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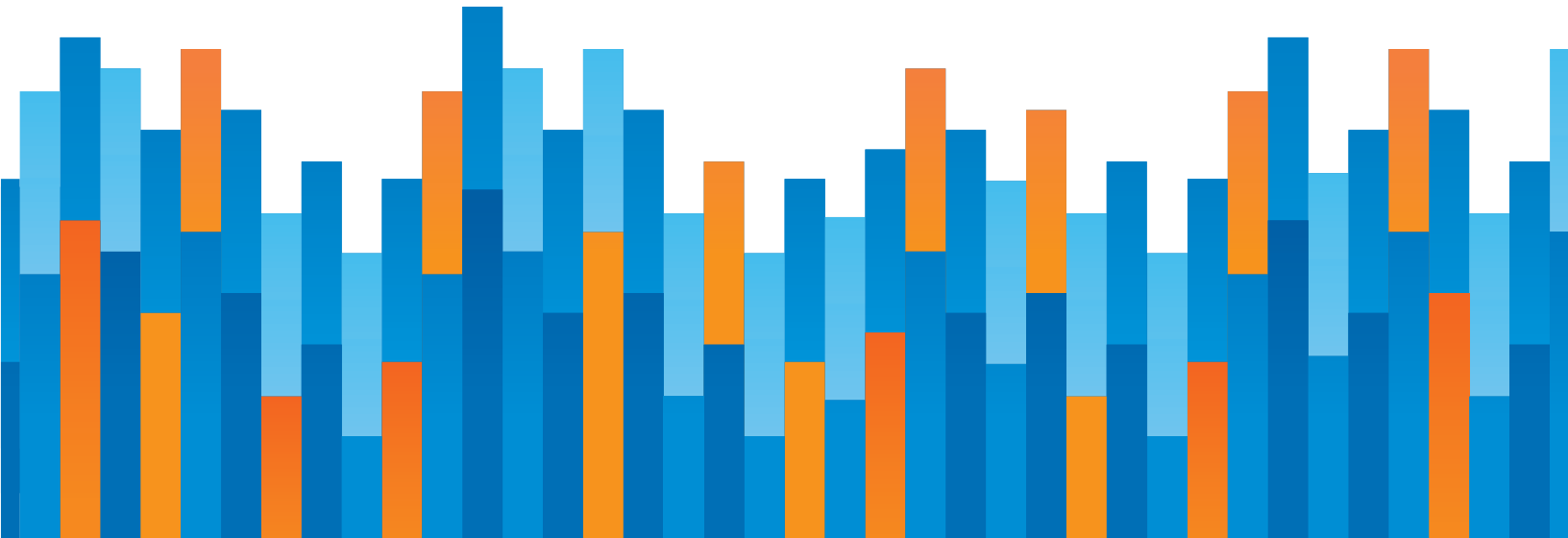
OUT OF THE SHADOWS:
TAX REFORMS TO FORMALIZE ARGENTINA'S UNDERGROUND ECONOMY

by Geoffrey Lawrence

May 2026



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FOREWORD

A recurring premise in public management suggests that fiscal resources possess infinite elasticity, or that the State has no intrinsic limits on its level of spending. However, reality dictates that the public sector has no autonomous capacity to generate revenue; instead, public revenue must be extracted from taxpayers. Revenue can be extracted immediately through current taxes or in a deferred manner through issuing public debt, which represents a long-term tax liability. Ultimately, every state expenditure comes from the wealth generated by the productive actors of the nation.

Economic science is founded on the principle of resource scarcity, a basic concept that, paradoxically, is often omitted in the design of public policies under the belief that it is possible to increase the tax burden indefinitely without affecting the tax base. Argentina represents a paradigm of the consequences derived from this logic: An excessive tax burden has led a nation that showed signs of being a world power at the beginning of the 20th century through a long process of retrogression toward the tier of countries people refer to as “undeveloped.” Argentina’s case is not isolated, as globally there is a trend toward an increase in public spending relative to total output, which leads to a corresponding rise in the tax burden. As governments consume more of a nation’s resources, investment and employment decline, people turn toward informality, and capital flight accelerates toward more competitive jurisdictions—thus undermining both present and future tax collection.

It is remarkable that, more than half a century after Dr. Arthur Laffer empirically demonstrated that excessively high levels of taxation can result in a reduction in public revenues, his postulate continues to be ignored by various decision-makers or their advisors, whether due to technical omission or political convenience.

> *As governments consume more of a nation's resources, investment and employment decline, people turn toward informality, and capital flight accelerates toward more competitive jurisdictions—thus undermining both present and future tax collection.*

In this context, Geoffrey Lawrence's research acquires fundamental relevance by validating the conceptual soundness of the "Laffer Curve" through the analysis of specific data from the Republic of Argentina. His work both quantifies the effect of Argentina's high tax rates on discouraging private-sector activity and uses Argentina as a "natural laboratory" to corroborate the validity of the Laffer Curve concept in empirical reality. Consequently, the present work constitutes essential reading both for economics students and for professionals with responsibilities in the management of public resources. Likewise, its final recommendations offer a critical roadmap for political and technical leadership, providing essential conclusions for the design of the necessary tax reforms that would allow the reversal of decades of structural stagnation in Argentina.

Aldo Abram
Executive Director
Libertad y Progreso

EXECUTIVE SUMMARY

Argentina's economic trajectory over the past century serves as a cautionary tale of how misguided policies can erode prosperity. Once among the world's wealthiest nations, with per capita income surpassing France and Germany in 1910 and attracting waves of European migrants, Argentina now grapples with stagnation, hyperinflation, and widespread poverty. Today, Argentina trails regional neighbors like Chile and Uruguay in output per capita, and more than half its population is mired in poverty.

Very recently, Argentina grappled with the world's highest rate of inflation, as it has many times over the past several decades. This prolonged economic decline stems from a persistent structural imbalance in public finances where recurrent fiscal deficits have been financed through money printing. However, inflation is not the only factor of macroeconomic importance in Argentina. The country's tax system is also profoundly distortionary and punitive to the extent that a large share of economic activity has fled to the underground to avoid these taxes. Nearly half the workforce works in informal, underground markets.

Of the 155 total levies assessed at the federal, provincial, and local levels, just seven account for 87% of all public revenues. This includes a value-added tax (VAT), payroll taxes, corporate and personal income taxes, provincial gross receipts taxes, a financial transaction tax, export duties, and import tariffs. Overlapping tax levies combine to impose an average corporate tax burden exceeding 106% of earnings, rendering full compliance impossible and eliminating all incentive for entrepreneurship. According to World Bank data, this is the

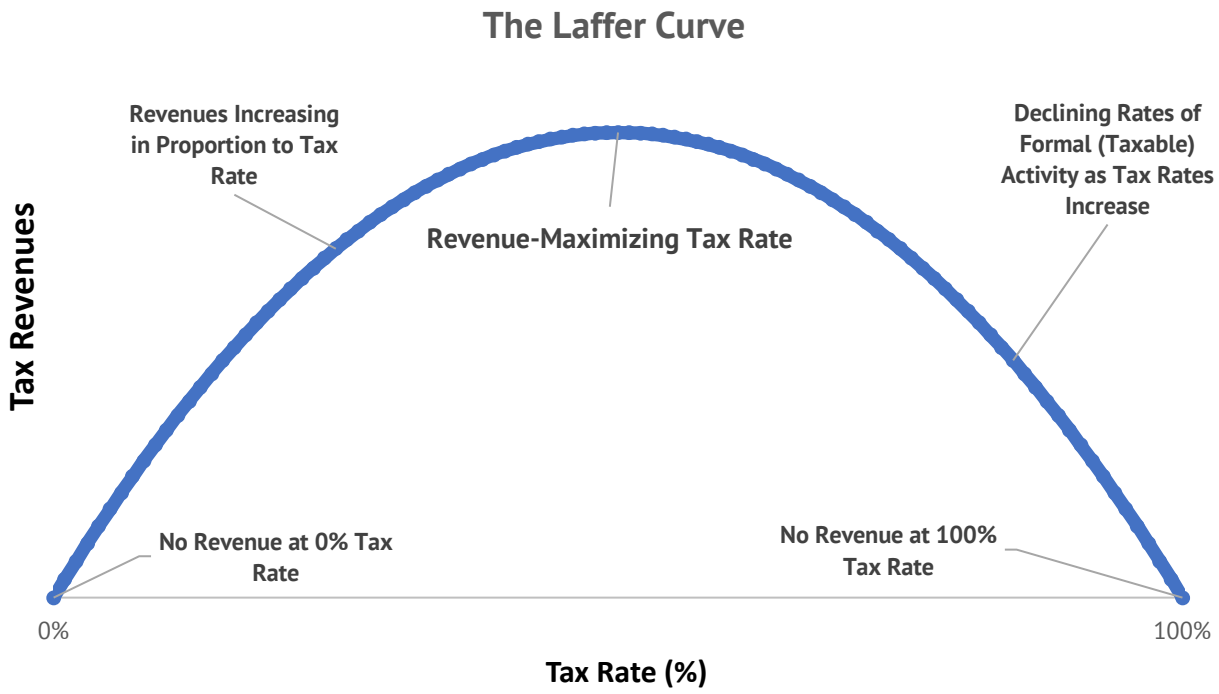
second-highest effective corporate tax burden in the world out of the 238 countries for which it compiles data, behind only Comoros. For 197 of these countries, the effective corporate tax rate is less than 50% of earnings.

> *Due to the onerous tax burden, many firms and businesses simply opt out of the legal economy and operate clandestinely.*

Due to the onerous tax burden, many firms and businesses simply opt out of the legal economy and operate clandestinely. Informality afflicts 44.1% of the employed workforce. Workers and firms opt for cash-based, unregistered arrangements to evade punitive levies, but these arrangements hinder economic growth. Unregistered businesses may not have access to courts to settle disputes, they have limited access to capital, and they cannot operate as efficiently as legal firms. As a result, labor productivity and real wages have stagnated.

Argentina's high payroll taxes and cascading levies create a tax wedge between formal and informal employment arrangements. When combined with labor mandates like mandatory annual bonuses and generous severance rules, these costs add 97% to the cost of legal employment beyond wages—far exceeding the Latin American average of 19%. Both firms and workers may realize a financial gain by agreeing to an unregistered employment relationship to avoid these taxes, resulting in a shrinking of the tax base.

The Laffer Curve is an appropriate conceptual lens for Argentina. It illustrates that tax revenues peak at an optimal rate beyond which evasion or a reduction in effort shrinks the taxable base. Empirical analysis, leveraging variations in provincial gross receipts taxes and household survey data from 2022-2025, confirms Argentina’s tax rates are beyond the revenue-maximizing level in key sectors. Based on the empirical analysis, it’s possible to impute the actual revenue-maximizing tax rates, and they are substantially lower than the rates currently in effect in Argentina. Large hypothetical tax cuts modeled herein would theoretically yield roughly equal tax revenues by incentivizing Argentine businesses and workers to re-enter the formal economy.



However, any program of tax reform should be guided by fundamental principles of sound tax policy, including: simplicity, transparency, and neutrality. Taxes should not cascade, or "pyramid" up the supply chain, and should consider the taxpayer's wherewithal to pay. Argentina's tax system violates these principles in many ways, especially through gross receipts taxes and taxes designed to make international buyers and sellers less attractive for Argentine businesses and consumers.

This study outlines a roadmap to tax reform using an iterative, data-driven approach in which each phase of reform is dependent upon successful private-sector response to the prior phase. This approach mitigates risks by allowing behavioral changes to unfold gradually. The key components include the replacement of gross receipts taxes with retail sales taxes and reduction of the VAT in a revenue-neutral manner. Second, the broader revenue-sharing structure between federal and provincial governments must be reformed to realign taxing authority with spending authority. This recommendation aligns with Libertad y Progreso's proposals to devolve the administration of personal income and certain other taxes to the provincial level rather than routing these taxes to the federal government and subsequently distributing the revenues to provinces. A temporary stabilization fund could be used to hold harmless provinces that currently benefit from enhanced distributions. Third, taxes that isolate Argentina from international markets, including export duties and import tariffs (within MERCOSUR constraints) should be sequenced out. Finally, longer-term reforms should see income and payroll tax rates

reduced as revenues from surviving tax instruments grow. These tax reforms would more effectively induce formalization if accompanied by major reforms in the pension system that condition the receipt of benefits on contributions and a relaxation of labor mandates that make formal employment more costly than informal employment.

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The linchpin to economic transformation in Argentina is to bring Argentines out of the shadows and into the formal economy where they can contribute openly, access capital, and build productive supply chains. This would lead to greater public revenues through expansion of the tax base despite fewer overall taxes. Moreover, it would represent a profound cultural shift in a country where people have escaped to the unmonitored margins of society. It would allow Argentines to slowly rebuild cultural norms of mutual trust and transparency that have been eroded by decades of policies forcing people to hide their lives and incomes. By fostering an environment where legality yields rewards rather than penalties, Argentina can reclaim its heritage of opportunity, ushering in sustained prosperity for future generations.

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PART 1

INTRODUCTION: ARGENTINA'S ECONOMIC DECLINE AND THE PATH TO REFORM

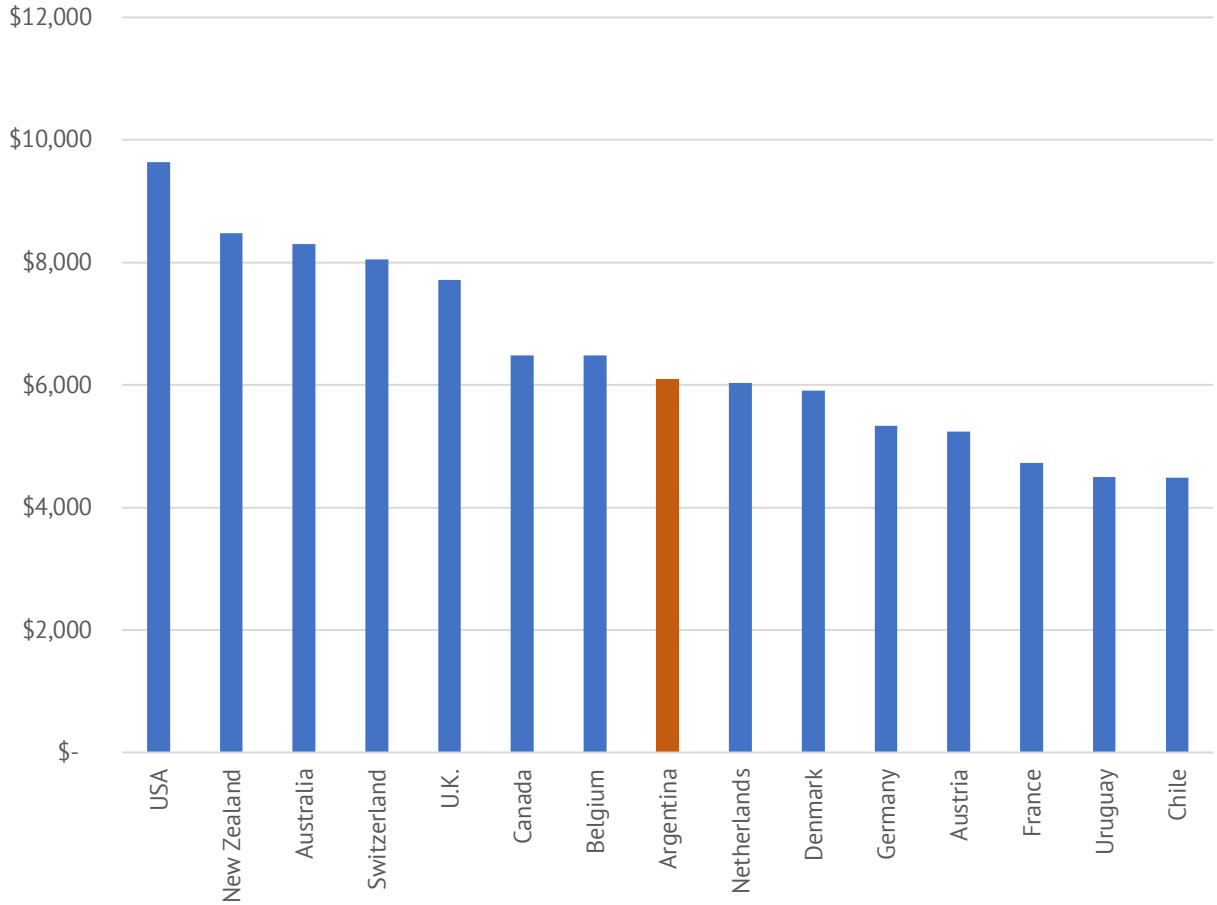
A century ago, Argentina was one of the richest nations in the world. It generated the eighth-highest income per capita in 1910, ranking ahead of advanced economies like France and Germany. Argentina's output per capita during this time was more than twice as great as Spain and three times greater than Portugal. It was, by far, the richest nation in Latin America and accounted for half of all Latin American economic output.[1]

This prosperity made Argentina a key destination for inward migration as many Europeans began to view Argentina as a land of opportunity. Argentina's population grew more than 150% between 1900 and 1930 as migrants from relatively poorer nations in Southern

[1] Maddison Project Database 2023, "Table A1: Historical GDP per Capita," University of Groningen Faculty of Economics and Business, https://www.rug.nl/ggdc/historicaldevelopment/maddison/releases/maddison-project-database-2023.

