices are considered for valuation. They also used digital tools like Google Earth to detect non-declared improvements in properties. Under the reform, the City could almost double the revenue from this tax (Castro et al. 2012).

Musgrave and Musgrave (1993) suggest that fiscal valuation much below market values is a usual practice for Property Tax in the United States to prevent confiscatory demands. This is also a usual feature in Argentina.

Virgolini et al. (2007) suggest that dispersion of valuations is one of the major difficulties of the Property Tax when taxable regions are relatively extended. Buenos Aires city, which is small in territorial extension, accomplishes revaluations more often but this implementation becomes much more difficult for provinces with greater extension like in Santa Cruz (López Accotto and Macchioli 2015).

Bird (2000) has noted that nominal and effective rates of Property Tax collection are low in Argentina due to undervaluation of properties and a complex tax structure.

*Tax rates:* Each province states its own structure of tax rates according to their fiscal code and following the statements of their Constitution. The generalized use of a progressive-rate structure suggests the search for equity and fairness. However, by taxing only property assets using different criteria by province, it is not apparent that vertical and horizontal equity concerns are correctly addressed.

A summary of the current regulation of the Property Tax by province is presented in Appendix III - Summary of Legal Regulations. Finally, Box 2 presents a summary of recent Property Tax reforms in four Argentine provinces.

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<sup>7</sup> In 2007, a new government of Buenos Aires City created the AGIP (the governmental administration of public revenues) and a year later they modified the property valuations. The change was resisted by voters and in 2010 the City government applied a new reform and increased the information provided to the public.

## **Box 2: Recent Property Tax Reforms in Argentine Provinces**

Buenos Aires, Córdoba, Entre Ríos, and Santa Fe, that jointly collect more than 60 percent of the total collection of the Property Tax in Argentina, have carried out different reforms over 2008-2012.

In 2007, Buenos Aires Province made a land revaluation as well as a new appraisal of dwellings, establishing the tax base on the basis of 60 percent of new values, increasing it to 80 percent in 2009 and to 90 percent in 2011. In 2010, the structure of the rates was changed, eliminating fixed amounts and modifying the rates to smooth the impact. In 2012, updates of the valuation were made, although applying the tax only on 65 percent of the new values. Also, the rates applied to higher valued dwellings were increased and those applied to lower valued ones were reduced in pursuit of increased progressivity. As a result, Property Tax share decreased from 7 percent in 2008 to 6 percent in 2009-2011 and, finally in 2012, it increased to 8 percent of total tax provincial revenues, counting both urban and rural Property Tax.

In Entre Ríos, the main reform affected the rural Property Tax. Land was re-assessed to increase the value and since 2010, periodic updates were applied through a Construction Costs Index. Urban and rural Property Tax collection also increased their rates, changing its share in total tax revenues from 14.5 percent in 2008 to 27 percent in 2012, although the greatest impact was in the rural segment.

In the case of Santa Fe modifications were modest, since 2010 a common table of rates and fixed amounts were applied in the whole provincial territory. Rates on lower valued dwellings were reduced, fixed amounts were increased in 2010 but ceilings to such increases were also established. Besides, in 2010 an Observatory on Continuous Valuation was set for information purposes. All these changes increased significantly tax collection levels.

In Córdoba, the tax base is determined by property valuations times update coefficients established by the Tax Law. Those coefficients have been modified since 2010 along with the fixed amounts scales. In spite of these changes, the Property Tax has lost participation over 2010-2011 and achieved a slight recovery in 2012.

Source: DNCFP (2013), Castro et al. (2012). For more information see Chart A-1 in Appendix III-Summary of Legal Regulations.

## **Lessons from Recent Decentralization of Property Tax in Argentina**

Two stylized facts are relevant for the analysis of Property Tax in Argentina:

- a) The importance of this tax decreased sharply over time. In the late 1990s, it represented 0.63 percent of GDP while in 2013 it was only 0.38 percent of GDP on average.

- b) Decentralization of the tax on property from provinces to municipalities only took place in seven provinces out of 23 (Chaco, Chubut, Corrientes, Formosa, Salta, Santa Cruz, and Tierra del Fuego).

### The Importance and Recent Evolution of the Property Tax

The decreasing importance of the Property Tax as a source of funding for the Argentine Provinces is illustrated in Table 4. Property Tax share on total provincial tax revenues was 17.5 percent in the 1990s and diminished to 7.5 percent for the period 2011-2014 on average. Considering only the provinces that kept the tax under a centralized operation, the results are similar.

**Table 4: Property Tax collection as a share of total tax collection by province**

<b>Argentina: Property tax</b>			
As a % of total provincial tax collection			
	1991 - 2000	2001 - 2010	2011 - 2014
BUENOS AIRES	16,2	11,2	7,2
CATAMARCA	10,9	7,4	3,1
CÓRDOBA	29,2	17,1	6,9
CORRIENTES	14,2	13,7	5,0
CHACO	2,5	1,7	0,9
CHUBUT	0,4	0,0	0,0
ENTRE RÍOS	24,6	20,8	22,5
FORMOSA	4,6	2,7	1,2
JUJUY	16,8	7,9	6,3
LA PAMPA	18,2	15,2	10,5
LA RIOJA	8,9	6,0	1,8
MENDOZA	12,1	10,6	4,8
MISIONES	12,8	8,1	2,8
NEUQUÉN	9,0	5,7	4,3
RÍO NEGRO	13,5	10,8	4,7
SALTA	4,5	2,6	1,7
SAN JUAN	8,9	8,9	5,7
SAN LUIS	18,9	10,0	5,6
SANTA CRUZ	0,1	0,3	0,3
SANTA FE	22,0	15,0	8,9
SGO. DEL ESTERO	10,6	7,4	10,2
TUCUMÁN	11,3	9,5	6,7
TIERRA DEL FUEGO	0,2	0,1	0,2
C.A.B.A.	18,7	13,6	9,6
<b>Provinces with centralized property tax</b>	<b>18,2</b>	<b>12,5</b>	<b>8,0</b>
<b>Provinces with decentralized property tax</b>	<b>4,1</b>	<b>2,7</b>	<b>1,2</b>
<b>TOTAL</b>	<b>17,5</b>	<b>11,9</b>	<b>7,5</b>

Note:

Provinces with decentralized property tax: Chaco, Chubut, Corrientes, Formosa, Salta, Santa Cruz y Tierra del Fuego.

Source: CIPUV based on DNCFP-MECON

Several reasons contribute to explain the diminishing importance of the Property Tax. First, during the 2000s, natural resource-rich provinces enjoyed a windfall on the royalties they collect

from natural resource based industries like natural gas and oil (from 0.3 percent in 1997-99 to 0.6 percent of GDP in 2007-09). These unanticipated revenues relaxed the need for taxation on urban assets. For fiscal and political reasons, most provinces changed their own-source tax mix, reducing the importance of the taxation on property and increasing the revenues obtained from the turnover tax on economic activities. Voters are more sensitive to a visible tax like the Property Tax compared to an indirect tax such as the turnover tax (Castro et al. 2012; FIEL 2011). Besides, the turnover tax provided funds immediately at a time when Provinces were under fiscal stress.

However, another piece of information indicates that the previous explanations, though correct, are not the only ones behind the evolution of the Property Tax. Table 5 and Chart 1 present the Property Tax in constant pesos (of 2014) and in per capita terms by province since the 1990s and the changes in percentage between 2004 and 2014. As can be observed, considering only the provinces that have kept a centralized operation of this tax, eight out of 17 have increased the tax burden in real terms per inhabitant, another four have experienced decreases between 4 percent and 20 percent, which, in some cases, may be a transitory real loss due to the high inflation rate of Argentina (25 percent per year). The rest, five provinces, shows real per capita decreases between 23 percent and 45 percent.

**Table 5: Property Tax collection per capita by province (constant 2014 pesos)**

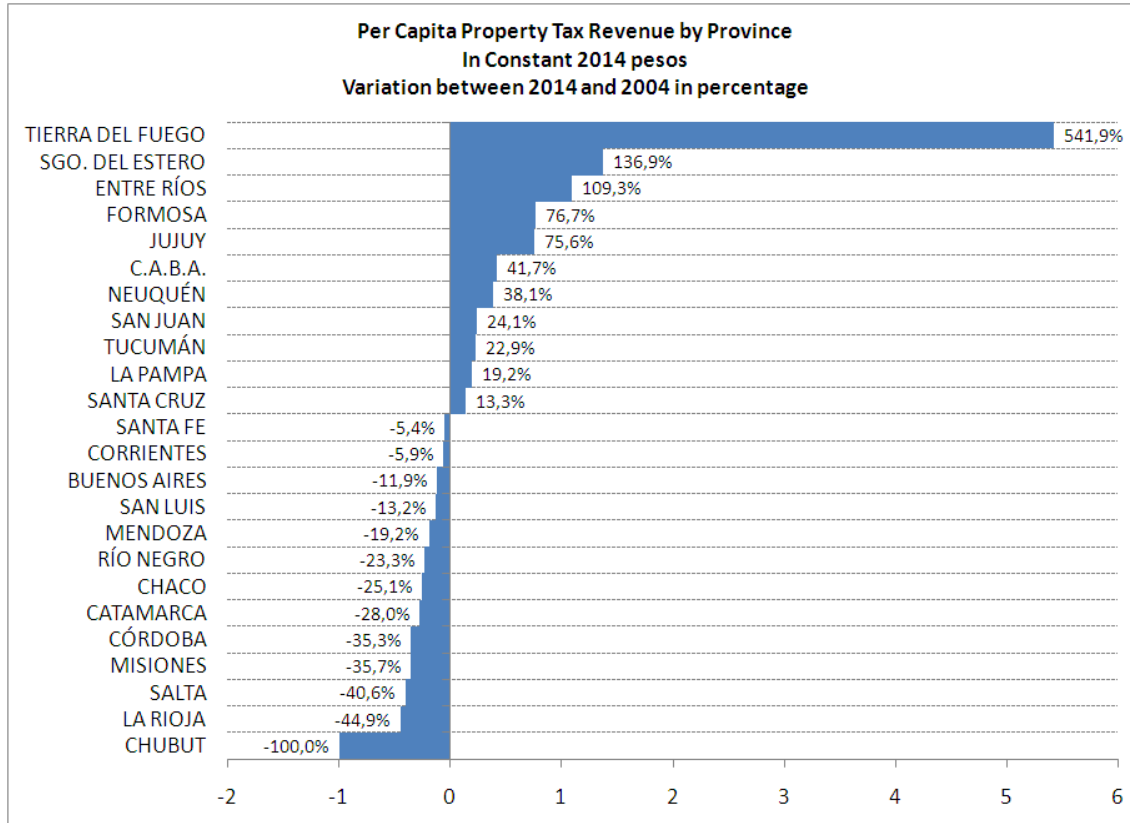
<b>Provincial tax revenues</b>			
<b>Property tax</b>			
<b>(constant 2014 pesos per capita)</b>			
	<b>1991 - 2000</b>	<b>2001 - 2010</b>	<b>2011 - 2014</b>
BUENOS AIRES	380,4	339,3	378,3
CATAMARCA	90,9	97,6	80,3
CÓRDOBA	689,1	423,7	332,8
CORRIENTES	97,8	115,8	88,6
CHACO	21,4	17,6	21,0
CHUBUT	4,6	0,5	0,0
ENTRE RÍOS	473,1	459,5	938,2
FORMOSA	23,6	15,3	18,5
JUJUY	130,0	73,3	109,4
LA PAMPA	486,6	530,6	565,9
LA RIOJA	67,3	53,1	28,4
MENDOZA	243,7	248,4	218,0
MISIONES	117,1	114,0	83,9
NEUQUÉN	222,3	271,9	365,9
RÍO NEGRO	275,4	265,2	199,1
SALTA	43,0	36,1	40,8
SAN JUAN	99,0	131,2	168,3
SAN LUIS	376,7	281,0	248,3
SANTA CRUZ	2,4	15,4	24,3
SANTA FE	515,9	393,5	410,5
SGO. DEL ESTERO	78,3	73,7	171,3
TUCUMÁN	123,0	182,8	254,6
TIERRA DEL FUEGO	10,2	5,3	26,2
C.A.B.A.	1.306,1	1.294,1	1.693,9
<b>Provinces with centralized property tax</b>	<b>463,4</b>	<b>396,8</b>	<b>455,5</b>
<b>Provinces with decentralized property tax</b>	<b>41,5</b>	<b>41,2</b>	<b>38,0</b>
<b>TOTAL</b>	<b>416,6</b>	<b>355,5</b>	<b>406,4</b>