Europe—primarily Italy and Spain—flocked to Argentina.[2] Argentina became so prosperous in the early 20th century that it inspired a European colloquial expression, "rich as an Argentine."[3]

FIGURE 1: REAL, GDP PER CAPITA OF HIGHEST INCOME COUNTRIES, 1910 (EXPRESSED IN 2011 DOLLARS)

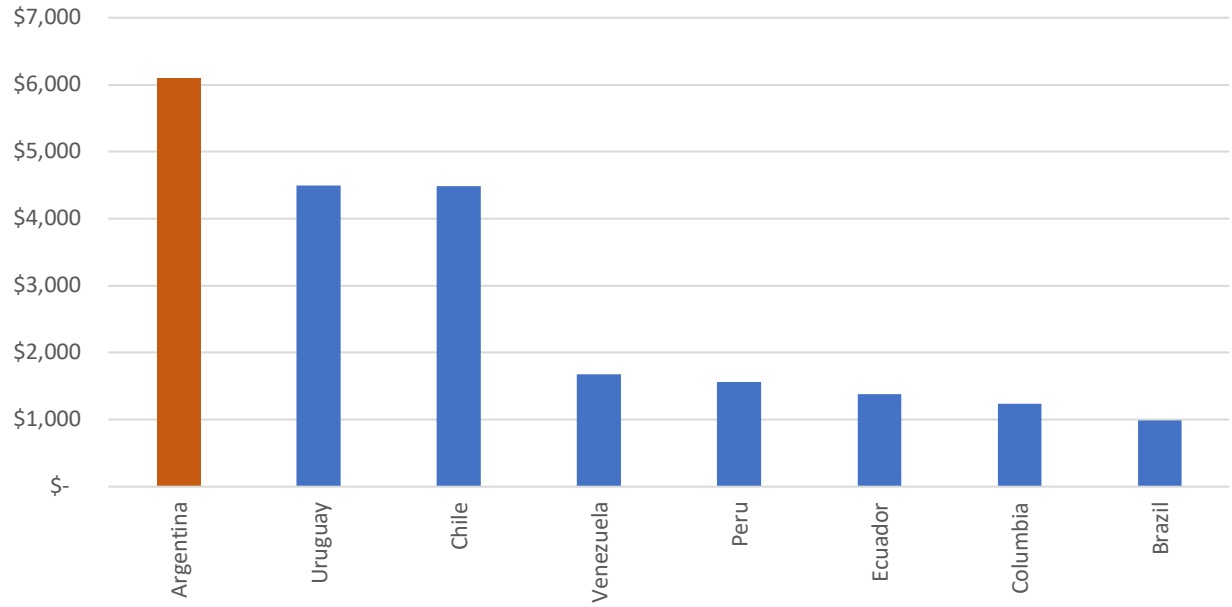


Source: Maddison Project database, 2023.

2 Julia Albarracin, "Founded with Immigration in Mind, Argentina Has Reconsidered Its Approach," Migration Policy Institute, October 2025, https://www.migrationpolicy.org/article/argentina-migration-history-profile.

3 Edward L. Glaeser et al., "Introduction to Argentine Exceptionalism," *Latin American Economic Review*, Volume 27, Issue 1 (2018). Available at: https://www.hbs.edu/ris/Publication%20Files/LAER%20Introduction%20to%20Argentine%20Exceptionalism_3c49e7ee-4f31-49a0-ba21-6e2b726cd7c5.pdf.

FIGURE 2: REAL GDP PER CAPITA, SOUTH AMERICAN COUNTRIES, 1910 (EXPRESSED IN 2011 DOLLARS)



Source: Maddison Project database, 2023.

The year 1930 marked the first of several military coup d'etats in modern Argentina, eventually resulting in the emergence of Juan Peron as president in 1943. Peron and his followers adopted a corporatist model of governance based loosely on the ideas of Benito Mussolini and heavily empowered unions to organize the labor force.[4] For decades thereafter, Argentina oscillated between military dictatorships and democratically elected governments, although government spending in excess of revenue remained a recurrent theme. During periods when Argentina's access to foreign credit was limited by capital controls or creditors' assessment of risk, these deficits were financed through the issuance of new currency. This approach resulted in prolonged and recurrent periods of high inflation, including three rounds of hyperinflation between 1975 and 1989.[5]

To head off this inflationary trend, the reformist administration of Carlos Menem embraced a currency board in 1991 that guaranteed convertibility of the Argentine peso (ARS) into

4 Ignacio Montes de Oca, *El Fascismo Argentino: La Matriz Autoritaria del Peronismo*, (Buenos Aires: Sudamericana, 2018).

5 Francisco J. Buera and Juan Pablo Nicolini, "The Monetary and Fiscal History of Argentina, 1960-2017" Federal Reserve Bank of Minneapolis, Staff Report 580, Revised December 2019, https://www.minneapolisfed.org/research/staff-reports/the-monetary-and-fiscal-history-of-argentina-1960-2017.

U.S. dollars at a rate of one to one. This change meant that between 1969 and 1991, 13 decimal places had been removed from the Argentine currency.[6] Yet, despite the new monetary control, the Menem administration continued to run fiscal deficits. At the same time, the government faced contingent liabilities as an implied guarantor of deposits at private financial institutions. In 2001, a large share of government debt obligations were scheduled to mature at the same time there was major run on the banks. The currency board held insufficient foreign reserves to make good on all these obligations and defend its convertibility promise. So, the government abandoned convertibility and ignited a period a massive economic disruption.[7] The instability ignited by this sudden change led to then-President Fernando de la Rua's resignation and the eventual election of Peronist Nestor Kirchner as president in 2003. Over the next two decades, growing government deficits were financed through the issuance of new currency, and inflation again became a defining feature of Argentine life.

By 2022, Argentina had become a global laggard in economic output. After adjusting for inflation, per capita GDP in Argentina grew three-fold between 1930-2022. But over the same period, per capita GDP in the United States grew more than six-fold—twice as fast. In Japan, that measure grew 16-fold over the same period and in South Korea it grew 37-fold, with both of those nations growing to become some of the richest in the world. While Argentina once boasted economic output per capita six times greater than neighboring Brazil, its output today is only 25% greater than Brazil and has fallen behind South American neighbors Chile and Uruguay in output per capita.[8] By the end of 2023, Argentina suffered from the world's highest rate of inflation, and more than half of all Argentines lived in poverty.[9]

By the end of 2023, Argentina suffered from the world's highest rate of inflation, and more than half of all Argentines lived in poverty.

6 Ibid.

7 Ibid.

8 Maddison Project Database, "Table A1: Historical GDP per Capita."

9 "Linea de pobreza," Instituto Nacional de Estadistica y Censos, Caudros Estadisticos, Pobreza e Indigencia, https://www.indec.gob.ar/indec/web/Nivel4-Tema-4-46-152 (10 Nov. 2025).

In November 2023, Argentine voters chose a radical change of direction in political leadership, electing libertarian economist Javier Milei as president. Milei pledged to drastically reduce government spending, eliminate the deficit, replace the Argentine peso with the U.S. dollar, and invoke a new era of growth and opportunity.

Milei acted decisively to reverse overspending and achieved a fiscal surplus of $1.76 trillion pesos (0.3% of GDP) during his first year in office.[10] In 2023, by contrast, the government had overspent revenues by $8.36 trillion pesos.[11] Consequent to this sudden balancing of the budget, the monthly rate of inflation also fell from 25.5% in December 2023 to 2.7% by December 2024. [12,13]

However, while this fiscal and monetary stabilization is a necessary condition to restore economic growth and opportunity in Argentina, on their own these measures may be insufficient. A key impediment to economic growth in Argentina is a tax system that is highly distortionary and inefficient. As a result, a substantial proportion of economic activity in Argentina has migrated to the illicit or "informal" market to avoid the taxes levied on legal or "registered" activity. This informality inhibits the type of capital formation and investment that could boost labor productivity and real gross output—the key drivers of real wage and income growth.

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10 "El Sector Publico Nacional registro superavit financiero annual por primera vex desde el 2010. El resultado fiscal del 2024 fue de $1.764.786 milliones (0.3% del PBI)," Ministerio de Economia, Jan. 17, 2025, https://www.argentina.gob.ar/noticias/el-sector-publico-nacional-registro-superavit-financiero-anual-por-primera-vez-desde-el (10 Nov. 2025).

11 "Economic and Financial Data for Argentina," Instituto Nacional de Estadistica y Censos, Ministerio de Economia, https://sdds.indec.gob.ar/nsdp.htm (10 Nov. 2025).

12 "Indice de Precios al Consumidor: Diciembre de 2023," Instituto Nacional de Estadistica y Censos, Ministerio de Economia, Informes Tecnicos, Vol. 8, No. 7, https://www.indec.gob.ar/uploads/informesdeprensa/ipc_01_24DBD5D8158C.pdf (10 Nov. 2025).

13 "Indice de Precios al Consumidor: Diciembre de 2024," Instituto Nacional de Estadistica y Censos, Ministerio de Economia, Informes Tecnicos, Vol. 9, No. 1, https://www.indec.gob.ar/uploads/informesdeprensa/ipc_01_2517A7124C09.pdf (10 Nov. 2025).

Argentina's recovery hinges on liberalizing and streamlining its tax regime. Monetary stabilization is only step one to rebuilding prosperity. Nearly half of Argentines work in the informal economy to avoid punitive and complex tax levies, limiting their ability to raise capital, scale operations, and improve labor productivity. The result is economic stagnation. The recommendations provided herein provide a roadmap for re-establishing growth and opportunity.

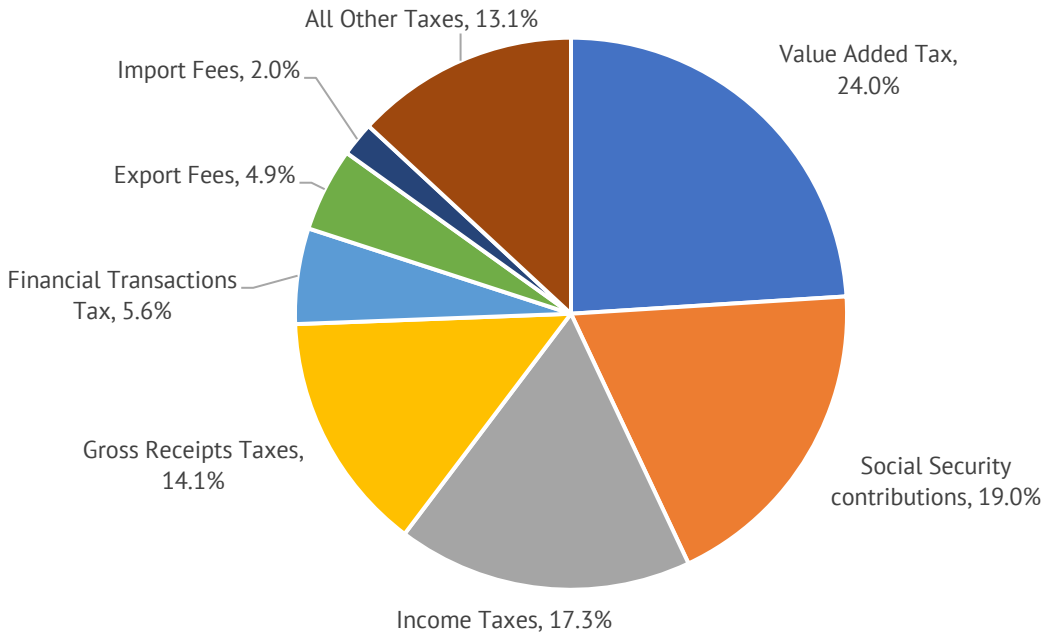
PART 2

THE ARGENTINE TAX STRUCTURE AND THE BURDEN OF INFORMALITY

In Argentina, there were 155 different forms of tax levies in effect in 2025, according to data compiled by the Instituto Argentino de Analysis Fiscal. Among these levies, 45 were assessed at the national level, 25 at the provincial level, and 85 at the municipal level. Despite the proliferation of levies, 87% of total tax revenues in 2025 resulted from just seven levies. Those include: a value-added tax, social security contributions, income taxes, gross receipts taxes, a tax on financial transactions, export fees, and import fees.[14] Figure 3 presents a breakdown of forecast 2025 tax collections in Argentina by type. Among these large taxes, all are assessed at the national level apart from the gross receipts tax, which is paid directly to provinces.

[14] "Vademecum Tributario Argentino 2025," Instituto Argentino de Analysis Fiscal, May 2025, https://www.iaraf.org/index.php/informes-economicos/carga-tributaria-provincial-y-municipal/637-informe-economico-2025-05-25 (10 March 2026).

FIGURE 3: COMPOSITION OF TAX COLLECTIONS IN ARGENTINA, 2025



Source: Instituto Argentino de Analysis Fiscal, 2025.

MAJOR TAX INSTRUMENTS

The eight major tax instruments, generating 87% of 2025 revenue, are:

- **Value-Added Tax (VAT)**: The VAT is a 21% levy on most goods and services, although essential goods like food and medicine are taxed at a lower 10.5% rate, while utilities are taxed at 27%. Firms calculate their VAT obligations by applying the tax rate to their monthly gross sales and then crediting the VAT that was paid on their purchases of materials from suppliers.[15]
- **Social Security Contributions**: Social security contributions are intended to fund public pensions and healthcare and are assessed on both firms and workers. Employers must contribute 24–26.4% of payroll (higher for larger firms) while employees have 17% of gross wages withheld. Any monthly income above ARS $2,841,525 is exempt from withholding by the employee, but the employer's liability

15 "Worldwide Tax Summaries: Argentina, Corporate – Other Taxes," Price Waterhouse Coopers, 2025, https://taxsummaries.pwc.com/argentina/corporate/other-taxes.

is not capped by an income limit.[16] Together, these contributions amount to a combined 41-43.4% tax on employee earnings.

- **Income Taxes**: Corporate income tax (CIT) and personal income tax (PIT) yielded 17.3% of 2025 revenue. The CIT is progressive: 25% for profits up to ARS $50 million; 30% for ARS $50–500 million; and 35% above ARS $500 million. PIT ranges from 5% to 35% for incomes over ARS $2 million.[17] Deductions and other allowances within the CIT are limited in Argentina, and the Organization for Economic Development and Cooperation reported in 2023 that Argentina had the highest effective corporate tax rate among the 90 wealthy and middle-income countries in its database.[18]
- **Gross Receipts Tax**: This tax is levied on business gross revenues at rates typically between 0% and 5%, depending on the type of economic activity in which the business is primarily engaged (e.g., 3% for retail, 5% for finance). Firms must pay these taxes regardless of profitability, meaning even firms operating at a financial loss could face substantial tax liabilities. Gross receipts tax revenues accrue to provincial governments.
- **Financial Transaction Tax:** This is a 0.6% levy on most bank transactions, including both debits and credits. Payroll transactions are exempt, but this tax clearly imposes transaction costs that discourage the use of electronic payments.
- **Export Fees:** Export duties vary depending on the type of product. In 2023, these duties ranged from 5–33% of sales invoices with the highest rate applying to soybeans.
- **Import Tariffs:** Likewise, import tariffs varied by product, but averaged around 14% in 2023. Argentina is party to a trade bloc of South American countries called the Southern Common Market (MERCOSUR for its Spanish initials) that imposes a common external tariff policy which limits Argentina's flexibility on tariff rates.

A major early achievement of the Milei administration was to allow the PAIS tax to expire. The PAIS tax was a 30% assessment on all purchases of foreign currency (e.g., dollars) as an

16 "Worldwide Tax Summaries: Argentina, Individual – Other Taxes," Price Waterhouse Coopers, 2025, https://taxsummaries.pwc.com/argentina/individual/other-taxes.

17 "Worldwide Tax Summaries: Argentina, Overview," Price Waterhouse Coopers, 2025, https://taxsummaries.pwc.com/argentina.

18 "Corporate Tax Statistics: 2024," Organization for Economic Development and Cooperation, Figure 4.1 (p. 37), https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/07/corporate-tax-statistics-2024_ce7e5701/9c27d6e8-en.pdf (3 November 2025).

emergency measure implemented by the administration of Alberto Fernandez to partially sterilize the rapid issuance of Argentina pesos. A robust network of informal currency markets emerged in part to avoid the PAIS tax and resulted in multiple commonly quoted trading prices of the dollar against the peso. During 2023, dollars generally sold within these markets at twice the official rate established by the government. The tax was originally authorized only for five years and the Milei administration allowed it to expire in December 2024.

2.1 COMBINED TAX BURDEN

The seven major tax instruments combine with the remaining 147 levies to form the total tax burden facing both individuals and businesses. While no person or business will pay all 155 levies over the course of a year, the average Argentine citizen could wind up paying nearly a third of them based on their consumption patterns. In November 2024, the Instituto Argentino de Analysis Fiscal modeled three consumer profiles to quantify the number of taxes that would fall on a person who earns income as an employee and uses their income to purchase goods and services. A person who pays for food, utilities, internet and a cell phone, and subscribes to a streaming service would pay at least 22 different types of taxes over the course of a year. A person who does all those things and also owns a house and car, pays insurance, buys gas, goes to a concert and restaurant, contributes towards savings and travels once for work and once for vacation will pay 48 different taxes over the course of a year. If these people use any tobacco product, they will each pay an additional three taxes, possibly reaching 51 in total.[19]

> *"A person who pays for food, utilities, internet and a cell phone, and subscribes to a streaming service would pay at least 22 different types of taxes over the course of a year."*

[19] "El Peso de los Tributos," Instituto Argentino de Analysis Fiscal, November 2024, https://www.iaraf.org/index.php/informes-economicos/carga-tributaria-provincial-y-municipal/602-informe-economico-2024-11-04 (12 Aug. 2025).

Similarly, Argentina's Congressional Budget Office in 2020 evaluated the number of taxes that Argentine businesses from different economic sectors and across geographic regions would pay in a given year. The analysis concluded that Argentine businesses could be assessed between 17 and 36 different taxes at the provincial and municipal levels, depending on their location and industry. Including national assessments, the total would range from 21 to 41 different taxes.[20]

From 2005 through 2019, the World Bank produced annual estimates of what percentage of profit the typical business would owe in taxes in each year. These estimates accounted for allowable deductions and exemptions under countries' different corporate income tax regimes and excluded taxes that the business simply collects from customers and remits to tax authorities, such as sales taxes and value-added taxes.[21]

These estimates consistently show that Argentina's corporate tax burden is among the highest in the world, ranking second in 2019 behind Comoros—a tiny island nation off the east coast of Africa. Argentina's combined tax burden on businesses was estimated at 106.3% of profits in 2019 and remained above 100% throughout the entire survey period. In other words, the tax burden faced by Argentine firms is consistently greater than earnings—meaning it's impossible to pay all the taxes. This is an ultimate deterrent for risk-taking, investment, and entrepreneurship since there are no possible returns to capital. Indeed, the only path to earnings for an Argentine business is to remain noncompliant with tax requirements.

> *It's notable that Argentina's combined tax burden on businesses has remained consistently higher than expressly socialist countries, including China and Venezuela.*

[20] "Carga Tributaria Sobre la Actividad Productiva: Principales Resultados," Oficina de Presupuesto del Congreso, December 2020, https://opc.gob.ar/estudios-especificos-tributarios/carga-tributaria-sobre-la-actividad-productiva-principales-resultados-2/ (12 Aug. 2025).

[21] "World Development Indicators: Total Tax and Contribution Rate (% of Profit)," World Bank, Updated June 2024, https://databank.worldbank.org/metadataglossary/world-development-indicators/series/IC.TAX.TOTL.CP.ZS.

It's notable that Argentina's combined tax burden on businesses has remained consistently higher than expressly socialist countries, including China and Venezuela.

2.2 CO-PARTICIPATION

A unique feature of the Argentine tax structure is that many tax instruments are collected at the national level and then distributed to provinces according to a predetermined revenue-sharing formula. This process, called "co-participation," includes nearly all national taxes, except for fees assessed on imports and exports. Under current law, 15% of tax proceeds are retained for payment of pension obligations or "other operational expenses" and $45.6 million pesos per month are distributed to the provinces. Of the remaining amount, the default rates of distribution allocate 42.34% of proceeds to the national treasury and 56.66% to the provinces, while the remaining 1% goes to the Ministry of the Interior for future support to the provinces.[22]

However, the rates of revenue-sharing vary significantly by tax instrument, and sometimes include distributions to the City of Buenos Aires, a national library fund, or the national agency administering social security benefits, among others. For instance, income taxes paid to the national government are distributed (following the initial retainer for pensions and payments to provinces) to: the national social security administration (20%); to the Province of Buenos Aires (10%); to provinces other than Buenos Aires (4%); and to the Ministry of the Interior for future support to the provinces (2%). The remaining 64% of income tax revenues are distributed according to the default rate of co-participation, with 42.34% going to the national treasury and 56.66% going to the provinces.[23] These special distributions by tax levy make it difficult to state with certainty the total allocations that will accrue to particular governmental entities in a given year, but Figure 4 shows the broad allocation of tax proceeds in 2025. It shows slightly more than half of all tax proceeds are used to fund the national government and to pay pension and entitlement programs for which the national government has assumed liability. More than one-third of revenues accrue to provinces and the remainder accrues to municipalities.[24]

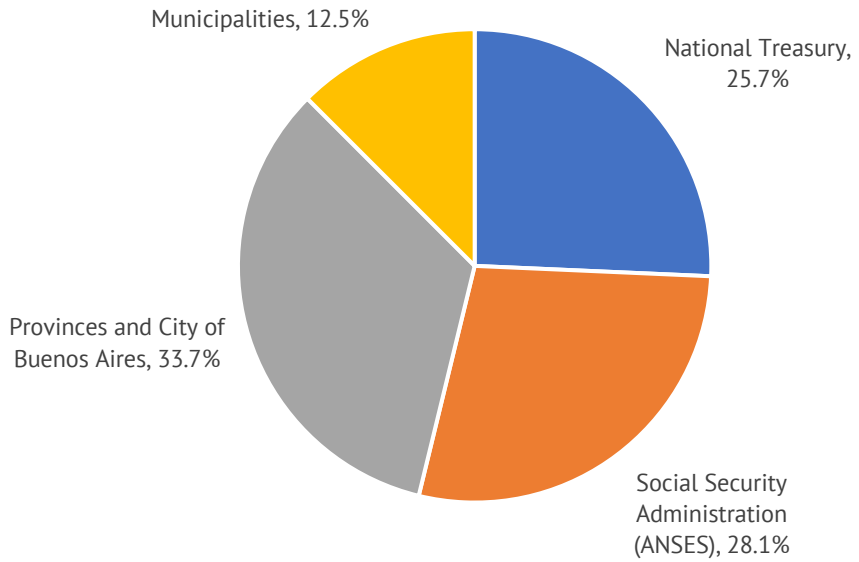
22 Carlos Daniel Snopek, Dr. Adrian Pagan, and Lic. Juan Carlos Tomasetti, "Coparticipacion Federal de Impuestos," Analysis por Diputados de la Nacion Argentina, Congreso de la Nacion Argentina, https://www2.hcdn.gob.ar/secparl/dgral_info_parlamentaria/dip/glosario/C/coparticipacion.html (5 Feb. 2025).

23 Ibid.

24 Instituto Argentino de Analysis Fiscal, "Vademecum Tributario Argentino 2024."

Co-participation offers potential advantages and disadvantages. On one hand, the centralization of tax administration at the national level could make both tax collection and compliance more efficient as the provinces needn't maintain elaborate tax agencies. On the other hand, automatic revenue-sharing provides no incentive for the provinces to adopt policies that encourage economic growth. The best-governed provinces that encourage wealth creation effectively subsidize the worst-governed provinces by exporting potential tax revenues through the co-participation scheme to provinces that penalize wealth creation.[25] Individuals and firms in high-tax provinces may be aware their contributions are redistributed to other regions, further encouraging informality as a means of retaining income.

FIGURE 4: DISTRIBUTION OF TAX REVENUES IN ARGENTINA, 2025



Source: Instituto Argentino de Analysis Fiscal, 2025.

2.3 INFORMALITY AND INDEC SURVEY DATA

Argentina's burdensome and complex tax structure has encouraged both workers and firms to operate clandestinely to avoid these taxes. Firms often receive cash payments for goods

[25] Jose Luis Espert, *La Argentina Deseada – Como Lograr el Desarrollo del Pais que Merecemos*, (Cuidad Autonomo de Buenos Aires: Sudamericana, 2023), First Edition, 60-64.

and services and pay employees and vendors in cash under the table. This "informal" economy accounts for a very high share of economic activity in Argentina.

> *For the second quarter of 2025, the EPH reported that 44.1% of Argentina's employed workforce—approximately 5.7 million workers—worked in informal arrangements.*

The National Institute of Statistics and Censuses (INDEC) provides key insights into the level of informality in Argentina through its Permanent Household Survey (EPH), which is conducted every quarter. For the second quarter of 2025, the EPH reported that 44.1% of Argentina's employed workforce—approximately 5.7 million workers—worked in informal arrangements. Roughly half of these informal workers were employed within completely informal enterprises, while the remainder were either paid on an unregistered basis by formal companies or were unregistered domestic workers. Women (43.4%) were slightly more likely than men (40.9%) to be employed in informal arrangements, while informality was also higher among workers under 30 years of age (58.7%) and 65 or older (49.5%) than among workers aged 30 to 64 (36.5%). Informal employment was especially concentrated in certain industries, including domestic services (79.2%), construction (75.5%), and retail trade (52.4%).[26]

This survey also indicates that many informal workers are paid regular salaries rather than hourly wages. Among salaried workers nationwide, 35.8% were informal. Roughly one in six of these salaried informal workers still chose to pay income taxes and remit social security withholdings, usually claiming to be independent contractors.[27] However, social security contributions and taxes are not remitted for a clear majority of informal workers.

Argentina's perverse social security system encourages this behavior by allowing non-contributors to access non-contributory public pension benefits, undermining incentives for compliance (see Part 4). Non-contributory pensions are funded by general revenue rather

[26] "Encuesta Permanente de Hogares," Microdatos (2025 Trimestre 2), Instituto Nacional de Estadistica y Censos,. Available at: https://www.indec.gob.ar/indec/web/Institucional-Indec-BasesDeDatos.

[27] Ibid.

than contributions, creating a moral hazard where workers and firms opt out of contributions knowing benefits will still be accessible.

This degree of informality reflects rational responses to the tax system's high costs. As the World Bank estimates, the combined tax burden facing the average Argentine firm that operates legally is greater than earnings. Meanwhile, workers would need to forfeit 17% of wages for their portion of payroll taxes and up to 35% PIT to work in the formal sector. Although informal work often pays less in gross, some workers may conclude they can retain more income by working informally and avoiding these levies.

> *Informality is not a cultural quirk but a calculated response to a system that rewards evasion over compliance.*

The result is a limited tax base and few prospects for sustained economic growth. Informality is not a cultural quirk but a calculated response to a system that rewards evasion over compliance. To reverse this trend, Argentina must simplify its tax structure, eliminate cascading levies, and make rates less punitive. By reducing the costs of formal participation, policymakers can encourage individuals and firms to re-enter the legal econom—expanding the tax base and fostering capital formation, investment, and growth.

PART 3

COST OF LABOR MANDATES

Argentina's tax system creates a perverse set of signals that discourage formal investment, entrepreneurship, and employment in the formal sector. Informality is not only attributable to the tax system, however, because Argentina also imposes some of the costliest labor mandates in Latin America. These mandates inflate hiring costs and push both firms and workers toward the informal economy where dynamism is greater. High payroll taxes, mandatory bonuses, rigid severance rules, and union-driven wage hikes make formal employment prohibitively expensive, while workers, acting rationally, often accept unreported wages to maximize take-home pay. The labor modernization law, signed by Milei in March 2026, will attenuate the cost of these labor mandates, but they remain significant barriers to formal employment.

3.1 LABOR COST COMPONENTS

Argentina's labor laws impose a complex array of mandates that significantly increase the cost of hiring legally. Employers face the following requirements, each contributing to a labor-cost wedge that discourages formal employment:

- **Minimum Wage:** The minimum wage, set at ARS $352,400 monthly in March 2026 (approximately $251.82 USD), is adjusted upward frequently by the National Council for Employment, Productivity, and Minimum Wage. These adjustments often lag inflation,

which reached 211% in 2023, eroding real wages and creating uncertainty for employers planning labor costs.[28] Despite its erosion, the minimum wage serves as a key reference point in collective bargaining agreements, automatically driving wage adjustments in unionized sectors whenever the minimum wage is raised. The effect of minimum wage changes on labor costs across the economy is pervasive because so much of the formal labor force is unionized. The International Labour Organization estimated in 2016 that 83% of all formal workers in Argentina were subject to a collective bargaining agreement.[29]

- **Social Security Contributions:** Employers are obliged to contribute an amount equal to 24–26.4% of employee earnings, on an uncapped basis, toward public pensions, healthcare, and social services. The rate varies by firm size and sector, with larger firms and high-risk industries paying the highest rates. Employees contribute 17% of their first ARS $3,731,212 in monthly salary as of December 2025 (roughly $2,674 USD)—a figure that's irregularly adjusted as inflation increases—resulting in a total labor tax burden of 41–43.4%.

- **Mandatory Bonuses:** Employers must offer employees a mandatory annual bonus equal to one month's pay, known as the *aguinaldo*, split into two payments in June and December. The *aguinaldo* increases annual labor costs by 8.33%. The *aguinaldo* is mandatory for all formal workers, regardless of firm profitability.[30]

- **Severance Payments:** Under the Argentine Labor Code, employees dismissed without cause are entitled to at least one month's salary per year of service as a severance benefit. This amount is doubled for workers over the age of 45 who have more than 20 years of service with the same employer. [31] Provisions of the new labor modernization law limit the calculation of this benefit to base pay, whereas in the past this calculation may have included the costs of *aguinaldo* and other fringe benefits. Now, for example, a

28 "Resoluciones del Salario Minimo, Vital y Movil," Argentina Ministerio de Capital Humano, El Consejo Nacional del Empleo, la Productividad y el Salario Minimo, Vital y Movil, https://www.argentina.gob.ar/trabajo/consejodelsalario.

29 Fabio Bertanou and Luis Casanova, "Labour Institutions and Labour Market Performance in Argentina," International Labour Organization, 2016, 47, https://www.ilo.org/sites/default/files/wcmsp5/groups/public/@americas/@ro-lima/@ilo-buenos_aires/documents/publication/wcms_472757.pdf.

30 Congreso de la Nacion Argentina, Ley N. 23.041, https://www.argentina.gob.ar/normativa/nacional/ley-23041-28165/texto.

31 Congreso de la Nacion Argentina, Ley N. 20.744, https://www.argentina.gob.ar/normativa/nacional/ley-20744-25552/actualizacion.

worker earning ARS $2 million per month in base pay with 10 years of service would be entitled to ARS $20 million upon dismissal.

This liability requires significant cash planning on behalf of firms and discourages hiring because of the prospectively large long-term liabilities that could emerge and limit a firm's financial flexibility in the face of an economic downturn. Courts have frozen the assets of small businesses because the cost of these severance payments exceeded their income and they had no wherewithal to pay, pushing struggling firms toward bankruptcy.[32] The severance rule leads firms to prefer temporary or informal employment arrangements to avoid such problems.

Fortunately, another provision of the new labor modernization law aims to facilitate this cash planning by allowing business to opt into a severance fund toward which they make monthly contributions to cover these costs.

Even in spite of recent changes, the cumulative effect of these labor requirements is substantial. For a worker with a gross salary of ARS $2 million per month (roughly $1,433 USD), the employer's total cost is approximately ARS $2,694,600 (roughly $1,931 USD), including social security contributions (ARS $480,000–528,000) and the prorated *aguinaldo* (ARS $166,600). The employer also must accrue assets to offset the potential liability arising from future layoffs if there is a need to downsize the labor force. The worker, by contrast has 17% gross pay withheld as payroll taxes (ARS $340,000) and must pay potential income taxes (up to 35%, or ARS $700,000 for high earners), resulting in net pay as low as ARS $960,000 (roughly $688 USD). This 34.7% cost premium for employers and tax wedge for workers create a powerful incentive for both parties to operate informally through unreported cash payments to avoid these burdens.

A 2017 comparison of the cost of labor mandates published by the Inter-American Development Bank concludes that Argentina imposes the largest nonwage costs of compensation in Latin America. Including employer obligations for social security contributions, mandatory bonuses (*aguinaldo)*, requirements for paid time off, and severance payments, the authors estimate that the non-wage cost of compensation in Argentina is 72% of wages for the average worker while the Latin American average is 49.5%. Even in expressly socialist Venezuela, that figure is 43%. Separately, the authors incorporate

[32] "Dos Empresarios PYME Quedaron al Borde de la Quiebra por un Juicio Laboral: 'Te Dejan Fuera del Sistema, Te Destruyen," Infobae, Dec. 15, 2025, https://www.infobae.com/economia/2025/12/15/dos-empresarios-pyme-quedaron-al-borde-de-la-quiebra-por-un-juicio-laboral-te-dejan-fuera-del-sistema-te-destruyen/#Echobox=1765808474.

minimum wage requirements into their analysis to determine the average cost of employing a worker formally versus the average earnings of an informal worker. They conclude that it is more than twice as costly for an employer to hire a worker formally in Argentina than to hire an informal worker.[33]

> *A 2017 comparison of the cost of labor mandates published by the Inter-American Development Bank concludes that Argentina imposes the largest nonwage costs of compensation in Latin America.*

3.2 PENSION ACCESS AND INFORMALITY INCENTIVES

Not only do employers face incentives to hire informally to reduce labor costs, but workers also face incentives for seeking informal employment. Whereas formal employees would have social security contributions (along with income taxes and union dues) deducted from their gross pay, a key supposed benefit of these contributions is they allow workers to access health care and a pension in old age. Over the past 20 years, however, the value of this supposed benefit has eroded as the contribution requirements necessary to gain a pension benefit have been relaxed.

In 2004, the populist government of President Nestor Kirchner introduced a moratorium program within the pension system that allowed non-contributors to access public pensions in exchange for a deduction from their pension benefit that would be considered a contribution in arrears. In other words, workers who had not made contributions for 30 years, as required under the pension reform of 1993, would now gain access to a pension benefit even if it was smaller than what they might have qualified for with sufficient contributions.[34]

[33] Veronica Alaimo et al., "Medicion del Costo del Trabajo Asalariado en America Latina y el Caribe," Banco Interamericano de Desarollo, Division de Mercados Laborales, Nota Tecnica No. IDB-TN-1291, June 2017, https://publications.iadb.org/es/publicacion/17272/medicion-del-costo-del-trabajo-asalariado-en-america-latina-y-el-caribe.

[34] Congreso de la Nacion Argentina, Ley. 25.994.