Note:

Provinces with decentralized property tax: Chaco, Chubut, Corrientes, Formosa, Salta, Santa Cruz y Tierra del Fuego.

Source: CIPUV based on DNCFP-MECON

**Chart 1**



Source: CIPUV based on DNCFP-MECON

Why has the Property Tax lost importance as a share of total provincial tax revenues while, at the same time, the tax burden per capita has increased or decreased modestly in half of the provinces? The explanation of the importance and evolution of the Property Tax in Argentina is complex and includes both economic and political aspects. These figures suggest that the strategy of each province regarding the Property Tax has differed. However, one fact that has to be kept in mind is that during 2004-2014 total (and provincial) fiscal expenditure grew from less than 30 percent of GDP to more than 40 percent. New taxes (export taxes) and the widening of the scope and increase in the burden on business and personal income taxes were needed to finance such an expansion. Thus, even though the Property Tax kept its value in real terms, it lost importance in relative terms within the provincial tax collection.

**The Decentralization Process: Scope and Present Situation**

Molinatti (2011) presents an accurate and detailed analysis of the situation and legal feasibility for decentralizing the Property Tax to municipalities by Province. The author presents the number of municipalities legally able to organize and manage the Property Tax in case of decentralization (according to the provisions of the Provincial Constitution or Organic Municipal Law of each Province). In Table 6 we reproduce this information adding a column with the number of the largest municipalities in each Province (belonging to the 5<sup>th</sup> quintile of

municipalities arranged by size). The quintile distribution takes into account the number of housing units by municipality, comparing municipalities at the National level).<sup>8</sup>

**Table 6**

**Distribution of largest municipalities by Province and Legal capacities to organize the Property Tax**  
By Province 1/

Province	Largest Municipalities (5th Quintile)	Municipalities with legal autonomy				
		Number of Municipalities	Minimum number of inhabitants	Year of decentralization of the legal capacity	Type of legal autonomy	Municipal Tax Faculties on Real Property
Buenos Aires	105,0	-	-	1994	Partial	Taxes in general
Catamarca	10,0	8,0	10.000	1998	Full	Contributions for local public services
Chaco	22,0	12,0	20.000	1994	Full	Property Tax
Chubut	7,0	16,0	1.000 voters	1994	Restricted	Property Tax
Córdoba	65,0	34,0	10.000	1987	Full	Taxes in general
Corrientes	19,0	59,0	1.000	2007	Full	Property Tax
Entre Ríos	25,0	20,0	10.000	2008	Full	Taxes in general
Formosa	10,0	27,0	1.000	1991	Full	Property Tax
Jujuy	11,0	5,0	20.000	1986	Full	Taxes in general
La Pampa	7,0	54,0	500	1994	Autonomous with restrictions	Contributions for local public services
La Rioja	6,0	18,0	-	1998	Full	Contributions for local public services
Mendoza	18,0	-	-	1916	Partial	Contributions for local public services
Misiones	24,0	25,0	10.000	1958	Full	Property Tax
Neuquén	11,0	13,0	5.000	1957	Restricted	Property Tax
Río negro	13,0	29,0	2.000	1988	Full	Property Tax
Salta	20,0	19,0	10.000	1998	Restricted	Property Tax
San Juan	11,0	7,0	30.000	1996	Full	Taxes in general
San Luis	6,0	2,0	25.000	1987	Full	Contributions for local public services
Santa Cruz	7,0	14,0	1.000	1998	Full	Property Tax
Santa Fe	52,0	-	-	1962	Partial	Taxes in general
Santiago del Estero	14,0	5,0	20.000	1997	Full	Property Tax
Tierra del Fuego	2,0	2,0	10.000	1991	Full	Property Tax
Tucumán	19,0	17,0	5.000	2006	Full	Taxes in general
Total General	484,0	386,0				

1/ Greater Buenos Aires not included

Source: reproduced from Molinatti (2011) and own elaboration based on 2010 Population Census-INDEC.

According to this information and from the legal point of view, there are 386 municipalities in the country that are potentially able to organize their Property Tax due to the degree of autonomy that they were granted. However, only 11 Provinces have decentralized this faculty and only seven Provinces have effectively organized it. In Chubut, municipalities can legislate and they fully administer the Property Tax. In Chaco, Formosa, Salta, Santa Cruz, and Tierra del Fuego, municipalities collect the urban Property Tax.

Comparing the first and the second columns of Table 6 for the provinces that have decentralized the full administration or the collection of the Property Tax (highlighted in grey), it can be observed that in Chubut, Corrientes, Formosa, and Santa Cruz, the number of municipalities able to collect the tax exceed those that are among the largest of the country localized in those provinces. Instead, in the case of Córdoba, that has not decentralized this tax yet; the number of municipalities with potential capacity to collect the tax is lower than the number of largest municipalities corresponding to that province. Finally, in the case of Buenos Aires and Santa Fe,

<sup>8</sup> See below for more details. This distribution is part of the Property Tax simulation exercise presented in the section “Property Tax collection: a survey on collection costs and results.”

two jurisdictions with an important share of the largest municipalities in the country, no delegated tax faculty has been approved for their municipalities.

Thus, most of the largest cities in the country depend on provincial tax collection and provincial tax co-participation for this tax.

### **Lessons from the International and Regional Experience**

The importance of the Property Tax as a source of revenue for governments varies across countries. Bird and Slack (2002), Sepulveda and Martinez-Vazquez (2012), and Bonet et al. (2014) agree that the ratio of the Property Tax to GDP is smaller in developing countries.<sup>9</sup>

One common feature of the international experience is that Property Taxes are assigned, predominantly, to lower levels of government. In the case of the European Union, according to their Constitution, the “subsidiarity” principle is recognized, so that responsibility and authority is assigned to the most decentralized level of government feasible for a task. In the United States, direct taxes are levied by local authorities according to their Constitution. Norregaard (2013) shows that the share of the Property Tax in total local taxes is 37.7 percent in high income countries and slightly less (35.5 percent) in middle income countries. Besides, Property Tax revenue collected by government accrues solely to local governments in the large majority of both high income and middle income countries.

In turn, at the subnational level where this tax is generally collected, the corresponding share is reported to be larger in developing countries than in developed ones. However, these shares are influenced by the fiscal organization in each country. For instance, in Argentina and Brazil that are federal countries, the Property Tax performance as a revenue source for local governments remains the lowest as compared to other Latin American countries where government expenditures are more centralized (i.e., 8.7 percent in Argentina, 3.8 percent in Brazil, 59.8 percent in Bolivia, 52.4 percent in Chile, and 19 percent in Colombia, according to Gomez Sabaini and Jimenez 2011).

Among the most important structural determinants of the Property Tax performance, the following can be mentioned: the size of the municipalities, in terms of population and income; their geographic location; and the concentration of population across the territory where a few larger municipalities concentrate the greatest percentage of collection at the country level.

Due to historical reasons this latter structural feature corresponds to the Latin American case, where countries are organized around the primacy of a few big cities. For instance, in Brazil 12 municipalities collect 50 percent of the Property Tax; in Costa Rica 10 percent of municipalities collect 43 percent of the tax, and in Argentina three subnational governments concentrate 73 percent of the collection of this tax (Bonet et al. 2014).

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<sup>9</sup> Property Tax revenue to GDP is 2.12 percent on average in OECD countries, 0.6 percent in developing countries and 0.37 percent exclusively in Latin American countries all on average and computed between 2000 and 2004 according to Sepulveda and Martinez-Vazquez (2012). Bonet et al. (2014) calculate those ratios for 2000 to 2010, which are on average 1.15 percent in OECD countries and 0.28 percent in Latin American countries.

Moreover, a recent study by the Lincoln Institute of Land Policy and the Minnesota Center for Fiscal Excellence also reports differences in the tax rate applied by U.S. Cities. The cities will tend to have higher Property Tax rates if they have high Property Tax reliance (i.e. the Property Tax is the most important source of revenue at the local level), low property values, or high local government expenditures.

Other factors that have influenced the efficiency of the Property Tax are the lack of transparency and communication about the use of the local public funds and the perception by the public that corruption episodes are significant at the local government level. Both facts contributed to increase the rejection of taxpayers towards the periodic updates in valuations and to deteriorate the performance of this tax (Bonet et al. 2014).

Analysts agree that potential gains in terms of increase in local government revenue could be obtained through greater decentralization. The topics related to government decentralization towards sub-national levels have been thoroughly discussed in the economic and public administration literature. One important consideration regards the fact that fiscal decentralization has the potential to improve allocation of public goods at the local level since decentralization can allow a closer match between the preferences of the population and the bundle of public goods and services chosen by government (Stein 1998).