A short time later, in 2008, the second Kirchner administration nationalized private retirement accounts holding USD $30 billion in assets and integrated everyone into a national pension program that included both moratoria beneficiaries and traditional pension recipients. Throughout the Kirchner administrations, new moratoria programs continued to expand the population of non-contributory participants,[35] while the retirement system slowly depleted the assets seized from private retirement accounts. A minor reform implemented under the Macri government in 2016 placed income limits on pension benefits to restrict high-income households from participating so the government could slow its pension expense.[36]

A third group of pension beneficiaries that expanded dramatically throughout the Kirchner administrations was non-contributors. Non-contributors are different from moratoria beneficiaries because these beneficiaries are not required to regularize insufficient past contributions by making contributions in arrears. Their pensions are fully intended to be funded through general tax revenues. This population includes beneficiaries over the age of 70, the disabled, and mothers of seven or more children.[37]

By September 2024, only 2.2 million out of 9.2 million beneficiaries (24.2%) had accessed pension benefits by making the required 30 years of contributions. Another 3.9 million beneficiaries (42.3%) gained pension access through a moratoria program while an additional 1.7 million beneficiaries (19.9%) had not made any contributions.[38]

> *In effect, Argentinians who work informally and do not have pension contributions withheld on their behalf can still gain access to pension benefits, eroding a key supposed advantage of formal employment.*

35 Congreso de la Nacion Argentina, Ley 26.970.

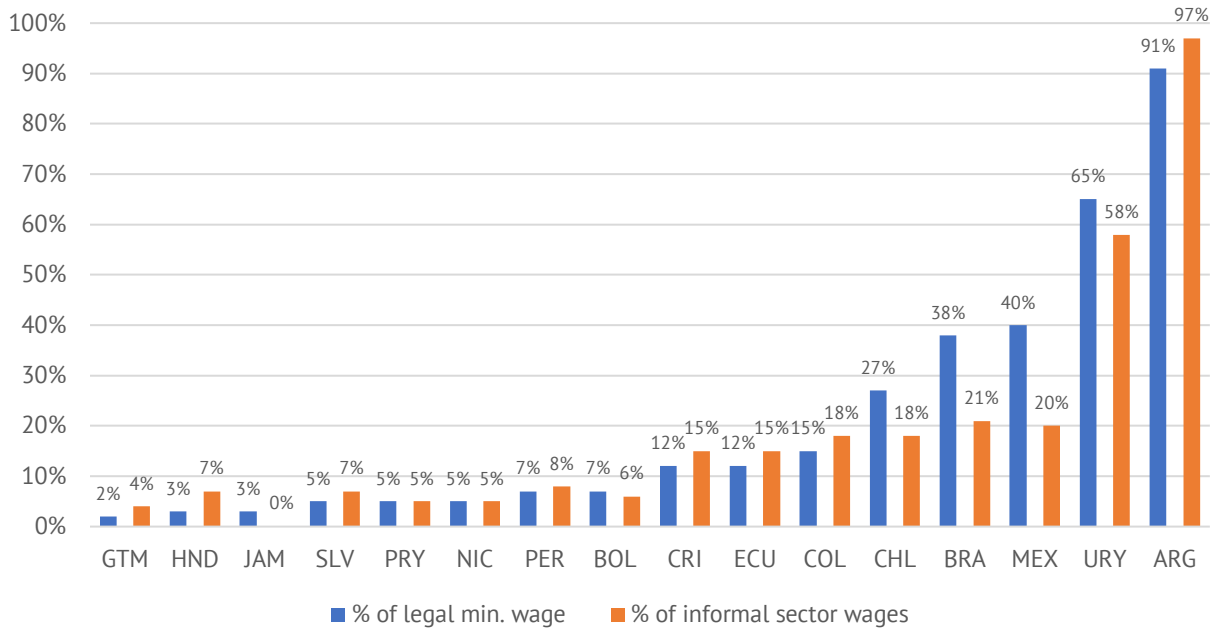
36 Congreso de la Nacion Argentina, Ley 27.260.

37 Congreso de la Nacion Argentina, Ley 13.478.

38 "Informe de Estadisticas de la Seguridad Social," Administration Nacional de la Securidad Social, Tercero Trimestre 2024, https://www.anses.gob.ar/sites/default/files/inline-files/Informe%20de%20Estadisticas%20de%20la%20SS%20III%20Trim%202024_0.pdf.

In effect, Argentinians who work informally and do not have pension contributions withheld on their behalf can still gain access to pension benefits, eroding a key supposed advantage of formal employment. An analysis by the Inter-American Development Bank identifies Argentina as the Latin American country that most heavily subsidizes informality through this mechanism. Mandatory contributions by formal workers and their employers toward public pension and health care systems are highest in Argentina while, at the same time, Argentina far outspends all other Latin American countries on pension benefits for non-contributors. In 2014, Argentina spent 4.2% of its GDP on non-contributory pension plans while Paraguay came in second at 2.3% of GDP. In fact, the authors estimate that public spending on non-contributory pensions per informal worker in Argentina is roughly equal to the total wages earned by that worker. Figure 5 reproduces this data in comparison to other Latin American countries.[39]

FIGURE 5: NON-CONTIBUTORY PENSION SPENDING PER INFORMAL WORKER (2014)



Source: Veronica Alaimo et al., "Subsidizing Informality? Non-Contributory Public Spending in Latin America and the Caribbean," Inter-American Development Bank, September 2018.

[39] Veronica Alaimo et al., "Subsidizing Informality? Non-Contributory Public Spending in Latin America and the Caribbean," Inter-American Development Bank, Labor Markets Division, Technical Note No. IDB-TN-1540, September 2018, https://publications.iadb.org/en/subsidizing-informality-non-contributory-public-spending-latin-america-and-caribbean

Argentina is a clear outlier among Latin American countries where workers can expect significant public pension benefits despite not making contributions. Meanwhile, legal workers and their employers confront high payroll taxes to finance these benefits as well as other costly labor mandates such as guaranteed severance payments and *aguinaldo*. Given these incentives, it may be unsurprising that many workers and employers choose to interact on an unregistered and informal basis.

PART 4

INFORMALITY CREATES INEFFICIENCIES AND LIMITS GROWTH

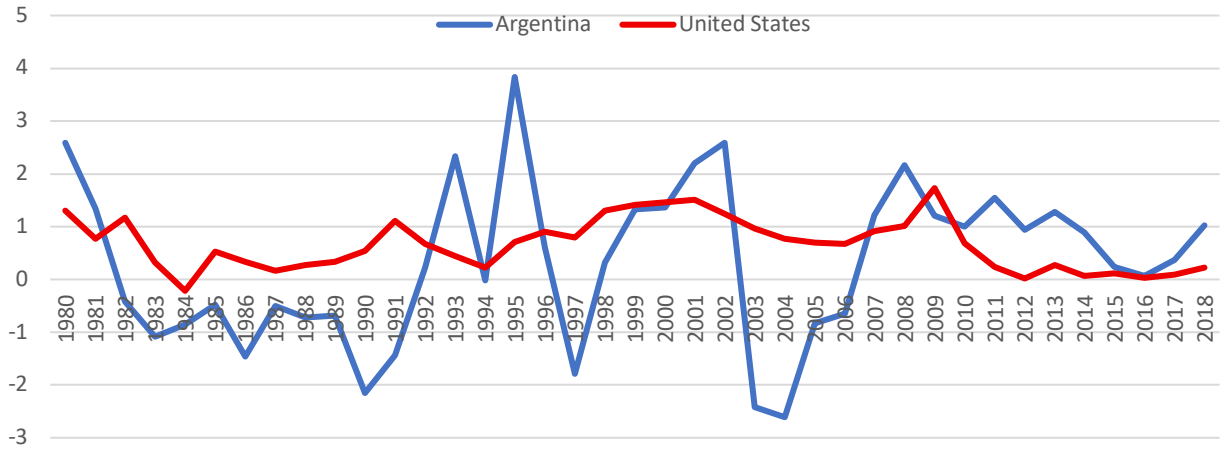
Parts 2 and 3 demonstrated that Argentina's tax structure and labor policies penalize formality and that both workers and employers can avoid these costs without sacrificing access to public pension benefits by developing informal work relationships and business structures. However, informality constrains the legal claims of market participants, leading to a deterioration of capital market efficiency and impairing long-term growth.

Widespread informality impairs economic growth in a number of ways. First, informality restricts access to capital. Lenders or equity investors would have limited legal protection for claims against a business that operates outside the law. Even registered firms that agree to informal work arrangements may face reduced access to capital because banks often require documented financial records and tax compliance for loan eligibility. As a result, entrepreneurs in the informal sector must rely on personal savings or high-interest informal lenders, limiting investment in modern equipment or technology.

The World Bank's Global Productivity Database tracks the extent to which capital market deepening contributes to economic growth. As shown in Figure 6, capital deepening generally contributes toward sustained growth in a country with low rates of informality

like the USA, while a lack of capital deepening has resulted in prolonged periods of economic contraction in Argentina.[40]

FIGURE 6: CAPITAL DEEPENING, CONTRIBUTION TO ECONOMIC GROWTH, ARGENTINA VS USA, 1980-2018



Source: World Bank.

Second, informal workers tend to receive limited employer-sponsored training and skills development. Formal firms invest in employee training to enhance productivity, but informal employers, constrained by cash-based operations and tax evasion, may lack the resources or incentive to do so. A 2024 analysis by the Organization for Economic Cooperation and Development (OECD) shows that nearly all employer-sponsored vocational training across a range of surveyed countries with high rates of informality were offered by registered firms to formal employees. Informal workers generally do not benefit from vocational training programs.[41]

Third, informality exacerbates skill mismatches leading to a misallocation of labor across the economy. Formal labor markets tend to develop hiring and application processes such as internet job boards that efficiently match workers to jobs based on their skills. However, informal hiring relies on personal networks of trust to avoid enforcement and can result in workers filling roles below their potential or that do not align with their comparative

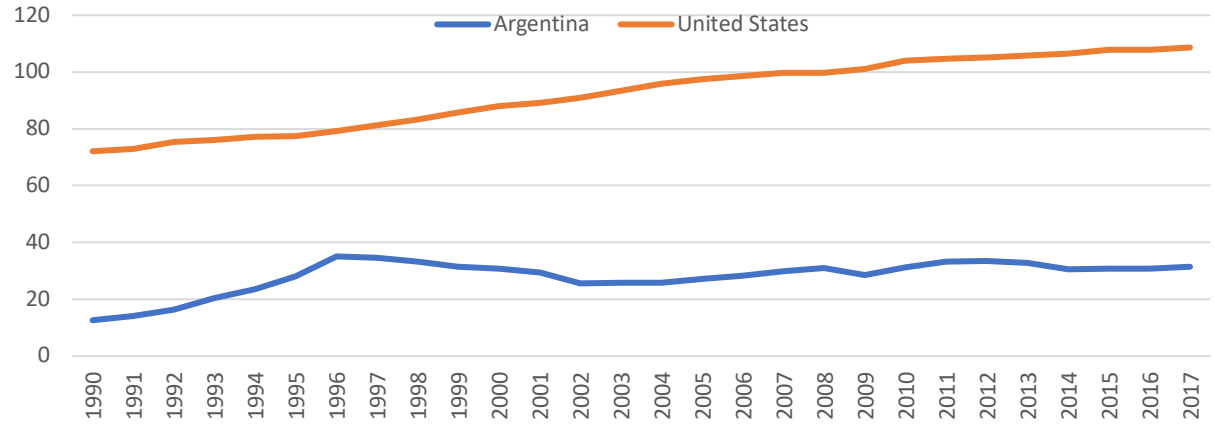
40 "Global Productivity: A Cross-County Database of Productivity," World Bank dataset, https://data360.worldbank.org/en/dataset/WB_ASPD.

41 "Breaking the Vicious Circles of Informal Employment and Low-Paying Work," OECD, (Paris: OECD Publishing, 2024), https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/01/breaking-the-vicious-circles-of-informal-employment-and-low-paying-work_040b6f24/f95c5a74-en.pdf.

advantage. A skilled technician working as an informal street vendor, for instance, represents a loss of productive capacity. Some studies estimate that labor misallocation in informal economies reduces the productivity of economic resources substantially, perhaps accounting for a 10-15% reduction in output.[42] The World Bank's Global Productivity Database shows that labor productivity in Argentina peaked in 1996 and has remained below that level throughout the remainder of the data series while labor productivity in the United States grew 37.1% over the same period.[43] This disparity reflects the limited skills development and labor misallocation inherent to largely informal economies.

Some studies estimate that labor misallocation in informal economies reduces the productivity of economic resources substantially, perhaps accounting for a 10-15% reduction in output.

FIGURE 7: LABOR PRODUCTIVITY AT PPP EXCHANGE RATE, ARGENTINA VS USA, 1990 -2017



Source: World Bank.

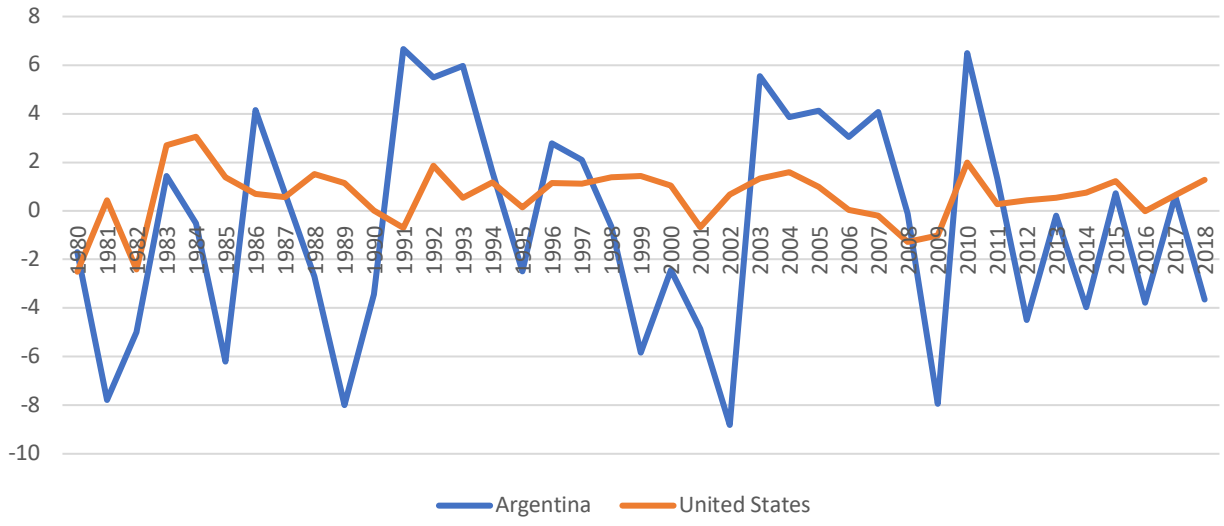
42 Chang-Tai Hsieh and Peter J. Klenow, "Misallocation and Manufacturing TFP in China and India," *Quarterly Journal of Economics*, Vol. 124, Iss. 4 (November 2009), pp. 1403-1448. Available at: https://academic.oup.com/qje/article-abstract/124/4/1403/1917179.

43 "Global Productivity: A Cross-County Database of Productivity," World Bank dataset, https://data360.worldbank.org/en/dataset/WB_ASPD.

Finally, informality stifles innovation. Formal firms invest in research and development (R&D) to create new products or processes that can be protected with recognized intellectual property rights. Informal firms, however, have no mechanism to protect intellectual property and must focus on avoiding detection, so they allocate minimal resources toward innovation. Argentina's R&D spending was 0.55% of GDP in 2022, one-fifth of the world average according to World Bank data.[44]

These inefficiencies of informal markets—capital constraints, limited training, skill mismatches, and stifled innovation—suppress the productivity of economic resources and are a drag on growth. Figure 8 shows the combined productivity of all economic resources, called Total Factor Productivity (TFP), has grown erratically and experienced sharp declines according to World Bank data, while TFP in the United States has generally grown at a steady rate.[45] Total factor productivity captures the efficiency of an economy's inputs—labor and capital—in generating output. TFP reflects technological progress, organizational efficiency, and resource allocation, but Argentina's high degree of informality undermines these drivers.

FIGURE 8: TOTAL FACTOR PRODUCTIVITY ANNUAL GROWTH RATE, ARGENTINA VS USA, 1980 -2017



Source: World Bank.

[44] "Research and Development Expenditure, 2024," World Bank dataset, https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS.

[45] "Global Productivity: A Cross-County Database of Productivity," World Bank dataset, https://data360.worldbank.org/en/dataset/WB_ASPD.

In other words, pervasive informality prevents economic resources from being deployed productively and impedes economic growth. Individuals, as a result, face fewer opportunities to improve their standard of living. Argentina must move toward policies that encourage formalization to deliver better opportunities for residents, and the current tax system is a key impediment to formalization.

PART 5

THE LAFFER CURVE AS AN ANALYTICAL FRAMEWORK FOR FISCAL POLICY IN ARGENTINA

The Laffer Curve is a powerful yet intuitive economic concept that illustrates how individuals respond to taxation. Named after economist Arthur Laffer, the curve shows that tax revenue depends not only on the tax rate but also on the size of the taxable base—economic activity that generates income, profits, or consumption. At a 0% tax rate, governments will collect no revenue because there is no levy. At a 100% rate, revenue also collapses because individuals and businesses stop working, investing, or spending, knowing they will have no claim to the proceeds of their efforts. Between these extremes lies an optimal rate that maximizes revenue by balancing the tax burden with incentives for economic activity. If rates grow beyond the revenue-maximizing level, people will rationally reduce their taxable activities—through evasion, informality, or reduced effort—shrinking the tax base and, paradoxically, government revenue.

In Argentina, excessive taxes incentivize workers and firms to hide their economic activity, as the cost of compliance can outweigh the benefits of formality. The World Bank's estimate of a 106% cumulative tax rate on corporate earnings, for example, pushes the

implications of the Laffer Curve to an extreme. Firms that resort to full or partial informality in response are responding rationally to a tax system that punishes productivity and rewards subterfuge.

The Laffer Curve's insight is that lower, simpler rates can expand the tax base by making formality more attractive, fostering economic growth and even boosting tax revenues. The Laffer Curve doesn't necessarily justify tax cuts for their own sake, but it provides a warning against tax policies that discourage the very activity governments seek to tax.

5.1 DEVELOPMENT OF THE LAFFER CURVE

The Laffer Curve has sparked decades of scholarly debate, with seminal works shaping its application to policy. Laffer first popularized the concept in the 1970s, reportedly sketching it on a cocktail napkin to illustrate the limits of taxation.[46] His core argument was that tax rates affect economic behavior, and excessively high rates reduce revenue by discouraging work and investment. Laffer drew on historical examples in the United States, like the Kennedy tax cuts of the 1960s, which lowered rates and spurred growth, leading to greater government revenues.

The Laffer Curve has sparked decades of scholarly debate, with seminal works shaping its application to policy.

Jude Wanniski, for whom Laffer sketched the illustrative curve, formalized the idea in a 1978 article, arguing that tax policy must consider supply-side effects—how taxes influence production and investment.[47] Wanniski's work popularized the curve among policymakers, laying the groundwork for Ronald Reagan's tax reforms in the United States, though critics noted the curve's exact shape varies by time and place, making precise predictions tricky.

46 Arthur Laffer, "The Laffer Curve: Past, Present, and Future," Heritage Foundation, June 2004, https://www.heritage.org/taxes/report/the-laffer-curve-past-present-and-future.

47 Jude Wanniski, "Taxes, Revenues, and the `Laffer Curve,'" *The Public Interest*, Winter 1978, https://www.nationalaffairs.com/public_interest.

Subsequent authors have refined the Laffer Curve's applicability. Don Fullerton, for instance, analyzed the curve's theoretical underpinnings, emphasizing that the revenue-maximizing rate depends on how sensitive taxpayers are to rate changes—a concept known as tax evasion elasticity.[48] Critics have cautioned that the Laffer Curve oversimplifies tax dynamics, as administrative costs and the extent of enforcement are also influential determinants of revenue.[49]

As Fullerton indicates, empirical measurement of the Laffer Curve's effect hinges on the calculation of tax evasion elasticity, or the proclivity of taxpayers to reduce taxable income in response to an increase in tax rates. Taxpayers might reduce taxable income either by refusing to participate in the taxed activity or by simply not reporting that activity to tax authorities. A tax evasion elasticity with an absolute value greater than -1.0 signals that taxable income declines faster than any increase in tax rates and that the government is beyond the revenue-maximizing level of taxation.

“Taxpayers might reduce taxable income either by refusing to participate in the taxed activity or by simply not reporting that activity to tax authorities.”

5.2 KEY LITERATURE RELATED TO THE LAFFER CURVE IN ARGENTINA

Measuring tax evasion and informality is a notoriously difficult task because tax evasion is a crime. Official economic statistics do not include activities that go unreported and individuals who could bear criminal responsibility for their activity have a clear incentive not to report that activity. Researchers therefore tend to rely on proxy measures to estimate rates of tax evasion and informality.

48 Don Fullerton, “On the Possibility of an Inverse Relationship Between Tax Rates and Government Revenues,” *Journal of Public Economics*, Vol. 19, Iss. 1, (October 1982), pp. 3-22. Available at: https://www.sciencedirect.com/science/article/abs/pii/0047272782900494.

49 Joel Slemrod and Shlomo Yitzhaki, “Tax Avoidance, Evasion, and Administration,” *Handbook of Public Economics,* Volume 3 (2002), 1423 – 1470. Available at: https://www.sciencedirect.com/science/article/abs/pii/S157344200280026X.

Carolina Ines Pan (2019) analyzed whether variation in provincial gross receipts taxes between the City of Buenos Aires and the surrounding province encourage self-employed workers to live in the province to lessen their tax burden. She examined survey data of nearly 275,000 self-employed workers as part of the EPH and found that self-employed professionals were significantly more likely to live in the province and travel each day to the city to work with clients so they could reduce their tax burden. These results were robust despite control variables showing highly educated professionals prefer not to commute long distances for work.[50]

> *Chileans indicate higher levels of social trust, lower levels of dissatisfaction with government services, and greater perceptions of social sanctions and greater feelings of guilt for cheating on taxes than Argentines.*

Florencia Veronica Pedroni et al. (2022) evaluated the extent to which registered firms in Argentina underreport sales to tax authorities. Their dependent variable is a response given by a sampling of registered firms to the World Bank Enterprise Survey in which survey participants indicate whether they believe they are competing against other registered businesses that sell goods without maintaining records. As the authors state, "The respondent's answer is assumed to be informed by its own experiences, and is thus supposed to be a reasonable proxy for its own behavior." They then evaluate a number of possible explanatory factors that may contribute to underreporting and find that some factors may be more significant than the tax burden alone, including: a regulatory environment that already dissuades formality; detection probability; whether the firm competes in a sector where informality is common; political instability; and public corruption. This paper focuses specifically on Argentine firms but addresses only one component of informality—namely, revenue underreporting by firms that are otherwise

[50] Carolina Ines Pan, "Tax Avoidance in Buenos Aires: The Case of Ingresos Brutos," Harvard University Center for International Development, Working Paper No. 117, https://dash.harvard.edu/server/api/core/bitstreams/06170b83-8280-4afa-b370-de3ff47480d7/content.

legal. Firms and individuals that operate completely unregistered are not reflected in these results.[51]

Marcelo Bergman (2009) conducted a series of surveys of taxpayers and tax officials in Argentina and Chile in search of factors that would explain the wide divergence in rates of tax compliance between these two demographically similar countries. He found that Chileans indicate higher levels of social trust, lower levels of dissatisfaction with government services, and greater perceptions of social sanctions and greater feelings of guilt for cheating on taxes than Argentines. He concludes these underlying social attitudes may be even more significant than tax rates or enforcement mechanisms in explaining high levels of tax compliance.[52]

Although Pedroni et al. and Bergman both point to survey data that nominally indicate other factors may be more significant than the overall tax burden in driving economic activity underground, these other factors may themselves be symptoms of an excessive tax burden. For instance, tax systems that are widely viewed as efficient, non-punitive, and non-distortionary are likely to foster social trust and greater compliance. Punitive tax systems, by contrast, reward non-compliance at the individual level, and the pervasiveness of this individual behavior likely aggregates up into shared social attitudes. Likewise, corruption and detection probability may also be directly related to tax rates because a high overall tax burden sends taxpayers looking for methods of avoiding taxation. If taxpayers can avoid detection for operating illicitly or pay bribes to officials in lieu of taxes, they may well decide these costs are lower than their prospective tax bill.

If taxpayers can avoid detection for operating illicitly or pay bribes to officials in lieu of taxes, they may well decide these costs are lower than their prospective tax bill.

51 Florencia Veronica Pedroni et al., "Firm-Level Determinants of Business Tax Evasion in Emerging Economies: The Case of Argentina," *Revista de Metodos Cuantitativos para la Economia y la Empresa*, Vol. 34, 83-117. Available at: https://www.econstor.eu/bitstream/10419/286282/1/1831595826.pdf.

52 Marcelo Bergman, *Tax Evasion & the Rule of Law in Latin America: The Political Culture of Cheating and Compliance in Argentina and Chile*, (University Park: Pennsylvania State University Press, 2009). Available at: https://www.jstor.org/stable/10.5325/j.ctv14gpfrh.

PART 6

STATISTICAL MODELING OF TAX EFFECTS ON INFORMALITY

This section applies the Laffer Curve to estimate revenue-maximizing levels of taxation in Argentina. The revenue-maximizing level is not necessarily the level at which most firms and individuals choose to operate in full compliance with the law but is the level at which compliance rates times tax rates yield the maximum level of revenue for governments. This distinction is important because, if the overriding policy goal is to incentivize market participants to operate in the formal economy, then the optimal tax rate would be even lower than the revenue-maximizing level. Nonetheless, policymakers should recognize that no policy goals can be optimized by taxing at rates greater than the revenue-maximizing rate because such a level of taxation would cause pervasive distortions at the macroeconomic level without even rendering additional public revenue. The analysis concludes that key tax rates in Argentina are currently beyond the revenue-maximizing level, and public finances could be improved by working to reduce these rates so that more firms and individuals conduct commerce legally.

6.1 DATA AND RESEARCH MODEL

As a practical matter, measuring tax evasion elasticity empirically can be challenging because robust results can only be observed where there is significant variation in tax rates. At the national level, changes in tax rates are infrequent over time, and there is no regional variation to exploit when it comes to national levies because they are assessed uniformly. However, gross receipts taxes are established at the provincial level and vary significantly across the country. These taxes are complex because they are assessed at different rates based on the type of economic activity in which a firm engages, and these rates may change from year to year. While this degree of variation and complexity can be difficult for businesses to navigate, it does facilitate measurement of tax rates' effect on individuals' or firms' behaviors.

For this analysis, the author assembled a panel dataset in which the most common gross receipts tax rates for a mid-sized firm were extracted from the annual tax laws of the provinces for each of a range of broad economic sectors, including: retail commerce, construction, domestic services, financial services, healthcare, hospitality (hotels and restaurants), manufacturing, professional services, transportation, utilities, and other services.

> *"As a proxy for tax evasion, the analysis examines the probability that an individual worker is informal."*

As a proxy for tax evasion, the analysis examines the probability that an individual worker is informal. Dependent and control variables are drawn from the EPH, Argentina's primary household survey for measuring labor market dynamics conducted quarterly by the Instituto Nacional de Estadística y Censos (INDEC). It focuses on the economically active population aged 10 and older, primarily in urban areas, and is designed to produce representative estimates at the national, provincial, and metropolitan levels. The EPH is a rotating panel survey, meaning households are interviewed for four consecutive quarters (one year) before rotating out.

Observations are gathered through face-to-face interviews using computer-assisted personal interviews on tablets and are conducted by roughly 1,000 trained INDEC

personnel. Interviews are held in households and typically last 20–30 minutes. Questions cover demographics, employment status, income, informality, and sector of activity. The survey is voluntary but boasts a response rate of around 90% and includes safeguards for sensitive questions (e.g., informality) to minimize underreporting. Individual-level responses are anonymized and made available for download at INDEC's portal.[53] Each quarterly dataset contains responses from roughly 50,000 individuals across 32 distinct population areas that together account for roughly 92 percent of the country's population.

Beginning with the 2024 fourth-quarter survey, the EPH introduced data fields that directly indicate whether an individual is employed formally or informally. For older surveys, this value is inferred from whether mandatory contributions toward government pension and healthcare plans have been made by either the respondent or their employer on the respondent's behalf.

Control variables include the respondents' gender, educational attainment (converted to a binary value indicating whether they have at least completed a postsecondary level of education), age (converted to a binary value considering whether the respondent is above or below age 35), and size of their employer (converted to a binary value considering whether the firm has more or fewer than 100 employees). INDEC research has indicated each of these variables may partially explain informality and indicates that women, youth, and those with lower levels of educational attainment are more likely to be employed in informal arrangements. Meanwhile, as informality limits the prospects for a firm's growth and it is more difficult for large firms to escape enforcement measures, the size of the employing firm may be partially explanatory.[54]

The analysis estimates fixed effects for each year of the data to account for macroeconomic changes like inflation or recession. It also includes province fixed effects, relative to a reference province (Buenos Aires Province), to absorb time-invariant provincial characteristics such as differences in enforcement capacity, economic structure or baseline informality levels. The model exploits within-province variation over time in tax rates, as well as cross-sectoral variation in tax rates within each province and year.

[53] "Bases de Datos," Instituto Nacional de Estadistica y Censos, https://www.indec.gob.ar/indec/web/Institucional-Indec-BasesDeDatos. For Python users, a GitHub version of the database is available at: https://github.com/matuteiglesias/microdatos-EPH-INDEC.

[54] "Mercado de Trabajo. Indicadores de Informalidad Laboral (EPH): Cuarto Trimestre de 2023 a Cuarte Trimestre de 2024," Instituto Nacional de Estadistica y Census, Serie: Trabajo e Ingresos, Vol. 9, No. 5, https://www.indec.gob.ar/uploads/informesdeprensa/informalidad_laboral_eph_04_2529DEBE4DBB.pdf.

Hence, the model can be represented algebraically as follows:

$$Y_{ist} = \alpha + \sum_{s} \gamma_s \cdot (\tau_{ist} \times \mathbb{1}\{S_{ist} = s\}) + \delta' \mathrm{X}_{ist} + \theta' \mathrm{D}_t + \phi' P_p + \epsilon_{ist}$$

where:

- Y_{ist} = Binary informality indicator for individual i in sector s in year t (1 if the worker is informal, i.e., lacks medical contributions; 0 otherwise).
- S_{ist} = The economic sector of individual i's employment (categorical variable). The sectors in the model are: commerce, construction, domestic services, financial services, healthcare, hospitality, manufacturing, professional services, transportation services, utilities, and all other services. (Agriculture was excluded from the analysis due to underrepresentation of rural areas in the EPH.)
- τ_{pst} = The gross receipts tax rate applicable in province p, sector s, and year t.
- $\mathbb{1}\{S_{pst} = s\}$ = An indicator (dummy) variable that equals 1 if individual i is employed in sector s, and 0 otherwise. This creates a separate slope for the effect of τ_{pst} in each sector.
- γ_s = The sector-specific marginal effect of the gross receipts tax rate on the probability of informality. It measures the change in the probability of being employed informally (in percentage points) associated with a 1 percentage point increase in the gross receipts tax rate within sector s only. Each γ_s is estimated separately via the interaction term $\tau_{pst} \times \mathbb{1}\{S_{pst} = s\}$. There is no common (across-sector) main effect of τ_{pst} in this specification.
- X_{pst} = Vector of individual-level controls (female dummy, postsecondary education dummy, aged 35 or younger dummy, employed in firm with 100+ employees dummy).
- D_t = Year dummy variables for 2023, 2024 and 2025 (2022 is the reference year).
- P_p = Province fixed effects.

This formulation explicitly recognizes that each economic sector will respond differently to a tax regime. It may be more difficult for some sectors to conceal economic activity, perhaps because they are highly regulated and dominated by large firms (e.g. financial services). Other sectors may be dominated by government (e.g. healthcare, utilities, transportation) or primarily service customers attempting to interact with public authorities (e.g. professional services).

Therefore, the analysis allows the effect of the gross receipts tax to differ freely across sectors rather than estimate a single effect across all categories by removing the main effect of τ and keeping only the interaction terms (τ × 1{S = s}) for each sector. Each sector receives its own independent estimation, and these are not constrained to be similar in sign, magnitude, or even statistical significance. This sector-by-sector reporting is the appropriate way to communicate the results when heterogeneity is theoretically expected and empirically confirmed (as it is here).

The model also controls for potential composition bias by including individual-level covariates in a weighted least squares regression (linear probability model) and in a logistic regression robustness check. The year-fixed effects (D_t) absorb any common national/time-specific shocks that affect informality across all provinces and sectors in the same year—for example, macroeconomic conditions, inflation spikes, or changes in enforcement capacity that are not province- or sector-specific. The province-fixed effects (P_p) absorb all time-invariant provincial characteristics that could otherwise confound the estimates. Survey weights indicated by EPH documentation (PONDERA) are applied so that individuals represent their share of the population.

The coefficients on the year dummies are small and statistically insignificant, suggesting there was no strong secular trend in informality over 2022–2025 in the included sectors after accounting for the other variables.

6.2 SUMMARY STATISTICS

To illustrate general trends in EPH responses, Tables 2 through 4 display summary statistics for the most recent quarterly survey data—Q2 of 2025. Table 2 shows that 20,734 of 46,086 respondents (44.2%) indicate they were employed at the time of the survey. Nearly 53% of respondents were either considered too young for employment or were not participating in the labor market.

TABLE 2: EPH Q2 2025 EMPLOYMENT STATUS

Employment Status	Total Respondents	% of Total
Uncertain	53	
Employed	***20,374***	***44.2%***
Unemployed	1,387	3.0%
Inactive	19,193	41.6%
Younger than 10	5,079	11.0%
Grand Total	**46,086**	**100.0%**

Table 3 drills down among the employed respondents to indicate the metro region in which they reside and the corresponding province. Roughly half of respondents resided in one of: Buenos Aires Province, Cordoba Province, Santa Fe Province, Tucuman Province, Mendoza Province, Salta Province or the Autonomous City of Buenos Aires (CABA).

TABLE 3: EPH Q2 2025 EMPLOYMENT BY AREA

Metro Region	Province	Employed Respondents
Gran La Plata	Buenos Aires	433
Bahía Blanca-Cerri	Buenos Aires	322
Gran Rosario	Sante Fe	825
Gran Santa Fe	Sante Fe	550
Gran Paraná	Entre Rios	608
Posadas	Misiones	524
Gran Resistencia	Chaco	527
Comodoro Rivadavia-Rada Tilly	Chubut	352
Gran Mendoza	Mendoza	940
Corrientes	Corrientes	392
Gran Córdoba	Córdoba	969
Concordia	Entre Rios	576
Formosa	Formosa	463
Neuquén-Plottier	Neuquén	487
Santiago del Estero-La Banda	Santiago del Estero	545
Jujuy-Palpalá	Jujuy	730
Río Gallegos	Santa Cruz	293
Gran Catamarca	Catamarca	649
Gran Salta	Salta	911
La Rioja	La Rioja	578
Gran San Luis	San Luis	566
Gran San Juan	San Juan	662
Gran Tucumán	Tucumán	1,014
Santa Rosa-Toay	La Pampa	457
Ushuaia-Río Grande	Tierra del Fuego	503
CABA	Capital Federal	807
Partidos del Gran Buenos Aires	Buenos Aires	2,507
Mar del Plata	Buenos Aires	435
Río Cuarto	Córdoba	507
San Nicolás-Villa Constitución	Buenos Aires	553
Rawson-Trelew	Chubut	379
Viedma-Carmen de Patagones	Rio Negro	310
Grand Total		**20,374**

Table 4 also drills down on employed respondents to reveal which industrial sector they indicate working within. (EPH data indicates with specificity the type of economic activity with which the worker is engaged, but this analysis aggregated these activities into broad economic sectors for ease of analysis.) It shows that informal employment is highest in

domestic services and construction and lowest in sectors dominated by government such as healthcare and utilities.

TABLE 4: EPH Q2 2025 INFORMAL EMPLOYMENT

Sector	Employed Respondents	% Composition of Total	% Employment = Informal
Agriculture	363	1.8%	35.5%
Commerce	3,976	19.5%	52.4%
Construction	1,933	9.5%	75.5%
Domestic Services	1,406	6.9%	79.2%
Financial Services	298	1.5%	17.4%
Healthcare	1,256	6.2%	21.6%
Hospitality	1,196	5.9%	66.4%
Manufacturing	1,670	8.2%	40.2%
Other Services	6,405	31.4%	27.0%
Prof Services	659	3.2%	27.6%
Transportation	977	4.8%	45.9%
Utilities	235	1.2%	23.8%
Grand Total	**20,374**	**100.0%**	**44.1%**

To increase the number of observations while maintaining recency, this analysis collected each quarterly EPH dataset from Q1 2022 to Q2 2025 (the most recently published quarter), yielding a total of 670,615 individual-level responses. This quarterly data is evaluated on an annual basis, given that the independent variable is subject to change only annually. Because this analysis is primarily concerned with how tax rates affect adults' decisions to participate in legal versus informal markets, the 670,615 total responses were filtered to include only currently employed individuals aged 18 and over from whom each of the relevant survey responses was collected. This filtering yielded 270,842 individual responses.