To avoid the risks generally associated with the fiscal decentralization process in developing countries, analysts also point out the need to consider: a) the political willingness to support the reform (incentives), b) the opportunity (economic base and size of urban centers), and c) the capacity of sub-national governments to organize and levy taxes, including a framework of tax collection and enforcement to prevent delinquency and lack of payment (Olowu 2004; Bonet et al 2014).

### **Advantages and Disadvantages of the Property Tax Decentralization: Lessons of Latin-American Countries**

The importance of the Property Tax to finance local development is widely recognized.<sup>10</sup> Recent analysis of this issue for Latin America has pointed out that:

- a. Property Taxation remains the best way to support local public expenditures for several reasons, including its familiarity to taxpayers, its progressivity relative to taxes on consumption, and the difficulty of tax avoidance. Indeed, a growing number of municipalities demonstrate the feasibility of operating efficient Property Tax systems (De Cesare 2012).
- b. Institutional agreements and consensuses must be reached to ensure that local governments have the resources needed to act as agents of development. For

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<sup>10</sup> For instance, the conclusions of UN-Habitat Conference of 2009 titled “Financing affordable housing and infrastructure in cities: towards innovative land and Property Taxation” expressed that “...*land taxation policies could encourage land and property owners to develop or improve land and housing to the full extent warranted by its value, or to make way for others who will. Consequently, building lots are used efficiently; dilapidated inner-city areas and buildings are returned to good use, which reduces urban sprawl and decay*”.

decentralized spending to be sustainable, the own-source resources of local governments must be strengthened. Much of the great potential of local revenue is still wasted, especially Property Taxes (IDB 2012).

At this point it will be useful to summarize the attributes of the Property Tax as a source of revenue for local governments and to review the characteristics of this tax in selected Latin American countries that decided to decentralize it (Bahl and Linn 1992; Olowu 2004; Bahl and Martinez-Vazquez 2007; and Bahl 2011). Both pieces of information will be used as a framework to assess the advantages and risks of further decentralization of the Property Tax in Argentina (see Concluding Remarks section).

The first two attributes, **automatic localization** and **clear jurisdiction**, are related to the corollary of Tiebout's model: *voting with their feet*. As a local tax, the Property Tax is a determinant of the endogenous location of households and economic activity, creating competition between municipalities and leading to a convergence trend of the Property Tax rates across them.

Differences in Property Tax rates affect the size of urban agglomerations. According to Song and Zenou (2009) there is not a theoretical unambiguous relation between the size of the city and the gap between Property Tax rates of the city center and the suburbs. However, their empirical estimations find a clear negative relation: an increase of 1 percent in the ratio of Property Tax rates between the city and the suburbs reduces the size of the city by 0.27 percent.

Bruckner (2004) finds that the gains of Tiebout's sorting induced by different local taxes would outweigh the losses linked to inefficiencies in the capital allocation. Thus, fiscal decentralization for the Property Tax would lead to a greater welfare for the communities since the tax base (real property) is visible and easy to be reach to levy (De Cesare 2004) and relatively immobile compared to other sources of capital (Bahl 2009; Bonet et al. 2014).

Another attribute of the Property Tax is the **ability-to-pay** principle that refers to the characteristic as a potential progressive tax and the knowledge of local tax-payers' capacity. Although there is a need to improve the management and the treatment of exemptions in the Property Tax, the empirical evidence in developing countries supports the feasibility of **progressivity** in this tax operation. In this sense, not only due to the structure of differentiated rates and scales of the tax base, but also because of the allocative objective, the Property Tax particularly serves to reduce socio-economic disparities financing local public goods and services.

Another advantage of this tax is the **prediction and stability of revenue** for local governments, a feature particularly suitable when transfers from the central administration are generally instable and subject to the business cycle.

Although there are advantages of the Property Tax as a local public resource, the empirical evidence also provides several **limitations and problems** that the local governments in developing countries could face, such as unaffordable administrative costs of keeping cadastres complete and updated, the lack of skilled human resources to administrate the tax (e.g., for the

valuation of the tax base), the delay in the revaluation of the tax base, and the lax capacity of enforcement for the tax contribution (Bahl and Martinez-Vazquez 2007; Sepulveda and Martinez-Vazquez 2012; Bahl 2011).

These disadvantages of the local management of the Property Tax impose limits to the decentralization process and bring into the discussion the possibility of a shared administration of the tax, taking advantage of economies of scale in the operation and promoting the better use of the available information.

Institutional and political aspects are also crucial for the success of the Property Tax as a genuine source of resources for local governments. Some of them are commented in Box 3. Summarizing these aspects, the failure in economic and political incentives and inefficiency in the administration of local revenues can lead to a weak performance of the Property Tax, introducing unfair socio-economic consequences, such as tax inequity and erosion of the public acceptance of the tax (Pawi et al. 2012; Fiva and RattsØ 2007; Olowu 2004; Bonet et al. 2014).

### **Box 3: Institutional and political issues linked to the decentralization of the Property Tax**

Beyond economic advantages/disadvantages of the Property Tax decentralization, there are important issues linked to political and institutional aspects.

- *Tax payers' perception of the Property Tax and its use*

Sepulveda and Martinez-Vazquez (2012) highlight that the acceptability to pay this tax increases at the local level when the relation between public goods benefits and taxation becomes more visible, also taking into account taxpayers' preferences and knowing their ability to pay the tax. However, the visibility of the tax base and the fact that it is easily reached for levy make this tax unpopular with local voters (Bahl 2011). Moreover, when corruption and inefficiencies in the local government expenses are also perceived by taxpayers, the geographic proximity can also play against the performance of the Property Tax (Bonet et al. 2014; Pawi et al. 2012).

- *Relation between local and national tax in local public resources*

Another inconvenience that is pointed out by many authors (Olowu 2004; Sepulveda and Marquez-Vazquez 2012) is the negative relation between the performance in Property Tax collection at the local level and the percentage of grants or transfers received from the national government as the main local source of revenue. Nevertheless, some cases of Latin American and Scandinavian countries do not support a clear pattern for this negative relation. Bonet et al. (2014) shows that the relation between these variables in Latin American countries is negligible (e.g., in Argentina, Brazil and Costa Rica), and Fiva and RattsØ (2007) find no significant relation in Norway, where 80 percent of local resources comes from national transfers.

- *Cooperation between level of governments to fill technical requirements*

Technical requirements are essential not only for an efficient Property Tax system but also for a fair one and the capacity to fill them is generally not independent of political issues (e.g., intergovernmental cooperation). For instance, the development of a land/buildings/improvements cadastre including the registration mapping of real estate titles is needed as well as a progressive structure of rates. Moreover, the Property Tax as a land and development policy should also add the payments of grants instead of the tax burden, for example, in semi-urban areas (Olowu 2004).

- *Capacity of Enforcement*

As it was pointed out before, the capacity of enforcement also affects the performance in the Property Tax administration at the local level. In this sense, Fiva and RattsØ (2007) finds that the spending pressure is held back and the level of tax pressure is held down when the subnational government and council are strong in political terms. Thus, the success of the implementation of technical requirements is highly dependent on political conditions in localities, the capacity of enforcement and the relation/cooperation/political ideas between the different levels of government (local and national).

- *Democracy and Property Tax collection*

Finally, the Property Tax becomes the main potential source to finance local services in cities with strong democratic traditions, that is, where the local electorate is convinced that the Property Tax is a genuine and progressive source of revenue (Olowu 2004). The political factor is crucial in both developed and developing countries for a successful Property Tax collection. (Fiva and RattsØ 2007).

Source: see References

## Cases of Property Tax Decentralization in Latin America

The Latin American examples of the Property Tax administration are particularly interesting for Argentina. Due to their long shared legal tradition, Latin American countries have several advantages in the exploitation of the Property Tax as a local resource. Compared to other developing countries they display a better tax organization (incentives, information, and capacity) than African (e.g. Zimbabwe, South Africa, India, and Nigeria) and Asian (e.g., Malaysia) countries. One problem observed in the rest of the developing world is the frequent absence of cadastres, which increases the inefficiencies of the tax collection due to the lack of information on the real property valuation and assessment (Olowu 2004; Pawi et al. 2012).

The empirical evidence provides varied cases where the Property Tax takes different forms. For instance, in some cases the tax is applied to all types of real properties or exclusively on real estate; it may apply a differentiated tax rate and/or a differentiated tax base between residential and non-residential use of the real estate; it may distinguish between rural and urban properties; or apply different rates to the components of the property (land versus building), etc.

Depending on the political organization of the country, it is possible to find broad differences of the Property Tax system across municipalities. In some cases, the legal rules governing the tax are centralized by the national or the regional (or provincial) governments, only transferring the collection to the local governments. In some other cases, municipalities have a greater level of discretion to establish the base and the rates, increasing the disparities of the Property Tax system (and the competition) across cities (Bird and Slack 2002).

The decentralization of the Property Tax implies that the subnational governments have the power to modify all dimensions of the tax design and administration. These dimensions concern the **determination of the tax rate and the tax base, the collection** of the tax, and **the full profitability of the tax revenues**. However, in practice, the control of the tax rate by the subnational government is enough to consider it as a decentralized tax (Bahl 2011; Bahl and Linn 1992). Depending on the degree of autonomy exerted by the local government in the definition and the management of the Property Tax, Bahl (2011) presents four models of tax decentralization:

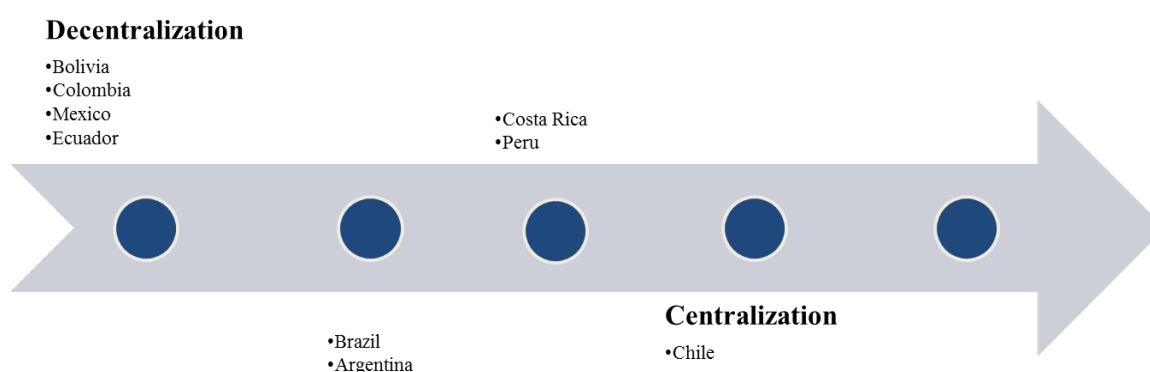
- i. Taxing power and administration responsibility to local governments.
- ii. Tax rate control by local governments, but tax base and administration centralized at the national level.
- iii. Tax rate and base defined at the national level while tax collection assigned to the local governments.
- iv. Tax rate, tax base, and collection assigned to the central government and a portion of that collection is transferred to local governments.