6.3 RESULTS

The data were evaluated using three iterations of the same basic regression setup. Each version uses the full individual-level EPH microdata (after filtering for employed adults aged 18+, complete cases, and excluding the agriculture sector). The goal in every case is to estimate sector-specific slopes—that is, how much the probability that an individual worker is informal changes (in percentage points, via the linear probability model) when the gross receipts tax rate rises by 1 percentage point within their sector of employment, after controlling for individual characteristics and province- and year-level fixed effects.

1. **Linear probability model with province fixed effects**

The baseline specification is a weighted linear probability model (LPM), which treats the binary informality outcome (1 if the worker is informal, 0 otherwise) as if it were a continuous variable and fits a straight line to describe the relationship. Theoretically, this is a good starting point because it simplifies the math: The coefficients are easy to interpret as average marginal effects (e.g., a coefficient of 3.5 means "a 1 pp higher tax rate is associated with a 3.5 pp higher probability of informality in that sector"). It assumes the underlying relationship is roughly linear, which is often reasonable for probabilities in the range where most informality rates fall.

The results show the construction sector is by far the most sensitive to changes in tax rates: A 1 percentage point rise in the gross receipts tax rate is associated with an 8.47% rise in the probability of informality. This result is highly statistically significant ($p < 0.001$) even with province-level clustering, which can make relationships more difficult to measure. Other sectors showing large and statistically significant positive sensitivity include domestic services (+3.08%, $p < 0.001$), hospitality (+1.64%, $p < 0.001$), commerce (+1.25%, $p < 0.001$), and manufacturing (+0.68%, $p < 0.05$).

Several sectors in Argentina are dominated by public enterprises, wherein workers are unlikely to be hired informally (utilities, healthcare, transportation). Others are subject to extensive regulation and licensing regimes that impede firms from hiring informal workers (financial services, professional services). Moreover, these sectors tend to be concentrated in large, urban areas that tend to have higher tax rates. Theoretically, those sectors should be expected to display a mostly spurious negative relationship between informality and tax rates, and the data confirms this suspicion. Higher tax rates are associated with lower informality in professional services (-2.99%, $p < 0.001$), utilities (-2.63%, $p < 0.001$), healthcare (-2.38%, p , 0.001), and financial services (-1.50%, $p < 0.001$).

Most control variables demonstrate strong statistical significance and economically meaningful relationships. Workers who have completed secondary education or higher are 20.5% less likely to be informal ($p < 0.001$). Workers in firms with more than 100 employees are 16.1% less likely to be informal ($p < 0.001$). Younger workers (under 36) are 14.4% more likely to be informal ($p < 0.001$). The effect of gender is small and less statistically significant, with women being 0.4% less likely to be employed informally ($p < 0.05$). Year-fixed effects are generally small and mostly insignificant, suggesting no strong secular trend in informality over 2022–2025 after accounting for the other variables.

Overall, the model explains about 22.1% of the variation in individual informality (R^2 = 0.221), which is typical for large, micro-level labor models with many observations constrained by fixed effects. Nearly all provincial fixed effects are significant, indicating that the effectiveness of enforcement mechanisms and other local variations bear an important role in the relationship between tax rates and informality.

A potential weakness of the LPM model is that it ignores that probabilities can't go below 0 or above 1, so it can predict impossible values (e.g., -5% or 105% informality) for extreme cases. It also assumes constant variance across all individuals, which isn't true for binary data—variance naturally shrinks near 0 or 1 (a "heteroskedasticity" problem). If the data has clusters (e.g., people in the same province sharing similar unmeasured factors), then errors aren't independent, leading to underestimated standard errors and overstated significance. In short, it's a straightforward and simple approximation but can be imprecise or biased at the edges and in grouped data.

TABLE 5: TAX RATE EFFECT ON INDIVIDUAL INFORMALITY PROBABILITY, LPM WITH PROVINCE FIXED EFFECTS

	Coefficient	Std. Error	t-statistic	p-value
Sector-Specific Gross Receipts Tax				
Commerce	1.247	0.099	12.635	< 0.001 ***
Construction	8.470	0.156	54.308	< 0.001 ***
Domestic Services	3.081	0.127	24.218	< 0.001 ***
Financial Services	-1.504	0.079	-19.153	< 0.001 ***
Healthcare	-2.378	0.132	-18.005	< 0.001 ***
Hospitality	1.642	0.127	12.908	< 0.001 ***
Manufacturing	0.685	0.272	2.517	0.012 *
Professional Services	-2.990	0.130	-22.986	< 0.001 ***
Transportation Services	0.198	0.173	1.148	0.251
Utilities	-2.631	0.220	-11.977	< 0.001 ***
All Other Services	-1.473	0.094	-15.739	< 0.001 ***
Controls				
% Female	-0.004	0.002	-2.315	0.021 *
% Secondary education completed or higher	-0.205	0.002	-117.522	< 0.001 ***
% Younger than 36	0.144	0.002	92.535	< 0.001 ***
% in firms >100 employees	-0.161	0.002	-94.964	< 0.001 ***
Province-Fixed Effects				
CABA	-0.112	0.002	-45.158	< 0.001 ***
Catamarca	0.035	0.009	3.980	< 0.001 ***
Chaco	0.119	0.007	18.111	< 0.001 ***
Chubut	-0.112	0.007	-16.073	< 0.001 ***
Córdoba	-0.045	0.003	-14.052	< 0.001 ***
Corrientes	-0.084	0.007	-12.411	< 0.001 ***
Entre Ríos	-0.058	0.006	-9.025	< 0.001 ***
Formosa	0.047	0.009	5.384	< 0.001 ***

	Coefficient	Std. Error	t-statistic	p-value
Jujuy	0.073	0.007	10.765	< 0.001 ***
La Pampa	-0.068	0.011	-6.058	< 0.001 ***
La Rioja	0.004	0.008	0.515	0.607
Mendoza	-0.034	0.004	-8.639	< 0.001 ***
Misiones	0.042	0.007	6.309	< 0.001 ***
Neuquén	-0.076	0.008	-10.147	< 0.001 ***
Río Negro	-0.074	0.015	-5.021	< 0.001 ***
Salta	-0.008	0.005	-1.532	0.126
San Juan	0.035	0.006	6.068	< 0.001 ***
San Luis	-0.038	0.008	-4.622	< 0.001 ***
Santa Cruz	-0.215	0.012	-18.684	< 0.001 ***
Santa Fe	-0.068	0.003	-22.206	< 0.001 ***
Santiago del Estero	0.093	0.006	14.302	< 0.001 ***
Tierra del Fuego	-0.232	0.010	-23.889	< 0.001 ***
Tucumán	-0.051	0.004	-11.489	< 0.001 ***
Year-fixed effects (ref: 2022)				
2023	-0.014	0.002	-6.936	< 0.001 ***
2024	0.001	0.002	0.685	0.493
2025	-0.012	0.002	-5.171	< 0.001 ***
Intercept	0.455	0.005	100.850	< 0.001 ***

N=288,555; Adjusted R^2=0.221; F=1994 (p<0.001).
Significance: *** p < 0.001, ** p < 0.01, * p < 0.05, . p < 0.10

2. **LPM with Province-Level Clustered Standard Errors**

This iteration retains the same point estimates as the baseline LPM but replaces ordinary standard errors with clustered standard errors at the province level. Clustering accounts for the fact that individuals within the same province are not independent—they share common shocks, policies, and enforcement environments. Province fixed effects already absorb time-invariant provincial differences, so clustering primarily addresses within-province correlation over time and across individuals.

The results remain broadly consistent with the baseline, although standard errors increase (as expected with clustering) and a few marginal coefficients lose significance. The headline findings survive comfortably: construction remains by far the most sensitive sector (+8.47%, p < 0.001), followed by domestic services, hospitality, and commerce (all p < 0.001 or better). Negative relationships in professional services, utilities, healthcare and financial services also persist (all p < 0.001 or better). This version provides the most reliable inference for hypothesis testing.

TABLE 6: TAX RATE EFFECT ON INDIVIDUAL INFORMALITY PROBABILITY, LPM WITH PROVINCE FIXED EFFECTS + CLUSTERED STANDARD ERRORS

	Coefficient	Clustered Std. Error	t-statistic	p-value
Sector-Specific Gross Receipts Tax				
Commerce	1.247	0.290	4.307	< 0.001 ***
Construction	8.470	0.914	9.271	< 0.001 ***
Domestic Services	3.081	0.513	6.003	< 0.001 ***
Financial Services	-1.504	0.339	-4.436	< 0.001 ***
Healthcare	-2.378	0.543	-4.376	< 0.001 ***
Hospitality	1.642	0.467	3.515	< 0.001 ***
Manufacturing	0.685	1.226	0.559	0.576
Professional Services	-2.990	0.844	-3.541	< 0.001 ***
Transportation Services	0.198	0.760	0.261	0.794
Utilities	-2.631	0.543	-4.848	< 0.001 ***
All Other Services	-1.473	0.329	-4.473	< 0.001 ***
Controls				
% Female	-0.004	0.006	-0.627	0.531
% Secondary education completed or higher	-0.205	0.006	-31.885	< 0.001 ***
% Younger than 36	0.144	0.012	11.583	< 0.001 ***
% in firms >100 employees	-0.161	0.018	-8.935	< 0.001 ***
Province-Fixed Effects				
CABA	-0.112	0.007	-16.382	< 0.001 ***
Catamarca	0.035	0.006	5.462	< 0.001 ***
Chaco	0.119	0.004	31.652	< 0.001 ***
Chubut	-0.112	0.004	-30.583	< 0.001 ***
Córdoba	-0.045	0.003	-13.313	< 0.001 ***
Corrientes	-0.084	0.004	-20.630	< 0.001 ***
Entre Ríos	-0.058	0.005	-11.821	< 0.001 ***
Formosa	0.047	0.007	6.526	< 0.001 ***
Jujuy	0.073	0.005	15.690	< 0.001 ***
La Pampa	-0.068	0.006	-11.979	< 0.001 ***
La Rioja	0.004	0.005	0.911	0.362
Mendoza	-0.034	0.003	-13.344	< 0.001 ***
Misiones	0.042	0.006	6.672	< 0.001 ***
Neuquén	-0.076	0.006	-13.733	< 0.001 ***
Río Negro	-0.074	0.007	-10.467	< 0.001 ***
Salta	-0.008	0.003	-2.301	0.021 *
San Juan	0.035	0.007	4.923	< 0.001 ***
San Luis	-0.038	0.005	-8.061	< 0.001 ***
Santa Cruz	-0.215	0.005	-41.544	< 0.001 ***
Santa Fe	-0.068	0.002	-36.365	< 0.001 ***
Santiago del Estero	0.093	0.005	17.976	< 0.001 ***
Tierra del Fuego	-0.232	0.007	-33.632	< 0.001 ***
Tucumán	-0.051	0.002	-22.157	< 0.001 ***
Year-fixed effects (ref: 2022)				
2023	-0.014	0.007	-1.956	0.051 .
2024	0.001	0.006	0.212	0.832
2025	-0.012	0.005	-2.587	0.010 **
Intercept	0.455	0.021	21.368	< 0.001 ***

N=288,555; Adjusted R^2=0.221; F=1994 (p<0.001). Significance: *** p < 0.001, ** p < 0.01, * p < 0.05, . p < 0.10

3. **Logistic Regression**

The linear probability models are convenient and directly interpretable, but they assume all variables are continuous and therefore can both predict probabilities beyond a range of 0 to 1, which are impossible. By contrast, logistic regression is used to predict the probability of a binary outcome (like formal versus informal employment) based on various factors. The model output coefficients indicate how each factor changes the log-odds of the binary outcome. However, because the resulting coefficients are expressed on the log-odds scale, the results are not directly comparable to those resulting from the LPM specifications.

A logistic regression is a standard robustness check in labor economics using large datasets with binomial outcomes. This specification can provide support for the headline results not simply being an artifact of forcing a linear model onto a bounded variable.

A key limitation to a logistic regression is that when there is near-perfect separation in the data (such as nearly every worker in a province-sector combination being formal or informal), the estimated standard errors grow very large causing reduced statistical significance. Secondly, clustering may obfuscate relationships, since the model assumes that clustered groups are correlated. In this case, clustering into a relatively small number of provinces (24) limits the degrees of freedom for estimating variance. Finally, logistic regression is inherently less precise for measuring extreme outcomes. It performs best when the likelihood of either binary outcome is roughly equal. In this case, however, the data shows that informality is highly concentrated in some sectors and provinces and not in others.

The results broadly confirm the validity of results within the linear models, but with much lower precision for the reasons specified above. Construction and commerce display a positive and statistically significant relationship between tax rates and informality, while financial services displays a negative and significant relationship. The LPM model with clustered standard errors is the more trustworthy model for inference of trends, but the logistic model provides no evidence those relationships have vanished.

TABLE 7: TAX RATE EFFECT ON INDIVIDUAL INFORMALITY PROBABILITY, LOGISTIC REGRESSION

	Coefficient	Clustered Std. Error	t-statistic	p-value
Sector-Specific Gross Receipts Tax				
Commerce	1.492e+16	(6.642e+15)	2.25	0.025 *
Construction	5.357e+16	(1.049e+16)	5.11	< 0.001 ***
Domestic Services	1.995e+16	(8.560e+15)	2.33	0.020 *
Financial Services	-1.449e+16	(5.282e+15)	-2.74	< 0.001 ***
Healthcare	-2.352e+15	(8.887e+15)	-0.26	0.792
Hospitality	1.076e+15	(8.558e+15)	0.13	0.900
Manufacturing	-2.314e+15	(1.830e+16)	-0.13	0.899
Professional Services	2.643e+15	(8.753e+15)	0.30	0.763
Transportation Services	-4.812e+15	(1.163e+16)	-0.41	0.679
Utilities	-1.651e+16	(1.478e+16)	-1.12	0.264
All Other Services	-1.504e+15	(4.043e+15)	-0.37	0.710
Controls				
% Female	4.544e+13	(7.599e+13)	0.60	0.550
% Secondary education completed or higher	1.527e+15	(5.866e+14)	2.60	0.009 **
% Younger than 36	5.315e+14	(1.665e+14)	3.19	0.001 **
% in firms >100 employees	-5.532e+14	(1.651e+14)	-3.35	< 0.001 ***
Province-Fixed Effects				
CABA	-7.178e+14	(6.603e+14)	-1.09	0.277
Catamarca	-5.175e+14	(5.856e+14)	-0.88	0.377
Chaco	2.263e+14	(2.304e+15)	0.10	0.922
Chubut	-8.729e+14	(5.823e+14)	-1.50	0.134
Córdoba	-4.315e+14	(6.384e+14)	-0.68	0.499
Corrientes	-6.352e+14	(6.003e+14)	-1.06	0.290
Entre Ríos	-3.679e+14	(3.962e+14)	-0.93	0.353
Formosa	4.292e+14	(1.749e+15)	0.25	0.806
Jujuy	-1.791e+14	(2.017e+15)	-0.09	0.929
La Pampa	-3.529e+14	(7.707e+14)	-0.46	0.647
La Rioja	-8.690e+14	(1.460e+15)	-0.60	0.552
Mendoza	-3.071e+14	(8.215e+14)	-0.37	0.709
Misiones	6.212e+14	(1.306e+15)	0.48	0.634
Neuquén	-4.309e+14	(6.421e+14)	-0.67	0.502
Río Negro	-3.817e+14	(1.058e+15)	-0.36	0.718
Salta	-5.628e+14	(1.079e+15)	-0.52	0.602
San Juan	-3.546e+14	(1.420e+15)	-0.25	0.803
San Luis	-3.394e+14	(2.799e+14)	-1.21	0.225
Santa Cruz	-1.531e+15	(2.271e+14)	-6.74	< 0.001 ***
Santa Fe	-4.083e+14	(8.269e+14)	-0.49	0.621
Santiago del Estero	3.215e+14	(1.856e+15)	0.17	0.862
Tierra del Fuego	-1.564e+15	(1.890e+14)	-8.28	< 0.001 ***
Tucumán	-3.693e+14	(8.445e+14)	-0.44	0.662
Year-fixed effects (ref: 2022)				
2023	-1.760e+14	(1.264e+13)	-13.92	< 0.001 ***
2024	-5.921e+13	(4.402e+13)	-1.35	0.178
2025	-8.763e+13	(2.936e+13)	-2.98	0.003 **
Intercept	-1.411e+15	(6.603e+14)	-2.14	0.033 *

N=288,555; Adjusted R^2=0.221; F=1994 (p<0.001). Significance: *** p < 0.001, ** p < 0.01, * p < 0.05, . p < 0.10

6.4 TESTS FOR REVERSE CAUSALITY

The data were subsequently tested for reverse causality using two main specifications. The LPM models clearly demonstrate a relationship between tax rates and informality. However, it's theoretically possible that rather than high taxes pushing firms and workers toward informality to avoid this taxation, high rates of existing informality cause provincial governments to raise tax rates on formal businesses to maintain tax revenues. In other words, causation could run in the opposite direction. The key question is: Do past tax rates predict current informality or does past informality predict current tax rates?

This theorem is tested by evaluating these relationships using a time lag. Past-year tax rates are evaluated against labor informality in the current year using an LPM model with province-fixed effects and clustered standard errors at the province level—the same approach used for the preferred specification for testing the relationship directly. The results, summarized in Table 8, are broadly similar to the results presented in Table 6. This indicates that both past and current tax rates are predictive of labor informality.

TABLE 8: 1-YEAR LAGGED TAX RATE EFFECT ON INDIVIDUAL INFORMALITY PROBABILITY, LPM WITH PROVINCE FIXED EFFECTS AND CLUSTERED SE AT PROVINCE LEVEL

	Coefficient	Clustered Std. Error	t-statistic	p-value
Sector-Specific Gross Receipts Tax				
Commerce	1.221	(0.292)	4.18	<0.001 ***
Construction	8.972	(1.298)	6.91	<0.001***
Domestic Services	3.445	(0.463)	7.44	<0.001 ***
Financial Services	-1.349	(0.253)	-5.32	<0.001 ***
Healthcare	-2.101	(0.489)	-4.30	<0.001 ***
Hospitality	2.084	(0.402)	5.19	<0.001***
Manufacturing	0.950	(1.016)	0.93	0.350
Professional Services	-2.699	(0.628)	-4.30	<0.001***
Transportation Services	0.914	(0.728)	1.26	0.209
Utilities	-2.141	(0.398)	-5.38	<0.001***
All Other Services	-1.060	(0.229)	-4.64	<0.001 ***
Controls				
% Female	-0.0069	(0.0069)	-1.00	0.318
% Secondary education completed or higher	-0.204	(0.0063)	-32.32	<0.001 ***
% Younger than 36	0.144	(0.013)	10.91	<0.001 ***
% in firms >100 employees	-0.165	(0.019)	-8.82	<0.001 ***
Year-fixed effects (ref: 2023)				
2024	0.0154	(0.0035)	4.38	<0.001 ***
2025	-0.000075	(0.0045)	-0.02	0.987
Intercept	0.430	(0.018)	24.08	<0.001 ***

N=205,195; Adjusted R^2=0.217.
Significance: *** p < 0.001, ** p < 0.01, * p < 0.05, . p < 0.10

The falsification model contrasts this approach by testing whether past-year rates of labor informality correlate with higher tax rates in the current year. The results, summarized in Table 9, mostly fail to achieve statistical significance. Only the construction sector displays a significant positive relationship, which is likely a statistical artifact. No broad pattern of reverse causality is present—if informality were driving tax rates higher, one would expect positive leads in multiple high-informality sectors. Together, these tests provide evidence that high tax rates are the cause of labor informality and not the reverse.

TABLE 9: FALSIFICATION MODEL: TAX RATE EFFECT ON INDIVIDUAL INFORMALITY, LPM WITH PROVINCE FIXED EFFECTS AND CLUSTERED SE AT PROVINCE LEVEL

	Coefficient	Clustered Std. Error	t-statistic	p-value
Sector-Specific Gross Receipts Tax				
Commerce	-3.094	(2.351)	-1.32	0.188
Construction	21.678	(2.951)	7.35	<0.001***
Domestic Services	0.081	(1.595)	0.05	0.959
Financial Services	-2.181	(1.114)	-1.96	0.050 .
Healthcare	-0.805	(1.651)	-0.49	0.626
Hospitality	0.419	(1.982)	0.21	0.832
Manufacturing	0.843	(1.496)	0.56	0.573
Professional Services	-4.329	(2.420)	-1.79	0.074.
Transportation Services	-1.564	(0.459)	-3.41	0.001***
Utilities	-2.906	(1.288)	-2.26	0.024 *
All Other Services	-1.042	(2.050)	-0.51	0.611
Controls				
% Female	-0.0092	(0.0062)	-1.47	0.142
% Secondary education completed or higher	-0.204	(0.0069)	-29.66	<0.001 ***
% Younger than 36	0.142	(0.014)	10.37	<0.001 ***
% in firms >100 employees	-0.165	(0.019)	-8.88	<0.001 ***
Year-fixed effects (ref: 2023)				
2024	0.0157	(0.0030)	5.20	<0.001 ***
Intercept	0.409	(0.016)	25.11	<0.001 ***

N=165,605; Adjusted R^2=0.216.
Significance: *** p < 0.001, ** p < 0.01, * p < 0.05, . p < 0.10

6.5 CONCLUSIONS AND LIMITATIONS

This statistical analysis provides empirical support for the notion that tax rates in Argentina are beyond the revenue-maximizing level implied by the Laffer Curve. Within at least some economic sectors (and particularly those dominated by private firms), a 1% increase in taxes is associated with a shift to informality for more than 1% of workers. That means fewer transactions of economic substance (including gross sales, value-added, and personal or corporate income) are subject to taxation. By driving the private sector toward

informality, the Argentine tax system may be self-defeating, and a lower overall tax burden might be expected to *increase* public revenues by encouraging formalization.

> *By driving the private sector toward informality, the Argentine tax system may be self-defeating….*

There are limitations to this analysis. In particular, it examines the effect of only one tax instrument. However, the gross receipts tax is one of the eight major levies that together account for nearly all public revenue in Argentina. It also may be regarded as the singular levy among these eight that most strongly influences marginal changes in behavior. The other seven major levies apply equally to compliant firms because they are assessed at a uniform, national rate. By contrast, firms can choose to "shop" gross receipts taxes by locating in a jurisdiction offering lower rates. Of course, firms and individuals may choose to move toward informality based solely on the combined burden of national levies regardless of the rate to which they would be subject under the provincial gross receipts tax. That is, the rate of taxation at which they choose to exit the formal sector may be lower than the combined effect of the national levies alone. However, this analysis provides a reasonable proxy for estimating the marginal effect of taxation on informality at current rates.

Other potential limitations relate to the complexity or representativeness of the dataset. Agriculture, in particular, is an important economic sector in Argentina but is systematically underrepresented within the EPH because survey respondents are selected from urban areas—a deficiency identified within INDEC documentation about the survey. As such, it is excluded from this analysis. Separately, provincial gross-receipt tax laws are complex, often assessed at progressive rates for larger firms, and frequently contain special exemptions or carveouts for politically favored firms or industries. As a result, select taxpayers may be unaffected by gross receipts taxes and would gain no advantage by operating clandestinely. By contrast, this analysis uses as the dependent variable the most common tax rate facing a mid-sized firm in each broad economic sector. On average, this should still capture the effect of the tax burden on informality and, indeed, the robustness of the results indicate the relationship is meaningful. As such, even in spite of the noted limitations, this analysis appears sufficient to provide a reasonable estimate of tax evasion elasticity within each broad economic sector.

PART 7

IMPUTING THE REVENUE-MAXIMIZING LEVELS OF TAXATION

This section extends the empirical analysis presented in Part 6 by using the estimated tax evasion elasticities to derive revenue-maximizing tax rates for Argentina's principal tax instruments. The sector-specific regression coefficients (γ_s) from the LPM regression with clustered standard errors in Section 6.3 are interpreted as empirical estimates of the marginal effect of tax rate increases on the informal employment share. These coefficients serve as proxies for tax evasion elasticity and are applied to identify revenue-maximizing rates for the major levies: VAT, payroll taxes, and income taxes (corporate and personal).

The extrapolation of these elasticities from gross receipts taxes to other instruments can be theoretically justified because the decision to operate informally is dependent on the cumulative cost of formality, inclusive of overlapping taxes and compliance costs. The marginal disincentive from higher rates should be similar across levies, as firms and workers optimize against the total tax wedge. This assumption is reinforced by the cascading nature of Argentina's tax system, where multiple levies compound effective burdens.

This analysis focuses on sectors where there was a clear relationship between tax rates and informality in each model specification in Section 6.3: construction, domestic services, and hospitality. As explained in Section 6, sectors displaying a negative relationship tend to be dominated by public enterprises or firms subject to extensive regulation and licensing requirements. These enterprises are not sensitive to tax rates and therefore a change in tax rates shouldn't be expected to affect informality.

This analysis focuses on sectors where there was a clear relationship between tax rates and informality in each model specification in Section 6.3: construction, domestic services, and hospitality.

Revenue-maximizing tax rates can be calculated algebraically once the tax evasion elasticity is known. Some important limitations are that algebraic calculations apply the change in a static economic environment and assume an instant rate of response. In reality, a modified tax regime could alter incentives in a way that either induces or dissuades additional investment and economic activity, creating dynamic gains or losses that dwarf the effects of a static calculation. Likewise, human behavior does not change instantly in the real world—a lag almost certainly exists between a change in tax rates and the formalization of larger shares of the economy. These limitations will be partially relaxed in following sections, but for now imply the calculations presented herein are both conservative in terms of effect and overstated in terms of timing.

7.1 DERIVATION OF THE REVENUE-MAXIMIZING TAX RATE

The Laffer Curve equation can be represented conceptually as:

$$Tax\ revenue = Tax\ rate \cdot Taxable\ base$$

The taxable base is itself a function of how taxes influence individuals' decisions to participate in the formal economy. This conceptual model can be substituted with an algebraic formula in which tax revenue (R(t)) is:

$$R(t) = t \cdot Y(t)$$

where:

Y(t) is the taxable base, which contracts with higher t due to informality.

The informal share of economic activity responds linearly to the tax rate, at the population's tax evasion elasticity (*β*):

$$I(t) = I_0 + \beta\,(t - t_0)$$

The formal share is simply the complement of the informal share:

$$f(t) = 1 - I(t) = f_0 - \beta\,(t - t_0)$$

Current GDP of the formal economy is roughly a function of tax rates applied to total economic activity, including both informal and formal activities, or:

$$Y(t) \approx Y_0 \times f(t)$$

In this case, tax revenue is a function of tax rates, total economic activity, and the degree to which tax rates influence informality, or:

$$R(t) = t \times Y_0 \times [f_0 - \beta\,(t - t_0)] = Y_0\,[-\beta\,t^2 + (f_0 + \beta\,t_0)\,t]$$

The revenue-maximizing rate occurs at the vertex (where the slope of the derivative equals zero):

$$t^* = (f_0 + \beta\,t_0) / (2\beta)$$

Once tax rates move to the revenue-maximizing rate, a new level of formality is implied as economic actors migrate from the informal sector. This new rate of formality is calculated as:

$$f^* = f_0 - \beta\,(t^* - t_0)$$

The relative revenue change resulting from the change in tax rates can then be summarized:[55]

$$Relative\ revenue = (t^* \times f^*) / (t_0 \times f_0)$$

[55] In the context of Argentina, this relative revenue change is the best means of quantifying the effect of a tax change on public revenue in a meaningful way because rapid inflation limits the usefulness of comparing actual currency units.

7.2 IMPLIED RESULTS

These terms are applied to the known values (I_0, β, t_0) to calculate the revenue-maximizing tax rate for each major tax instrument within each sector in Table 10. A key takeaway from these results is that the current tax rate is beyond the revenue-maximizing level within at least some major economic sectors in Argentina. Both construction and domestic services are well beyond the revenue-maximizing level and both formality and public revenues could be increased by reducing the tax burden on these sectors. To a lesser degree, this is also true of the hospitality sector. The analysis reveals the revenue-maximizing levels of income and payroll taxes are 21-27.7% and 25.1-34.5%, respectively. Each of these rates are substantially below the prevailing tax rates and could increase the incidence of formality by double or more in the highly sensitive construction and domestic services sectors (f^*). This is likely also true of other economic sectors for which informality is high but for which empirical observations are insufficient to generate meaningful empirical results (e.g. agriculture).

TABLE 10: IMPLIED REVENUE-MAXIMIZING TAX RATES BASED ON EMPIRICAL CALCULATION OF ELASTICITY

Sector	Tax Instrument	Informality (EPH Q2 2025) = I_0	$f_0 = (1 - I_0)$	β	t_0	t^*	f^*	Relative Revenue Change
Construction	VAT	75.5%	24.5%	8.47	21.0%	12.2%*	99.0%	234.8%
Construction	Payroll	75.5%	24.5%	8.47	43.4%	34.5%*	99.9%	324.1%
Construction	Income	75.5%	24.5%	8.47	35.0%	26.2%*	99.0%	302.6%
Domestic Services	VAT	79.2%	20.8%	3.08	21.0%	13.9%	42.8%	135.8%
Domestic Services	Payroll	79.2%	20.8%	3.08	43.4%	25.1%	77.3%	214.6%
Domestic Services	Income	79.2%	20.8%	1.25	35.0%	20.9%	64.3%	184.4%
Hospitality	VAT	66.4%	33.6%	1.64	21.0%	20.7%	34.0%	100.0%
Hospitality	Payroll	66.4%	33.6%	1.64	43.4%	31.9%	52.4%	114.8%
Hospitality	Income	66.4%	33.6%	1.64	35.0%	27.7%	45.5%	107.4%

***When the algebraic formula is applied to construction, it yields an even lower tax rate and an impossible formality exceeding 100%. This occurs because a derivative value is only valid over a narrow range of a continuous function. The range of the function for construction likely exceeds the validity of the derivative. The author has compensated by disallowing the calculation of an impossible value.**

7.3 FORECAST REVENUE CHANGE UNDER A HYPOTHETICAL TAX CUT

The implied results here are relevant only for the economic sectors considered (construction, domestic services, and hospitality) and could have very different effects on the economy more broadly. However, under reasonable assumptions it's possible to envision what effect a broad tax cut could have on overall revenue performance at the national level.

For this forecast, the author assumes that certain economic sectors are generally not sensitive to changes in tax rates. These sectors include those which are dominated by public enterprises (healthcare, transportation, and utilities), and those that require licensure and primarily interact with public authorities (financial and professional services). For the remaining sectors, the author applies the tax sensitivities estimated in Part 6. Agriculture is assumed to be as sensitive to tax rates as domestic services. Although this assumption is speculative in the context of Argentina, it appears reasonable because research from other countries indicates that agriculture and construction are the sectors most susceptible to informality.[56] The statistical analysis completed in Part 6 reveals a much stronger sensitivity to tax rates within the construction sector than for domestic services, so assuming agriculture would respond similarly to domestic services may be conservative.

While the estimates of tax-rate sensitivity are based on the nature of employment relationships and enumerated in the number of employees, this is not the metric that would best estimate overall tax revenue in the context of the broader economy. Instead, each sector is weighted based on its proportional contribution to gross domestic product, as reported by INDEC. Some sectors create more economic output (and a larger tax base) per worker due to the nature of the activity, which is reflected in the forecast.

Table 9 models the effect of a large hypothetical reduction in both income (corporate and individual) and payroll taxes. The top income tax rates fall from 35% to 27% while the combined payroll tax rate (split between employer and employee) falls from 43.4% to 34%. As a result, formality would be expected to increase within the economic sectors dominated by private enterprise, including agriculture, retail commerce, construction, domestic

[56] See, e.g., "Diagnostic Analysis of Informality in Agriculture, Agri-Food, and Construction," International Labour Organization, April 2024, https://www.ilo.org/publications/diagnostic-analysis-informality-agriculture-agri-food-and-construction.

services, and manufacturing. This effect would be substantial enough to hold revenues relatively steady in agriculture, hospitality, retail commerce, and manufacturing despite the substantial tax reductions and would generate substantially more revenue in construction and domestic services. These effects would compensate for a loss of revenue in the sectors not sensitive to tax rates and result in roughly the same amount of overall revenue.

TABLE 11: FORECAST REVENUE CHANGE FOLLOWING PAYROLL AND INCOME TAX CUTS

Sector	Tax Instrument	GDP Share	β	t_0	t^*	f_0	f^*	Relative Rev %
Agriculture	Payroll	18.80%	3.08	42%	34%	64.5%	89.1%	112%
Agriculture	Income	18.80%	3.08	35%	27%	64.5%	89.1%	107%
Commerce	Payroll	14.67%	1.25	42%	34%	47.6%	57.6%	98%
Commerce	Income	14.67%	1.25	35%	27%	47.6%	57.6%	93%
Construction	Payroll	2.93%	8.47	42%	34%	24.5%	92.3%	305%
Construction	Income	2.93%	8.47	35%	27%	24.5%	92.3%	290%
Domestic Services	Payroll	0.59%	3.08	42%	34%	20.8%	45.4%	177%
Domestic Services	Income	0.59%	3.08	35%	27%	20.8%	45.4%	169%
Financial Services	Payroll	4.27%		42%	34%	82.6%	82.6%	81%
Financial Services	Income	4.27%		35%	27%	82.6%	82.6%	77%
Healthcare	Payroll	4.04%		42%	34%	78.4%	78.4%	81%
Healthcare	Income	4.04%		35%	27%	78.4%	78.4%	77%
Hospitality	Payroll	1.70%	1.64	42%	34%	33.6%	46.7%	113%
Hospitality	Income	1.70%	1.64	35%	27%	33.6%	46.7%	107%
Manufacturing	Payroll	16.84%	1.27	42%	34%	59.8%	70.0%	95%
Manufacturing	Income	16.84%	1.27	35%	27%	59.8%	70.0%	90%
Other Services	Payroll	25.37%		42%	34%	67.4%	67.4%	81%
Other Services	Income	25.37%		35%	27%	67.4%	67.4%	77%
Transportation	Payroll	8.82%		42%	34%	54.1%	54.1%	81%
Transportation	Income	8.82%		35%	27%	54.1%	54.1%	77%
Utilities	Payroll	1.97%		42%	34%	76.2%	76.2%	81%
Utilities	Income	1.97%		35%	27%	76.2%	76.2%	77%
Total	**Combined**	**100.0%**						**99.00%**

This forecast examines only one of many possible iterations of tax reductions in Argentina and is subject to the limitations of being static and assuming an instant response of market participants to changes in tax rates. However, the forecast is based on current empirical measurements of informality and tax evasion elasticity in Argentina and illustrates that even a large tax cut could be expected to propel sufficient growth within the formal sector to generate public revenues comparable to the levels realized currently.