In the case of the Property Tax, the administration of the tax is generally shared between both levels of government, national/regional, and local, but there is not a single dominant pattern according to the international evidence. However, depending on the size of the cities/regions it is possible to identify a common pattern: for medium and small size cities, the cadastres and

valuation are centralized at the national/regional level while local governments only collect the tax; however, in large cities the valuation is also assigned to the local governments (Bahl 2011).

Analyzing the Property Tax system in Latin American countries, it is possible to find examples for the tax decentralization models proposed by Bahl (2011). Chart 2 synthesizes the scheme which is described below and Table 7 highlights the main characteristics in each country.

### Chart 2: Property Tax system in Latin American countries based on the degree of autonomy of local governments



Source: CIPUV based on References.

Concerning **the most decentralized model (i)**, it could be found in **Bolivia, Colombia, Mexico, and Ecuador**. However, each of these four countries displays their own characteristics in the determination of rates and the tax base and in the collection, administration, and profitability of the tax revenue.

In **Bolivia** the tax base concerns the land and buildings, and their valuation is based on homogeneous zones valuation created at the subnational level. The owners of the properties provide the required information for valuation and thus, the tax base is not compiled from cadastres and their fiscal valuation. Tax rates are also decentralized and determined by the local government, as well as the collection and the administration of the tax with compliance with the central government regulations. The Property Tax in Bolivia is the main local tax and thus, it is possible to find a clear relation between local taxes and local public goods and services.

In **Colombia** the valuation of properties is based on local cadastres (Bogota, Antioquia, Cali, and Medellin). In some cases, cadastres are managed by private institutions and valuation of properties is updated yearly using the Consumer Price Index (the adjustment is between 70 and

100 percent of the price index variation). Occasionally, this indexation of property values has turned out in overvaluation as compared to market prices. This gap is usually corrected by accepting the owner's valuation of the dwelling. Tax rates are also fixed by municipalities and they vary from 0.1 percent to 1.6 percent. In most Colombian cities, the Property Tax rate structure is differentiated according to the land use and is progressive based on social conditions. The collection and the administration of the tax are purely local, creating a close link between local taxes and public services (Gomez Sabaini and Jimenez 2011; Guerreo Diaz and Noriega Quintana 2015; Sepulveda and Martinez-Vazquez 2012).

In **Mexico**, there is no central regulation of the Property Tax, which means that the tax rate, the tax base, and the tax administration are decentralized to local governments. However, there is an exception to this rule: the revaluation of properties must be authorized by the Congress at the state level. Nonetheless, the fiscal revaluation of properties is not frequent and depends on the availability of financial and skilled human resources to update the local cadastres. Analysts also mention political reasons at the state level that prevent frequent updates of the cadastre and its valuation (Gomez Sabaini and Jimenez 2011; Sepulveda and Martinez-Vazquez 2012).

Finally, in this group of decentralized Property Tax systems, in **Ecuador** the tax base valuation consists of the fiscal value of the entire property (land, buildings) based on the local cadastres, which are updated every two years based on the self-declaration of the owners. The collection and the use of the tax revenue are also assigned to the local governments, which have the power to determine the tax rates (i.e. from 0.025 and 0.5 percent on average) (Gomez Sabaini and Jimenez 2011; Sepulveda and Martinez-Vazquez 2012).

The case of **Brazil** could be categorized within the **model (ii)**. The tax base and the exemptions (based on individual conditions, such as for widows or orphans, and on a minimum base required to be levied) are determined by the national law and in practice it is based on the market value of properties. Tax rates are, however, determined by each municipality, being generally ad valorem rates showing a progressive rate structure (e.g., in Porto Alegre, Property Tax rates vary from 0.2 percent to 1.2 percent of the property value). The collection and the administration of cadastres are also local, where the latter represents the highest costs in the administration of this tax, particularly for large and growing cities (Gomez Sabaini and Jimenez 2011; De Cesare and Ruddock 1999; Sepulveda and Martinez-Vazquez 2012).

**Costa Rica** and **Peru** exhibit a greater level of centralization of their Property Tax system compared to the countries commented above and they could be categorized within **model (iii)** of tax decentralization. In **Costa Rica**, there exist cadastres at the local level and local governments oversee the tax base valuation (land and buildings). However, the Property Tax rate is unique (0.25 percent) and fixed at the national level. The centralization of the tax rate reduces the incentives for the local governments to improve the Property Tax collection performance, which is exclusively assigned to them (Gomez Sabaini and Jimenez 2011). In the case of **Peru**, the tax base includes land and buildings and the fiscal valuation follows an official index provided by the Consejo Nacional de Tasación (CONATA), which is a central government institution. This value is based on different parameters depending on the construction materials, floors, WC, doors, age of the property, energy and water connection, etc. However, this method of valuation does not reflect the market value, leading to possible gaps between the market and the fiscal

values during periods of price inflation. Moreover, the Property Tax structure shows cumulative and progressive rates. For instance, the scales include a fixed non-taxable amount followed by a progressive scale (properties up to a fiscal value of US\$60 are not reached by the Property Tax, properties up to US\$15 thousand pay 0.2 percent; for properties between US\$15 and 60 thousand, the tax rate is 0.6 percent; and then, for properties of more than US\$60 thousand the rate amounts to 1 percent). According to the analysts, in Peru there is a suboptimal exchange of information between the municipalities and the National Property Registry and, consequently, the cadastres are not regularly updated. The Peruvian Property Tax system seems quite like others; however, there are some recent innovations that should be highlighted. Since the middle 1990s large municipalities in Peru have introduced an independent system of tax collection through semi-autonomous agencies (Lima from 1997, Trujillo since 1998 and Piura since 2000, Chiclayo, Ica, and Huancayo in 2003). In some other smaller municipalities (Surco, Villa El Salvador, El Agustino, etc.) some tax incentives have been introduced to induce citizens to comply with their tax obligations. In terms of the Property Tax collection and administration, the large municipalities have introduced online payments that also reduce the costs of collection. Some Municipalities have also outsourced the local cadastre (Arequipa municipality) and there exists a District Cadastre Fund to update local cadastres. Finally, they have obliged the notaries to verify the payment of local taxes before registering the new owner of a property. Even when the Property Tax collection increased after those administrative changes, improved performance remained concentrated in the metropolitan area of big cities (such as Lima), while in small municipalities or rural areas the Property Tax revenue is almost negligible (Ruhling 2005; Gomez Sabaini and Jimenez 2011; Sepulveda and Martinez-Vazquez 2012).

Finally, **Chile** shows the greatest centralized Property Tax system among Latin American countries, even if it does not reach the extreme case of the **model (iv)** described above. The tax base is composed of land and buildings in urban areas, applying a determined fiscal value to each property. The fiscal valuation is done by the Servicio de Impuestos Internos (SII) which is a central government institution. Tax rates are also fixed at the national level and by national law. The Property Tax structure is characterized by a progressive scale of rates and a large non-taxable range of properties. The collection is assigned to the local governments but between 60 and 65 percent of the collection goes to a common fund (Fondo Común Municipal). This common fund is then reallocated across municipalities according to the distributional criteria, but this procedure does not recognize the relation between the Property Tax and the provision of local services, reducing the incentive for owners to contribute with the tax. The complexity of the system and the updates of the cadastre have increased the administrative costs of the Property Tax in Chile (Gomez Sabaini and Jimenez 2011; Sepulveda and Martinez-Vazquez 2012).

**Table 7: Property Tax Systems in Latin American countries according to Decentralization/Centralization models of Bahl (2011)**

		Decentralization						Centralization		
		Model (i)				Model (ii)		Model (iii)		Model (iv)
		<i>Bolivia</i>	<i>Colombia</i>	<i>Mexico</i>	<i>Ecuador</i>	<i>Brazil</i>	<i>Argentina</i>	<i>Costa Rica</i>	<i>Peru</i>	<i>Chile</i>
<b>Criteria of the models</b>	<b>Tax rate</b>	Determined by each municipality	Determined by each municipality. Progressive and differentiated (social conditions) rates. [0.1%, 1.6%]	Determined by each municipality	Determined by local governments. [0.025%, 0.5%]	Progressive and differentiated (urban and rural) rates determined by each municipality.	Mostly determined by provincial governments. Decentralization has proceeded in several provinces with small urban centers.	Determined by the central administration. Flat tax rate of 0.25%.	Progressive rates determined at the central level. Scale according to property value: 0.2% until US\$15 th.; 0.6% between 15 and 60 th. US\$; 1% for more than US\$ 60 th.; min. non-taxable US\$60 approx.	Fixed by national law with a progressive scale of tax rates and a large non-taxable range of properties.
	<b>Tax Base and cadastres</b>	Determined by the subnational jurisdiction (Tables of property values according to homogeneous zones, using owner's information.)	Fiscal valuation based on the local cadastres in largest cities and valuation service provided by private institutions in other departments. Valuation yearly updated based on the CPI.	Determined by municipalities but update of valuations authorized by states. Cadastres are local with low capacity/resources to keep it updated.	Fiscal valuation (land plus buildings) based on local cadastres (updated every 2 years based on owners' declarations and the jurat).	Determined by the national law but in practice based on market value. Local cadastres with higher costs of updating when cities become larger.	Since 2006 the Law of Cadastre (Ley 26.209) establishes a common base to update cadastres (base for valuation for land and buildings).	Cadastres and valuation determined by local governments.	Valuation based on the Consejo Nacional de Tasación (CONATA) index which does not reflect market value. Centralized cadastres (National Property Registry) with a suboptimal exchange of information with the municipalities (outsourcing of cadastre in Arequipa and the District Cadastre Fund to update cadastres).	Fiscal valuation determined by a central agency (Servicio de Impuestos Internos, SII). Cadastres updated under coordination with local governments.

	<b>Collection</b>	Full collection and administration by municipalities with the surveillance of the central government.	Local	Municipal. No central regulation of the tax, only jurisdictional coordination.	Local	Local	Mostly provincial administration and collection (except for decentralized cases and several large cities)	Exclusively by subnational governments (cantons)	Large local governments (collection) with independent tax agencies (Lima, Trujillo, Piura, Chiclayo, Ica and Huancayo). Tax incentives to improve compliance, online payment (lower costs of collection), co-responsibilities of notaries in the tax payment.	Local collection. Around 60-65% of this tax collection goes to a common fund (Fondo Comun Municipal) used for redistribution purposes across municipalities. Complex and expensive system.
	<b>Profitability</b>	59.8% of local tax revenues is from the Property Tax (2008). Clear relation between local tax and services.	19.2% of the local tax revenue is from the Property Tax (2008). Link between the local tax and services.	28.2% of the local tax revenue is from the Property Tax (2008).	32.9% of the local tax revenue is from the Property Tax (2008).	3.8% of the local tax revenue is from the Property Tax (2008).	8.7% of the local tax revenue is from the Property Tax (2008). Main Property Tax revenue concentrated in 5/24 provinces.	32.6% of the local tax revenue is from the Property Tax (2008).	66% (59.9%) of the local tax revenue on average is from the Property Tax in 2008. High dependence of national transfers as local resources.	52.4% of the local tax revenue is from the Property Tax (2008). No relation between the Property Tax and the provision of local services.

Sources: Gomez Sabaini and Jimenez (2011); Sepulveda & Martinez-Vazquez (2012); Guerreo Diaz & Noriega Quintana (2015); Regimen Tributario Colombiano 2015 (cap. 7); De Cesare and Ruddock (1999); Ruhling (2005).

## **A Summary of Lessons from the International Experience**

Since the late 1990s, developed and developing countries have been implementing changes in their Property Tax administration to introduce economic and political incentives as well as using the improvement in the technology of data management to update cadastres and valuation.

Analysts coincide in that there is a renewed interest in Property Taxation around the world (IMF 2013). For instance, China decided to introduce residential Property Taxation starting in 2011. By 2013, pilot projects were being conducted in two cities, Shanghai and Chongqing, to be followed in due course by other cities.

- *Collection and Administration*

In Latin America, there is a trend towards decentralized collection (Chile is an exemption to this trend). Local collection could be improved through a better implementation of transparency mechanisms in the management of the tax (De Cesare 2012), such as the publication of the calendar dates and criteria for valuation, online access to valuations and taxes to be paid, access to different means of payment, publication of tax debt, penalties, judicial actions, etc. Changes in this tax are usual even in developed countries and a certain degree of flexibility is needed to accommodate changing realities (Youngman 2016).

- *Valuation*

One of the technical issues to improve the bill and equity of the Property Tax is property valuation. The international experience shows two main approaches, the area-based and the value-based assessments. The latter is more commonly used and it could be calculated on the (improved or unimproved) capital value or on the annual rental value. Nowadays, we can find a combination of those criteria of valuation depending on the type of property (residential versus commercial, urban versus rural, etc.) in both developed and developing countries.

Conclusions in the literature about using the capital value versus the annual rental value vary depending on the empirical case under study. For instance, McCluskey and Bell (2008) compare the performance and the Property Tax equity depending on the approach of valuation: capital value or annual rental value for the Northern Irish case (1977-2005). They find that there is a high level of correlation between both values for the residential property and even when the tax bill distribution is not the same in both approaches (the capital value approach shows a greater dispersion across properties with higher value), the general performance is similar.

In line with the previous paper, Lall and Diechmann (2006) analyze the case of Indian cities and conclude that when it is possible to frequently update capital values of properties to bring them close to the market value, this approach is preferred to improve the performance of the Property Tax without negative consequences for the poor. Using the annual rent value approach is sometimes distorted by rental regulation, impinging on the increase of local government revenues.

De Cesare (2012) presents the different approaches for assessment practices in Latin America and considers that a valuation closer to the market value is required. Moreover, general valuation and frequent (at least yearly) adjustments should be implemented especially during inflation periods. A technical approach should be implemented to ensure an efficient and fair Property Tax system, avoiding political influences.

Economies of scales in updating cadastres and valuation are present in larger jurisdictions. Consequently, it is recommended that larger cities provide the services of cadastres and valuation to the small ones (with less than 750,000 properties; International Property Tax Institute 2007, quoted in De Cesare 2012). For instance, in Peru the valuation of real properties remains a centralized task, provided by the Consejo Nacional de Tasación (CONATA). Even if this institution homogenizes the way to evaluate properties of all local communities, the criteria used (fiscal valuation of land, buildings and improvements based on parameters) results in a property valuation far from the market value. The gap between the fiscal and the market values could have negative consequences for collection performance as was already pointed out (Ruhling 2005). On the other hand, frequent updates of property values following the real estate market developments could induce overvaluation of the fiscal base, leading to conflicts and arguments on the confiscatory threat imposed by the tax.

Concerning other technical requirements, several governments in Latin American countries (Peru, Brazil, Argentina, etc.) have introduced technological improvements and economic incentives to improve the Property Tax collection, such as incentives for on-time payments; reduction of costs through online payments; implementation of transparency in the use of public funds to avoid corruption risks; outsourcing of cadastres; reduction of exemptions; the implementation of cadastral information using GIS; monitoring and updating of formal and informal real properties using drones to reduce tax evasion; etc. (De Cesare 2012; International Property Tax Institute 2016).<sup>11</sup>

- *Tax Rates*

In many countries, the determination of the tax rates remains centralized, which may undermine the effort to improve the performance of the Property Tax as a local resource (De Cesare 2012). This is the case of the Property Tax rates in Peru where tax rates and valuation do not reflect the need of the local administrations since they remain under control of a national institution (Ruhling 2005).

The opposite example is shown by the Property Tax System in the United States where the tax rates vary across states from 0.2 percent of the property value (Muai county, Hawaii) to 3.1 percent (Wayne county, New York), according to the 2012 information provided by the American Community Survey (ACS) (Harris and Moore 2013). However, since 1978, a wide array of limits on Property Tax burdens was instituted at the State government level (Youngman 2013).

According to Lincoln Institute-Minnesota Center (2016), the effective Property Tax rate<sup>12</sup> is also highly variable among U.S. cities. Considering the case of owner-occupied primary residences, the analysis of the largest city in each state showed that the average

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<sup>11</sup> International Property Tax Institute website <http://www.ipiti.org/ipiti-xtracts/> Case of Brazil 2015-2016 [Consultation: 04/07/2016].

<sup>12</sup> The effective tax rate corresponds to the tax bill as a percent of a property's market value.

effective tax rate was 1.50 percent in 2015. But the range of this rate is between 0.3 percent and 3.88 percent.

Ruhling (2005) also introduces a relation between the Property Tax rate and the size of the urban settlement. This author states that the Property Tax collection in big cities represents a larger percentage of the total local revenue than in smaller municipalities or rural areas (i.e. up to 20 percent in the biggest city in Peru such as the metropolitan area of Lima, and almost no revenue from this tax in rural municipalities).

According to De Cesare (2012) the first step in the decentralization of the Property Tax should be the autonomy of local government to determine their own tax rates. National government should support the local governments during the transition, providing the resources for local capacity building (provision of standards, benchmark, training, and technical assistance).

### **Property Tax Collection: A Survey on the Property Tax Administration at the Provincial and Municipal Level**

The review of the literature for Argentina (Section “Property Tax in Argentina: National and Sub-national Responsibilities”) provided information about the operation and results of the Property Tax at the provincial level. To complete the available information, we have also developed a short survey for selected cases including large and medium sized cities in decentralized provinces. The survey is aimed at identifying the main complexities of their Property Tax administration.

The main information collected by the survey refers to the administration and structure of the Property Tax that is used in the feasibility exercise of the next section. The survey also asks for the opinion of the respondents on alternative initiatives to improve the tax operation (see Appendix II-Questionnaires, for details).

### **Property Tax Appraisal at the Provincial Level**

According to the information received from five provinces that represent around 60 percent of total Property Tax collection in the country, the ratio of the assessed property value and the market value is around 30 percent to 65 percent. In provinces where the administration of this tax is better organized, the compliance rate is around 60 percent-70 percent.

One important aspect to be pointed out is that the coordination between the Office in charge of tax collection and the Office of Cadastres is recognized as a key issue to improve the efficiency of the tax.

Provinces that have not decentralized the tax, however, recognized the importance of coordinating the tax organization and administration with their municipalities. In some cases this aim is pursued by signing Agreements of collaboration like in Buenos Aires Province, where the updating of property values is being developed by Municipalities and the Provincial Government together. Interestingly, in Río Negro the authorities are implementing the geo-referencing of the tax and they plan to share it with their municipalities.

Finally, at the provincial level, the modernization of the cadastral procedures and the improvement of efficiency of the Property Registers are the two most important aspects to consider for improving the operation of this tax.

### **Property Tax Appraisal at the Municipal Level**

Considering the provinces where the Property Tax has been decentralized, their municipalities share one striking characteristic: the organization of the tax administration is highly variable between cities within the same province. In Chaco, Corrientes, and Chubut, some of their cities have preferred to update the cadastre to increase the revenues of the tax (in general the larger ones) while others have reformed the tax rates. Almost all of them have updated the assessed values.

The ratio of assessed to market value ranges between 20 to 70 percent but in some extreme cases municipalities report ratios smaller than 20 percent.

The range of tax compliance goes from 50 percent to 70 percent and it is also variable among municipalities of the same province.

One interesting feature is that within the same province, some municipalities have their own cadastre while others depend on the provincial cadastral agency for information.

In all cases the coordination between the Property Tax municipal office and the Cadastral Agency has been pointed out as very important and most of the municipal administrations consulted are carrying out initiatives to improve the collaboration.

### **Feasibility of Property Tax Decentralization: A Stylized City Model**

In this section, we developed a set of stylized models for medium and large sized cities of Argentina in order to estimate the potential benefits of decentralization. The estimation proceeds as follows:

- a. Urban centers (proper municipalities or cities with other type of local government) are arranged by quintiles according to their size (number of housing units) considering all urban centers across the country.
- b. Urban centers organized according to the previous quintile division are assigned to their corresponding Province.
- c. The 5<sup>th</sup> quintile of the largest urban centers is divided into five categories by size and simulation exercises on the potential net increase of the Property Tax revenue are provided.

As a first step, we provide a general description of the distribution of urban centers by Province including the number of housing units and inhabitants (see Table 8, Chart 3, and Table A-1 in Statistical Appendix).

**Table 8: Distribution of urban centers by Province**

Province	Urban Centers (number)	Urban Centers (%)	Average Houses by urban center	Total Houses (%)	Total Inhabitants (%)
Buenos Aires	134	5,5%	40137	38,9%	38,9%
Catamarca	36	1,5%	3157	0,8%	0,9%
Chaco	68	2,8%	4598	2,3%	2,6%
Chubut	62	2,5%	2872	1,3%	1,3%
Ciudad de Buenos Aires*	15	0,6%	94971	10,3%	7,2%
Córdoba	453	18,4%	2721	8,9%	8,2%
Corrientes	69	2,8%	4242	2,1%	2,5%
Entre Ríos	264	10,7%	1612	3,1%	3,1%
Formosa	64	2,6%	2414	1,1%	1,3%
Jujuy	61	2,5%	3211	1,4%	1,7%
La Pampa	129	5,2%	1033	1,0%	0,8%
La Rioja	18	0,7%	6055	0,8%	0,8%
Mendoza	18	0,7%	29896	3,9%	4,3%
Misiones	75	3,1%	4402	2,4%	2,7%
Neuquén	74	3,0%	2619	1,4%	1,4%
Río negro	87	3,5%	2720	1,7%	1,6%
Salta	59	2,4%	5344	2,3%	3,0%
San Juan	19	0,8%	9930	1,4%	1,7%
San Luis	77	3,1%	1845	1,0%	1,1%
Santa Cruz	35	1,4%	2682	0,7%	0,7%
Santa Fe	370	15,1%	3091	8,3%	8,0%
Santiago del Estero	146	5,9%	1658	1,8%	2,2%
Tierra del Fuego	6	0,2%	7230	0,3%	0,3%
Tucumán	119	4,8%	3328	2,9%	3,6%
<b>Totals and averages</b>	<b>2458</b>	<b>100</b>	<b>5620</b>	<b>100</b>	<b>100</b>
* Corresponds to districts inside Buenos Aires City (comunas)					

Source: CIPUV based on 2010 Population Census-INDEC

The following step is to distribute the municipalities into housing unit quintiles. To this aim we ordered all the municipalities by size according to the number of housing units and organized them in quintiles at the national level. Results are shown in Table 9. This information shows the diversity among the municipal and urban structure of the Argentine provinces. For instance, Buenos Aires and Mendoza Provinces are characterized by large urban centers as compared to the average of the country. Instead, Cordoba and Santa Fe show an urban structure with a U form, with small and large municipalities dominating their distribution.

Table 10 and Chart 3 show the total distribution of housing and inhabitants by quintile. Notice the disproportionate concentration exhibited by quintile five: 85 percent of inhabitants and housing units are concentrated in 20 percent of Argentine urban centers (excluding the City of Buenos Aires and Greater Buenos Aires from this distribution).

**Table 9: Number of municipalities by Housing Quintile and Province**

Province	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5
Buenos Aires			1	4	105
Catamarca		4	10	12	10
Chaco	1	6	13	26	22
Chubut	20	16	13	6	7
Córdoba	99	102	94	93	65
Corrientes	2	9	21	18	19
Entre Ríos	101	71	43	24	25
Formosa	10	13	11	20	10
Jujuy	1	14	22	13	11
La Pampa	59	32	16	15	7
La Rioja			2	10	6
Mendoza					18
Misiones		8	19	24	24
Neuquén	20	18	15	10	11
Río negro	33	12	12	17	13
Salta	1	1	15	22	20
San Juan				8	11
San Luis	30	13	13	15	6
Santa Cruz	11	7	3	7	7
Santa Fe	53	93	94	78	52
Santiago del Estero	34	44	26	28	14
Tierra del Fuego	2	1		1	2
Tucumán	6	20	41	33	19
<b>Total general</b>	<b>483</b>	<b>484</b>	<b>484</b>	<b>484</b>	<b>484</b>

Note: Quintiles refer to the distribution of housing units in each municipality. Municipalities are listed according to the number of housing units independently of their location by province. City of Buenos Aires and Greater Buenos Aires were excluded from this calculation.

Source: CIPUV based on 2010 Population Census-INDEC

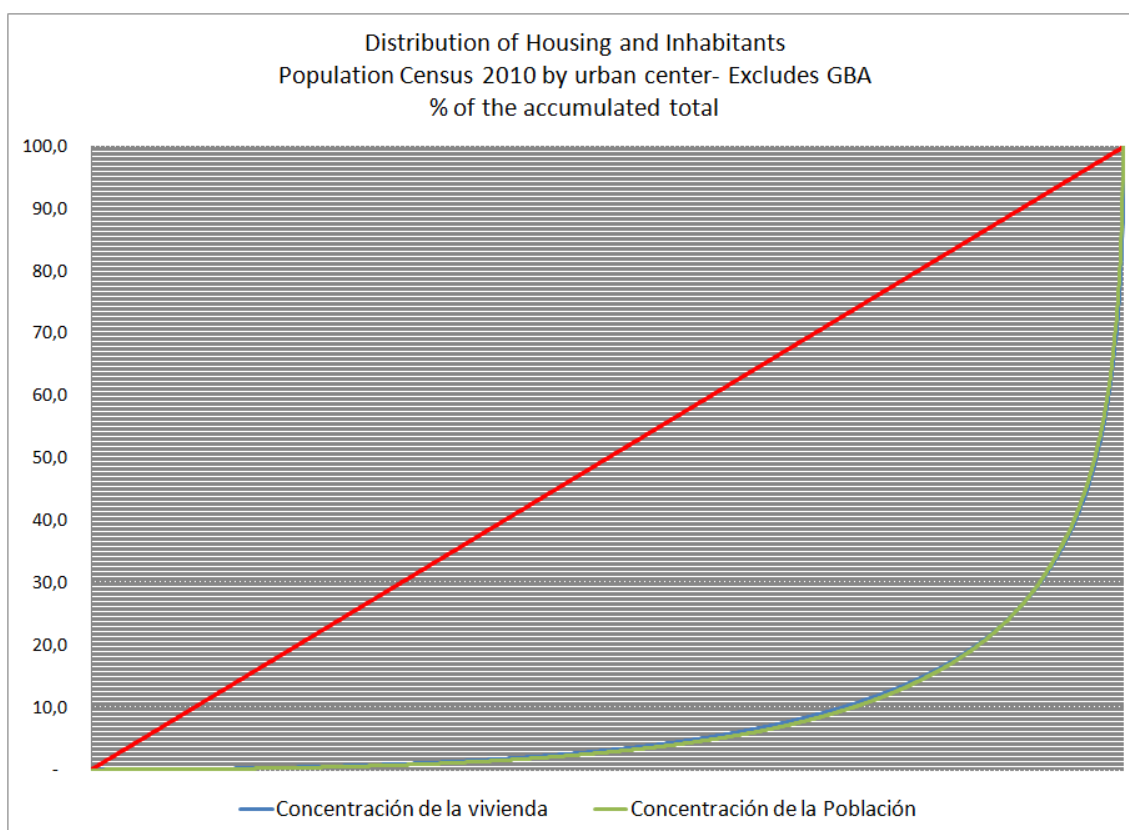
**Table 10: Municipalities by Housing Quintile and Province- Housing and Population Characteristics**

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

Source: CIPUV based on 2010 Population Census-INDEC

Note: City of Buenos Aires and Greater Buenos Aires were excluded from this calculation.

**Chart 3**



Source: CIPUV based on 2010 Population Census-INDEC

Note: City of Buenos Aires and Greater Buenos Aires were excluded from this calculation.

Based on the previous analysis on the distribution of cities by size and the information presented in Table 6 (Section *Lessons from recent decentralization of Property Tax in Argentina*) about the legal capacities of municipalities by Province to organize and collect the Property Tax, the potential benefits of decentralization are likely to be concentrated in the urban centers of the 5<sup>th</sup> Quintile.

On the one hand, Table 6 summarized that, from the legal point of view, there are 386 municipalities in the country that are potentially able to organize their Property Tax due to the degree of autonomy that they were granted by their provinces. This means that in those municipalities the decentralization process could advance without need of major institutional reforms. At the same time, the Table showed that provinces such as Córdoba, Buenos Aires, and Santa Fe where the largest municipalities of the country reside, have granted very limited tax faculties to their municipalities. There, decentralization initiatives could face both political and institutional obstacles.

On the other hand, the complexity of the Property Tax administration suggests that larger cities are better equipped to organize it.

Focusing the attention in the 5<sup>th</sup> quintile, we have distinguished five levels of urban centers by size (number of housing units). Table 11 shows the groups and their characteristics including the percentage of informal housing.

**Table 11**

Group of urban centers by number of housing units	Number of urban centers	Housing units (average by urban center)	Inhabitants (average by urban center)	% of informal tenure
1. Hasta 6500 viviendas	219	4326,7	13017,3	26,2
2. De 6500 a 20000	180	10795,9	32320,3	21,5
3. De 20000 a 50000	57	30675,1	88933,6	28,0
4. De 50000 a 100000	19	70866,3	209998,1	20,4
5. Más de 100000	9	227309,3	629639,4	17,1
<b>Total general</b>	<b>484</b>	<b>16594,1</b>	<b>48335,5</b>	<b>24,3</b>

Source: CIPUV based on 2010 Population Census-INDEC

Note: City of Buenos Aires and Greater Buenos Aires were excluded from this calculation.

Based on this classification we developed a simulation model to reproduce the situation of the Property Tax collection by group of urban center in 2010 as if it would have been decentralized. Notice that the provinces with urban centers included in the 5<sup>th</sup> quintile are responsible for 80 percent of the total Property Tax collection, approximately (including GBA).

Basically, tax revenue calculations follow the equation (1) in the first section, including a term for the impact of reducing informal tenure.

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

The parameters used in the calibration of the 2010 simulation were estimated according to the information of our survey to Provinces and Municipalities. They are the following:

**Table 12**

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.

As observed in other Latin-American countries the model includes a parameter to reflect that the collection of the tax on property is lower than the bills issued.<sup>13</sup>

In Tables 13-18 several simulation exercises are summarized changing one parameter at a time:

<sup>13</sup> See De Cesare C. and J. Lazo Martin. 2008. "Impuestos a los patrimonios en América Latina". CEPAL. Serie Macroeconomía para el Desarrollo No. 66. Mayo.

- a. The first exercise improves the proportion applied to the valuation of the cadastre from 70 percent to 80 percent of the 2010 value.
- b. The second exercise reduces to a half the rates of informal housing.
- c. The third exercise increases the valuation in 30 percent regarding the increase in the value of property between 2010 and 2016 (estimated by the variation in the costs of construction).
- d. Exercise 4 increases the average tax rate from 0.5 percent to 0.65 percent.
- e. Exercise 5 increases the rate of collection of the tax from 65 percent to 85 percent.
- f. Finally, Exercise 6 shows the combined results of these changes, where increase in valuation recognizes the full variation in the property prices (estimated by the variation in the costs of construction).

A summary of these results shows that:

- The collection tax is very responsive to increases in: the property valuation, the rate of the tax, and the proportion of effective collection.
- Gains for reduction in the informal tenure are less important since they affect lower valued properties.
- The gain in tax revenues shown in the last (combined) scenario can be compared with the actual tax collection available for 2014 (17.400 millions of pesos, including all provinces and the rural and urban Property Tax). Considering that this group of cities collects almost 80 percent of the tax, the approximate gain due to the simulated improvements is around 50 percent of the actual collection. This estimate shows the potential of improving the tax administration which could be better pursued through decentralization to large cities as the ones analyzed here.

**Table 13**

Property Tax Revenue (2010 pesos)		
Urban centers by size according to housing units		
Scenario 1: increase in the rate applied to the cadastre- 70 to 80%		
Millions de \$		
Groups	Baseline	Simulation result
1. Up to .500 housing units	2,3	2,6
2. From 6.500 a 20 000 housing units	6,5	7,5
3. From 20000 to 50 000 housing units	17,4	19,9
4. From 50000 to 100000 housing units	41,3	47,2
5. More than 100 000 housing units	145,9	166,7
Santa Fe Capital	85,6	97,9
Tucumán Capital	88,1	100,6
Rosario	225,0	257,2
Córdoba Capital	315,9	361,0
Memo: Greater Buenos Aires	2.788,2	3.186,5
Memo: Ciudad Autónoma de Buenos Aires	1.365,4	1.560,5
Total Excluding GBA	213,4	243,9
Total Including GBA	3.001,5	3.430,3

Source: CIPUV own estimates

**Table 14**

Property Tax Revenue (2010 pesos)		
Urban centers by size according to housing units		
Scenario 2: reduction of informal tenure 50%		
Millions de \$		
Groups	Baseline	Simulation result
1. Up to .500 housing units	2,3	2,7
2. From 6.500 a 20 000 housing units	6,5	7,4
3. From 20000 to 50 000 housing units	17,4	20,8
4.From 50000 to 100000 housing units	41,3	46,6
5.More than 100 000 housing units	145,9	160,9
Santa Fe Capital	85,6	90,1
Tucumán Capital	88,1	94,6
Rosario	225,0	237,4
Córdoba Capital	315,9	334,3
Memo: Greater Buenos Aires	2.788,2	2.934,8
Memo: Ciudad Autónoma de Buenos Aires	1.365,4	1.421,9
Total Excluding GBA	213,4	238,4
Total Including GBA	3.001,5	3.173,3

**Table 15**

Property Tax Revenue (2010 pesos)		
Urban centers by size according to housing units		
Scenario3: increase in valuation 30%		
Millions de \$		
Groups	Baseline	Simulation result
1. Up to .500 housing units	2,3	4,0
2. From 6.500 a 20 000 housing units	6,5	11,3
3. From 20000 to 50 000 housing units	17,4	30,3
4.From 50000 to 100000 housing units	41,3	71,7
5.More than 100 000 housing units	145,9	253,5
Santa Fe Capital	85,6	148,8
Tucumán Capital	88,1	153,0
Rosario	225,0	391,1
Córdoba Capital	315,9	549,0
Memo: Greater Buenos Aires	2.788,2	4.845,3
Memo: Ciudad Autónoma de Buenos Aires	1.365,4	2.372,8
Total Excluding GBA	213,4	370,8
Total Including GBA	3.001,5	5.216,1

Source: CIPUV own estimates

**Table 16**

Property Tax Revenue (2010 pesos)			
Urban centers by size according to housing units			
Scenario4: increase in tax rate from 0,5% to 0,65%			
Millions de \$			
Groups	Baseline	Simulation result	
1. Up to .500 housing units	2,3	3,0	
2. From 6.500 a 20 000 housing units	6,5	8,5	
3. From 20000 to 50 000 housing units	17,4	22,6	
4.From 50000 to 100000 housing units	41,3	53,7	
5.More than 100 000 housing units	145,9	189,6	
	Santa Fe Capital	85,6	111,3
	Tucumán Capital	88,1	114,5
	Rosario	225,0	292,6
	Córdoba Capital	315,9	410,7
Memo: Greater Buenos Aires	2.788,2	3.624,6	
Memo: Ciudad Autónoma de Buenos Aires	1.365,4	1.775,0	
Total Excluding GBA	213,4	277,4	
Total Including GBA	3.001,5	3.902,0	

**Table 17**

Property Tax Revenue (2010 pesos)			
Urban centers by size according to housing units			
Scenario 5: increase ineffective collection 65% to 85%			
Millions de \$			
Groups	Baseline	Simulation result	
1. Up to .500 housing units	2,3	3,0	
2. From 6.500 a 20 000 housing units	6,5	8,5	
3. From 20000 to 50 000 housing units	17,4	22,8	
4.From 50000 to 100000 housing units	41,3	54,0	
5.More than 100 000 housing units	145,9	190,7	
	Santa Fe Capital	85,6	112,0
	Tucumán Capital	88,1	115,1
	Rosario	225,0	294,3
	Córdoba Capital	315,9	413,1
Memo: Greater Buenos Aires	2.788,2	3.646,0	
Memo: Ciudad Autónoma de Buenos Aires	1.365,4	1.785,5	
Total Excluding GBA	213,4	279,0	
Total Including GBA	3.001,5	3.925,1	

Source: CIPUV own estimates

**Table 18**

Property Tax Revenue			
Urban centers by size according to housing units			
Scenario 6: combination of scenarios			
Millions de \$			
Groups	Baseline	Simulation result	
1. Up to .500 housing units	2,3	18,3	
2. From 6.500 a 20 000 housing units	6,5	49,8	
3. From 20000 to 50 000 housing units	17,4	139,8	
4. From 50000 to 100000 housing units	41,3	313,0	
5. More than 100 000 housing units	145,9	1.081,4	
Santa Fe Capital	85,6	605,6	
Tucumán Capital	88,1	635,6	
Rosario	225,0	1.595,5	
Córdoba Capital	315,9	2.247,1	
Memo: Greater Buenos Aires	2.788,2	19.725,6	
Memo: Ciudad Autónoma de Buenos Aires	1.365,4	9.557,0	
Total Excluding GBA	213,4	1.602,4	
Total Including GBA	3.001,5	21.328,0	

Source: CIPUV own estimates

Finally, we estimated an exercise considering the growth in density and extension registered over 1991 and 2010. For this purpose, we used the Map of Urban Growth developed by CIPUV (<http://atlasurbano.herokuapp.com/#/>). The unsatisfactory operation of urban planning in Argentina resulted in a disordered growth in extension that imposes higher costs of urbanization. The possibility of identifying these properties as a source for the Property Tax could allow for a better financing of the situation while new regulations and adequate enforcement is put in place. Figures in Table 19 show the results.

**Table 19**

Property Tax Revenue (2010 pesos)				
Urban centers by size according to housing units				
Gains from taxing urban growth				
Millions de \$				
Groups	Gains from Urban growth per year			
	Densification	Continuous extension	Leapfrog extension	Total
1. Up to .500 housing units	0,1	0,1	0,0	0,3
2. From 6.500 a 20 000 housing units	0,6	0,3	0,1	0,9
3. From 20000 to 50 000 housing units	2,1	0,5	0,1	2,7
4. From 50000 to 100000 housing units	3,5	1,1	0,2	4,7
5. More than 100 000 housing units	8,8	2,0	0,3	11,1
Santa Fe Capital	4,7	0,7	0,0	5,4
Tucumán Capital	7,2	0,4	0,0	7,6
Rosario	8,8	1,3	0,1	10,2
Córdoba Capital	7,7	2,0	0,2	9,9
Memo: Greater Buenos Aires	4,6	0,8	0,1	5,4
Memo: Ciudad Autónoma de Buenos Aires				
Total Excluding GBA	15,2	4,0	0,7	19,8
Total Including GBA	19,7	4,8	0,7	25,2

Source: CIPUV own estimates

## Concluding remarks

Argentina is a case of failed fiscal organization. The persistence of a significant vertical imbalance over time is reflected by the allocation of the responsibility of expenditure at the subnational level while the fiscal resources are collected by the central government. Among the negative features of this form of fiscal federalism we can mention: excessive expenditure at both the central and local levels; cyclical fiscal crises that diminish the quality of public services; permanent political negotiations to reestablish fiscal balance; and reduced capacity of sub-national governments to levy their own taxes, making them less accountable.

In a scenario where tax reform is urgently needed, the decentralization of the Urban Property Tax could be considered as a good first step in the right direction. According to the international experience, there are several advantages associated to increasing municipal access to own source revenues through this tax:

- The Property Tax is a resilient source for financing local public services.
- Being highly visible for taxpayers, it improves local government accountability allowing for efficient expenditure.
- The classification of properties to introduce special tax treatments (business vs. housing units, rental apartments, vacant land, etc.) allows for the construction of an incentive system to influence urban development.

At the same time, there are potential disadvantages that need to be prevented. Particularly, the administration of a fair Property Tax may be a complex task, especially for small municipalities, making administration costs too high to be sustainable.

Finally, in the case of developing countries like Argentina, a tax on immovable property is an important fiscal tool in a time of globalization and international competition for mobile capital (Norregaard 2013; Youngman 2016).

As developed in the section *Property Tax in Argentina: National and Sub-national Responsibilities*, previous analyses of the Argentine case have detected various pitfalls in the operation of the urban Property Tax. Among them, López Accotto and Macchioli (2015) indicate that the Property Tax collection in Argentina is a third of its potential value estimating the lack of periodic revaluations following the evolution of property market values.

Our work has adopted a comprehensive approach and has explored most sources of Property Tax inefficiency providing some estimates of the net benefits of further decentralization for this tax.

Our results showed that there is space to increase the collection of this tax by improving its administration. However, the analysis of the incentives at the provincial and municipal level to carry on this task also showed obstacles that, according to our review of the international experience, could be tackled through decentralization.

We studied the feasibility of decentralizing the tax to a group of large and medium sized municipalities in Argentina and confirmed the potential gains that could be accrued through the implementation of a decentralizing reform. In practical terms, the collection

of the Property Tax is very responsive to increases in: the property valuation, the rate of the tax, and the rate of effective collection. Gains for reduction in the informal tenure are less important since they affect low value properties.

However, we also pointed out that the Provinces where the reform could be more interesting will need to implement institutional changes to proceed with the Property Tax decentralization.

Finally, one aspect pending for our future agenda is the comparison between the potential evolution of the Urban Property Tax and the capacity of payment by taxpayers due to frequent income fluctuations.

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## Appendix I: Statistics

**Table A-1**

Province	Urban Centers (number)	Average Houses by urban center	Total Houses (number)	Total Inhabitants
Buenos Aires	134	40137	5378365	15625084
Catamarca	36	3157	113661	367828
Chaco	68	4598	312659	1055259
Chubut	62	2872	178034	509108
Ciudad de Buenos Aires	15	94971	1424571	2890151
Córdoba	453	2721	1232432	3308876
Comientes	69	4242	292686	992595
Entre Ríos	264	1612	425653	1235994
Formosa	64	2414	154485	530162
Jujuy	61	3211	195859	673307
La Pampa	129	1033	133196	318951
La Rioja	18	6055	108982	333642
Mendoza	18	29896	538132	1738929
Misiones	75	4402	330131	1101593
Neuquén	74	2619	193771	551266
Río negro	87	2720	236626	638645
Salta	59	5344	315274	1214441
San Juan	19	9930	188673	681055
San Luis	77	1845	142070	432310
Santa Cruz	35	2682	93883	273964
Santa Fe	370	3091	1143782	3194537
Santiago del Estero	146	1658	242082	874006
Tierra del Fuego	6	7230	43381	127195
Tucumán	119	3328	396083	1448188
<b>Total general</b>	<b>2458</b>	<b>5620</b>	<b>13814471</b>	<b>40117086</b>

Source: CIPUV based on Census 2010.

## Appendix II: Questionnaires

### Provincial Survey Questionnaire

#### Impuesto Inmobiliario Urbano- Provincias

#### Encuesta a Provincias y Municipios de la Argentina

#### Cuestionario para Autoridades de Recaudación Tributaria Provinciales

El Centro de Investigación de Política Urbana y Vivienda(CIPUV) de la Universidad Torcuato Di Tella está desarrollando un estudio sobre las ventajas y desventajas de la descentralización del Impuesto Inmobiliario Urbano. Le agradeceríamos contestar el siguiente breve formulario de encuesta cuyos datos ayudarán a completar la información sobre este relevante tema tributario en la Argentina. Los resultados detallados del estudio serán enviados a los organismos participantes de la encuesta. El resumen del trabajo podrá consultarse en nuestra página <http://www.utdt.edu/>

#### 1. Estructura actual del Impuesto Inmobiliario Urbano

1.a. En los últimos años, varias provincias han incorporado cambios en este impuesto. En el caso de su provincia, ¿podría indicar si hubo cambios y su año de introducción en la siguiente tabla?:

Cambios en el impuesto	Sí	No	Año de introducción de la reforma
Actualización de catastro urbano			
Revalúo			
Reforma de Alícuotas			
Nuevas exenciones			
Otros (por ejemplo, inclusión de tasas diferenciales para baldíos, etc.):			

1.b. Qué porcentaje estima, aproximadamente, que representó el valor fiscal de la propiedad con respecto a su valor de mercado en promedio en su provincia, en el año 2015?

 %

1.c. Qué porcentaje de las boletas de pago emitidas se cancelan en promedio en un año?

 %

#### 2. Administración del impuesto

2.a. Cómo evalúa la coordinación entre la oficina de recaudación y la oficina encargada del catastro urbano provincial:

Marque con X

<b>Satisfactoria</b>	
<b>En curso de mejorar</b>	
<b>Debe mejorarse</b>	
<b>Comentario:</b>	

2.b. Qué porcentaje de sus empleados en la oficina de recaudación tributaria se encarga de administrar el impuesto inmobiliario urbano, aproximadamente?

%
---

2.c. Cómo evalúa la coordinación entre la oficina de recaudación y los municipios de la provincia?

Marque con X

<b>La coordinación no es necesaria y, por lo tanto, no se ha implementado</b>	
<b>La coordinación es satisfactoria y consiste en intercambio de datos</b>	
<b>La coordinación está en vías de implementación para</b> :.....	
<b>Comente otras situaciones o iniciativas de coordinación si existen:</b>	

2.d. Podría indicar su opinión respecto de algunas iniciativas que podrían implementarse para mejorar la recaudación de este impuesto:

<b>Iniciativas a implementar</b>	<b>Muy Importante</b>	<b>Importante</b>	<b>Sin importancia</b>
Actualización del sistema de catastro			
Modernización del sistema de registro de la propiedad			
Capacitación del personal			
Reformas para mantener actualizada la valuación de la base tributaria de impuesto			
<b>Comentar otras:</b>			

Datos del encuestado:

Nombre:.....  
Cargo:.....  
Mail de contacto:.....

**Muchas gracias!!!**

## **Municipal Survey Questionnaire**

### **Impuesto Inmobiliario Urbano- Municipios**

#### **Encuesta a Provincias y Municipios de la Argentina**

#### **Cuestionario para Autoridades de Recaudación Tributaria Municipales**

El Centro de Investigación de Política Urbana y Vivienda (CIPUV) de la Universidad Torcuato Di Tella está desarrollando un estudio sobre las ventajas y desventajas de la descentralización del Impuesto Inmobiliario Urbano. Le agradeceríamos contestar el siguiente breve formulario de encuesta cuyos datos ayudarán a completar la información sobre este relevante tema tributario en la Argentina. Los resultados detallados del estudio serán enviados a los organismos participantes de la encuesta. El resumen del trabajo podrá consultarse en nuestra página <http://www.utdt.edu/>

#### 1. Estructura actual del Impuesto Inmobiliario Urbano

1.a. En los últimos años, varias provincias y municipios han incorporado cambios en este impuesto. En el caso de su municipio, ¿podría indicar si hubo cambios y su año de introducción en la siguiente tabla?:

<b>Cambios en el impuesto</b>	<b>Sí</b>	<b>No</b>	<b>Año de introducción de la reforma</b>
<b>Actualización de catastro urbano</b>			
<b>Revalúo</b>			
<b>Reforma de Alícuotas</b>			
<b>Nuevas exenciones</b>			
<b>Otros (por ejemplo, inclusión de tasas diferenciales para baldíos, etc):</b>			

1.b. Qué porcentaje estima, aproximadamente, que representó el valor fiscal de la propiedad con respecto a su valor de mercado en promedio en su municipio, en el año 2015?

%

1.c. Qué porcentaje de las boletas de pago emitidas se cancelan en promedio en un año?

%

#### 2. Administración del impuesto

2.a. Qué oficina le provee los datos catastrales:

Marque con X

<b>Una oficina de la propia municipalidad</b>	
<b>Una oficina de la provincia</b>	
<b>Otros (indicar):</b>	

2.b. Cómo evalúa la coordinación entre la oficina de recaudación y la oficina encargada del catastro urbano:

Marque con X

<b>Satisfactoria</b>	
<b>En curso de mejorar</b>	
<b>Debe mejorarse</b>	
<b>Comentario:</b>	

2.c. Qué porcentaje de sus empleados en la oficina de recaudación tributaria se encarga de administrar el impuesto inmobiliario urbano, aproximadamente?

	%
--	---

2.d. Podría indicar su opinión respecto de algunas iniciativas que podrían implementarse para mejorar la recaudación de este impuesto:

<b>Iniciativas a implementar</b>	<b>Muy Importante</b>	<b>Importante</b>	<b>Sin importancia</b>
Actualización del sistema de catastro			
Modernización del sistema de registro de la propiedad			
Capacitación del personal			
Reformas para mantener actualizada la valuación de la base tributaria de impuesto			
<b>Comentar otras:</b>			

Datos del encuestado:

Nombre:.....

Cargo:.....

Mail de contacto:.....

**Muchas gracias!!!**

### Appendix III: Examples of Legal Regulations

**Chart A-1: Property Tax Reforms, selected cases (by provinces and cities)**

Province or City	Reform	In favor of reform	Against reform	Implemented Reform	Property Tax collection variation	Lessons learned
<b>San Juan</b>	Cadastral upgrade	Provincial Executive Administration, World Bank.		Urban region (Gran San Juan) and richest rural zone (Tulum) incorporation to cadastral	44% in 1996 but it was not sustained	Implementation and upgrade cost were much greater than it was expected.
<b>Buenos Aires Province</b>	Revaluation of properties Increment in rural Property Tax New rate on harbor activity	Provincial Executive Administration	Rural sector Limited opposition in Congress	Maximum increment of 39% in rural Property Tax Revaluations not achieved	22% in 2010.	Increments in Property Tax combined with a new rate on harbor activity limited the initial reform. Higher rates better accepted than revaluations.  Rural sector incorporated in negotiations after initial reform.
<b>Entre Ríos</b>	Revaluations to achieve a more progressive tax	Provincial Executive Administration	Rural Sector and opposition in Congress	Cadastral reform and upgrade of valuations, especially for large properties	\$80 million (from 14,3% of total revenues to 17,4%). 60% in 2010 in nominal terms.	Reform was accepted because of technical studies applied, communication of progressiveness and promises of reduction in other taxes. There persists resistance of the rural sector.
<b>Santa Fe (second reform)</b>	Upgrade of valuations Larger increases on urban and suburban properties Rural tax identification by tax-payer Increase of Property Tax rate.	Provincial government and Party in Congress.	Rural Sector represented by Provincial Senate Opposition in Congress Mayors of Municipalities	Rural tax identification of taxpayers and upgraded valuations were not accepted  Increment of tax rate was accepted	115% in Property Tax collection	50% of tax collection is shared to municipalities, so their mayors are important in the negotiation process.

<b>Buenos Aires City</b>	Upgrade of property fiscal values.	City government.	Citizens	New valuation system. Gradual revaluation plan of greatly sub-valued properties.	96% nominal increase.	It's important to invest in cadastre.  Communication strategy is also important for reform perception.
<b>Córdoba City</b>	Upgrade of property fiscal values.  Revision of minimum payments and non-taxable minimum.  New rates.	City government.	Citizens	Generalized revaluation.  Proportional rates.  New registration systems.	Tax collection has duplicated	Communication strategy, new technologies and a firm government decision were key factors to the success.

Source: Reproduced from Castro et al. (2014)