PART 8

PRINCIPLES OF SOUND TAX POLICY

The empirical analyses in Parts 6 and 7 demonstrate that reducing taxes in Argentina could expand the tax base by encouraging formalization and increase overall revenues. However, revenue maximization should not be the sole objective of sound tax policy. Policymakers must also prioritize principles that foster economic growth, compliance, fairness, and efficiency. This section outlines established tenets of sound tax policy, as articulated by organizations like the Tax Foundation.[57] Key principles include: simplicity, transparency, and neutrality. These principles provide an important framework for prospective tax reform that inform the recommendations made in Part 9.

- **Simplicity:** A tax system that is easy to understand facilitates greater compliance among taxpayers and more efficient administration by tax officials. Complex tax structures that apply to taxpayers differently depending on the nature of their economic activity, use graduated rates, and contain a complex array of exemptions, deductions, or promotional rates make both compliance and administration of the tax more costly. A proliferation of many different levies also complicates the tax code and increases both the burden of compliance and administration proportionately.

[57] "Principles of Sound Tax Policy," Tax Foundation, June 2023, https://taxfoundation.org/wp-content/uploads/2023/06/PrinciplesOfSoundTP.pdf.

In Argentina, tax simplicity is undermined by a proliferation of 155 different levies with which taxpayers must contend, many of which may impose distinct filing periods and jurisdictions that are difficult to track. Some tax instruments are also highly complex. Provincial gross receipts taxes stand out as taxes that apply graduated rates based on firm revenue, discriminate by the type of economic activity, and also contain complex exemptions and promotional rates. Moreover, each gross receipts tax regime is entirely distinct from one province to another, requiring regional specialization on behalf of the taxpayer.

In Argentina, tax simplicity is undermined by a proliferation of 155 different levies with which taxpayers must contend, many of which may impose distinct filing periods and jurisdictions that are difficult to track.

- **Transparency:** The person who ultimately bears the burden of a tax should be able to have a clear understanding of that burden. Taxes on consumption, for instance, are ultimately borne by consumers. When those taxes are added to the sale of a final product, such as through a VAT or sales tax, it becomes immediately clear to the payor how much they are being taxed. However, some taxes become incorporated into the sticker price of the product because they are assessed at lower levels of the supply chain and are not easily perceptible to the consumer. Corporate income taxes and gross receipts taxes, for instance, that are paid by producers of primary goods, manufacturers, distributors, financiers, and wholesalers cause each of those taxpayers to increase the prices they charge at the next stage of production and result in an elevated price to the retailer. The ultimate consumer cannot easily deduce the cost of these accumulated taxes and gain a clear understanding of the price he or she is paying for government services.

  In Argentina, the sale of every good or service is subject to multiple levels of taxation. Firms are taxed on their gross receipts, their value added, and any remaining net income. These taxes are also assessed at each level of the supply chain, incorporating a tax cost into final products that are nontransparent for the ultimate buyers of these goods and services. For complex goods that require many stages of production, these

taxes "pyramid" more heavily into the price of the final product and bias consumer spending away from complex manufactured goods toward simpler goods.

- **Neutrality:** The decisions made by firms and individuals in a free market reflect each actor's maximization of personal welfare given the means at their disposal. Individuals all have unique goals and value things differently and align their spending decisions with their unique hierarchy of wants. Tax policies that distort the relative costs of various choices introduce bias into these decisions and can result in individuals selecting an array of choices that are suboptimal in terms of maximizing their collective personal welfare. Therefore, tax policies should be designed to have a neutral impact on decision-making—they should neither penalize nor benefit certain types of activity over others through tax preferences or other distortionary mechanisms.

Every province assesses gross receipts taxes with rates that are more punitive for some industries than others, and most also offer targeted exemptions or carveouts for politically favored firms.

In Argentina, provincial gross receipts taxes again stand out as an instrument that frequently violates this principle of sound tax policy. Every province assesses gross receipts taxes with rates that are more punitive for some industries than others, and most also offer targeted exemptions or carveouts for politically favored firms. In addition, a number of tax instruments are intentionally designed to bias market participants away from participating in international markets. Export fees, import tariffs, and taxes on purchases of foreign currency are designed to insulate the domestic market by making foreign goods relatively more expensive for consumers and making it more costly for Argentine firms to sell to foreign buyers. These tax instruments limit the scope of opportunities available to Argentine citizens.

Other major tax instruments, including income taxes, VAT and payroll taxes generally apply to taxpayers equally regardless of the types of economic activity in which they are engaged.

In total, these principles imply that Argentina should pursue three goals consequent to any effort at tax reform:

1. The overall number of levies should be reduced substantially.
2. Elimination of gross receipts taxes should be a priority.
3. Elimination of taxes that impede international trade should be a priority.

8.1 REVENUE MAXIMIZATION AS AN UPPER BOUND—NOT A TARGET

In addition to the foregoing considerations, policymakers should recognize that the revenue-maximizing level of taxation is not necessarily the ideal level from the standpoint of long-term economic prosperity and societal well-being. The Laffer Curve, as a conceptual framework, elegantly illustrates that excessively high tax rates can paradoxically reduce government revenues by shrinking the taxable base through mechanisms such as evasion, reduced economic activity, relocation of resources to untaxed or informal sectors, and diminished incentives for work, investment, and entrepreneurship.

> *Even at or near the peak, the marginal excess burden of taxation—the net loss in economic efficiency and well-being from each additional unit of revenue collected—is extraordinarily high.*

However, reaching or approaching this peak is rarely, if ever, the socially optimal outcome. The revenue-maximizing point represents the highest rate the government can impose while still collecting the maximum possible funds in the short term, but it comes at the expense of significant economic distortions and opportunity costs. Beyond this point, further rate increases cause revenues to decline as the disincentives overpower the direct revenue gain from higher rates. Even at or near the peak, the marginal excess burden of taxation—the net loss in economic efficiency and well-being from each additional unit of revenue collected—is extraordinarily high. As economist Lawrence B. Lindsey has emphasized about the Laffer Curve's implications to the United States Congress, the revenue-maximizing rate is not necessarily the optimal rate. It maximizes the extraction

from the private sector while minimizing the incentives for growth, innovation, and voluntary compliance, leading to a smaller overall economy, reduced taxpayer well-being, and ultimately lower long-term revenue potential.[58]

In contrast, setting tax rates substantially below the revenue-maximizing level creates a virtuous cycle of economic expansion and formalization that benefits both the private sector and public finances over time. Lower rates allow individuals and firms to retain a greater share of their earnings, which directly incentivizes additional productive activity: more hours worked, greater risk-taking in entrepreneurship, increased investment in physical and human capital, expanded hiring, and a shift from informal or untaxed channels back into the formal, reportable economy. These behavioral responses expand the taxable base dynamically, often more than offsetting the initial static revenue loss from the rate reduction. The result is not merely revenue recovery but revenue enhancement through growth, coupled with broader societal gains in employment opportunities, rising real wages, and improved living standards.

> *"The fundamental purpose of taxation is to fund essential government functions efficiently, not to micromanage or penalize productive activity"*

The fundamental purpose of taxation is to fund essential government functions efficiently, not to micromanage or penalize productive activity. When tax burdens are kept low relative to the revenue-maximizing threshold, the government interferes less extensively with individuals' choices, encourages capital deepening, fosters innovation, and supports higher total factor productivity (TFP)—the key driver of sustained prosperity discussed in Part 4.

Policymakers should therefore treat the revenue-maximizing rate as an upper bound—a fiscal ceiling beyond which further increases are self-defeating—rather than a target to be approached or achieved. Optimal tax rates would be below this threshold to prioritize the broader goals of economic opportunity, private-sector dynamism, and long-run prosperity. This approach recognizes the trade-off inherent in taxation: higher rates may yield more

[58] Lawrence Lindsay, "Revenue Maximizing Taxation Is Not Optimal," Report to the Joint Economic Committee, United States Congress, July 1997, https://www.jec.senate.gov/public/_cache/files/a81115ac-d185-4a9c-8671-b91939cadba7/revenue-maximizing-taxation-is-not-optimal.pdf.

revenue in the short run but at the cost of slower growth, reduced formalization, and diminished future revenue potential.

By embracing rates that favor growth over revenue extraction, Argentina can reverse decades of stagnation, expand opportunities for its citizens, and build a more resilient, productive economy.

PART 9

RECOMMENDATIONS FOR TAX REFORM

This section outlines a multifaceted, evidence-based roadmap for tax reform, grounded in the principles of sound tax policy outlined in Part 8. Already, Argentina has taken a substantial step toward easing the transition from informality to formality with passage of the labor modernization law in March 2026. The new law significantly reduces the cost of transitioning workers from informality to formality by granting employers' a temporary payroll tax deduction for formal hires.

For any employee hired on or after March 6, 2026, who was formerly a public employee or on whose behalf no social security contributions were made for at least the preceding 12 months, the employer is granted relief on employer social security contributions. For the first four years of formalized employment, the employer contribution would amount to only 2% of wages on these employees' behalf. However, the employee's 17% contribution would remain unchanged.[59]

This amnesty applies only to net new formal employment (i.e., the firm must demonstrate a net increase in registered headcount compared to the prior 12 months). This prevents

[59] Walter Manko, "Reforma Laboral 2026: ¿Qué cambia y cómo impacta en trabajadores y empresas?" Deloitte, March 6, 2026, https://www.deloitte.com/latam/es/services/legal/perspectives/reforma-laboral-2026.html.

substitution of existing formal workers with newly amnestied hires. The law also prohibits the amnesty from being claimed for employees who were previously registered under the same employer within the last 12 months.[60]

This change should catalyze employers to shift more rapidly toward formality once the remainder of the tax structure is reduced and simplified. Not only do existing registered businesses sometimes contract informally with workers, but many businesses are completely informal, meaning this incentive will only be partially effective until the overall tax structure is conducive for the formalization of informal firms. With an average effective corporate tax rate equal to 106% of profits, Argentina has a long way to go before achieving this goal.

> *… firms and individuals will adopt new patterns of behavior in response to changes in tax policy only slowly and iteratively over time.*

The strategy of tax reform elaborated herein emphasizes key real-world constraints. First, firms and individuals will adopt new patterns of behavior in response to changes in tax policy only slowly and iteratively over time. This means a large tax cut similar to that modeled in Section 7.3 should not be expected to *instantly* induce greater formalization and generate more revenue, although incentives like the provisions in the labor modernization law can catalyze faster behavior modification. Second, changes in behavior can unlock total factor productivity in a way that alters the long-term rate of growth. As a result, the static calculations presented in Section 7 *understate* the long-term potential revenue growth that may result from tax cuts.

To account for these realities, the recommendations presented herein rely on data-driven iteration, with all reforms conditioned on verifiable improvements in key metrics such as formality rates, private-sector investment, labor productivity, and real GDP growth. This adaptive approach mitigates risks, allowing policymakers to pause or adjust based on real-time feedback. Core recommendations include:

60 Ibid.

- Replacing provincial gross receipts taxes with a retail sales tax;
- Lowering the national VAT rate to 10%;
- A restructured co-participation system that allows provinces to keep many of the revenues generated within their own jurisdiction, but includes a joint stabilization fund;
- A sequenced phase-down of distortionary taxes on trade to prioritize efficiency gains; and
- Long-term rate reductions in core tax instruments.

9.1 A RIGOROUS DATA-DRIVEN PHASING FORMULA TO ENSURE RESPONSIVENESS

The recommendations in this roadmap recognize that tax policy changes do not produce instant changes in behavior. Firms do not immediately formalize hidden operations, workers do not move from cash payments to registered payroll overnight, exporters do not reroute shipments through legal channels the moment duties fall, and provincial governments do not instantly overhaul administrative practices. These adjustments occur gradually and iteratively, often over several years, as economic actors gain confidence in the new incentive structure and observe that formal status yields net benefits rather than penalties.

> *"Formalization unlocks a virtuous cycle that expands the tax base, and in turn allows further tax cuts."*

Formalization unlocks a virtuous cycle that expands the tax base, and in turn allows further tax cuts. Meanwhile, expanded access to credit and capital can raise labor productivity, boosting real wages and consumption. These dynamic effects mean that the long-run revenue and growth consequences of well-designed tax reductions will compound over time.

To capture these realities without exposing public finances to undue risk, every major step in the reform sequence is conditioned on verifiable, objective progress across a small set of key indicators. The phasing formula recommended herein is deliberately simple, transparent, and focused on outcomes rather than inputs, so that both policymakers and the public can observe whether the strategy is working and adjust accordingly.

The key indicator to which policymakers should look to view the success of tax reforms is the formality rate, as determined by Permanent Household Survey (EPH). Because EPH data are released with a short lag and are already the principal source for informality statistics, they provide the most timely and credible signal of behavioral response.

An important secondary indicator is revenue stability. The long-term reductions in tax rates outlined in Sections 9.4 and 9.6 should proceed in proportion to the growth of inflation-adjusted public revenues resulting from the remaining tax instruments. This allows for a balanced and cautious approach that doesn't create fiscal or economic shocks. For instance, if real federal revenues increase by 2% year over year, then this increase would be used to buy down tax rates going forward, starting with a reduction in the tax scheduled next for elimination. Argentina needs permanent tax reform and economic liberalization and so these adjustments would not revert in the future, but tax reductions would pause if the fiscal and economic thresholds are not satisfied.

To guard against spurious or narrowly based improvements, tertiary conditions *could* also be required. For instance, the pace of reforms could pause if key macroeconomic conditions aren't met, such as:

- Monthly inflation (as measured by INDEC) averages more than 5% over the most recent three months.
- The parallel-market dollar (dollar blue) premium exceeds 35% for two consecutive months.

> *Implementation of a comprehensive and phased, formula-driven tax reform will be dependent on the transparent and credible collection of fiscal and economic data.*

Implementation of a comprehensive and phased, formula-driven tax reform will be dependent on the transparent and credible collection of fiscal and economic data. A fiscal council or a division of the Revenue Collections and Customs Control Agency (ARCA) should maintain a public dashboard to help all Argentines track the progress of the key underlying data that would unlock the subsequent phase of tax reductions. It should display current values and trends, required thresholds, and the compliance status for each key indicator. Based on these inputs, decisions to advance or pause the pace of tax reform would be made automatically according to the published formula. Adjustments to the schedule of reform should be subject to congressional notification but should not require new legislation. If a phase is paused for more than 12 months due to failure to meet thresholds, the administration should recommend targeted remedial measures to improve performance such as enhancement of the employer amnesty provisions authorized under the labor modernization law.

This disciplined, transparent structure ensures that reform proceeds only as fast as the private sector responds, while protecting against premature fiscal slippage.

9.2 ELIMINATING GROSS RECEIPTS TAXES AND LOWERING VAT RATES

Among the eight major tax instruments generating nearly 90% of tax revenue, gross receipts taxes stand out for their particularly pernicious effects. This levy pyramids throughout the supply chain, causing tax expense to be incorporated into the prices of input products and services at subsequent stages of production. This cascade of tax expense disproportionately affects complex goods subject to many stages of production. Gross receipts taxes also represent duplicative taxation on the same transactions—the gross price of a product is subject to gross receipts taxation, the gross profit is subject to VAT, and any remaining net profit is subject to corporate income tax. Further, gross receipts taxes apply to firms regardless of profitability and are not transparent to the ultimate consumer. Finally, gross receipts taxes have become a primary vehicle for provincial governments to directly intervene in local markets by offering promotional rates or exemptions to firms with political clout. In short, they violate every major tenet of sound tax policy.

> *… consumption should be taxed at the final sale of a retail product rather than intermediate business-to-business transactions.*

Hence, phase 1 of tax reform in Argentina should be the complete and irrevocable elimination of gross receipts taxes across all provinces. Instead, consumption should be taxed at the final sale of a retail product rather than intermediate business-to-business transactions. This means the categories of sales subject to sales taxation would need to be defined, but these definitions could simply be aligned with the national VAT in terms of tax base definition and any available exemptions such as reduced rates or nontaxation of essentials such as food for home consumption, medicine, and certain educational materials. Provinces would collect and administer the tax directly on sales occurring within their jurisdiction, but using these common definitions to ensure uniformity and avoid technical barriers to trade between the provinces.

In the short term, this transition should target revenue neutrality for provincial governments to avoid fiscal shocks—it should represent a change in tax structure, but not a significant change in overall tax revenues. This change could also occur alongside a reduction in the national VAT rate, which is regionally high at 21%. Libertad y Progreso has recommended a national VAT rate of no more than 10%, while provinces would also aim to replace the revenues that previously would accrue to them through distribution of federal VAT revenues with retail sales taxes instead.[61] This change would have the additional benefit of lessening provincial dependence on the distribution of federal revenues and would increase tax competition between the provinces.

The resulting tax rates would vary by province, as is currently true with gross receipts taxes. Provincial governments would repeal those gross receipts taxes and aim to replace the associated revenues, along with the revenues distributed to them from national VAT levies, with a retail sales tax that applies uniformly to all products and services identified as final consumer purchases under existing federal VAT definitions.

[61] Manuel Solanet and Franco Marconi, "Federalismo: El Camino hacia la Correspondencia Fiscal," Libertad y Progreso, Informe de Politicas Publicas, forthcoming publication.

This first component of tax reform can be accomplished immediately as provincial governments enter a new fiscal year—it needn't be phased because the reform is revenue-neutral and not dependent on private-sector response to the change. It would require an act of Congress to change the VAT rate and distribution formula, while also instructing provinces to abandon gross receipts taxes and instead impose a retail sales tax. By eliminating gross receipts taxes, Argentina would remove one of the most distortionary elements of its tax code, simplify administration, and dramatically improve the business environment.

By eliminating gross receipts taxes, Argentina would remove one of the most distortionary elements of its tax code, simplify administration, and dramatically improve the business environment.

9.3 REFORMING THE CO-PARTICIPATION SYSTEM FOR GREATER ACCOUNTABILITY

The Argentine co-participation regime has evolved over decades since the income tax was first imposed in 1932. Constitutionally, the federal government held no authority to tax citizens directly unless during a time of emergency, but the income tax has remained a permanent feature in part because the federal government agreed to distribute a share of proceeds to provincial governments through the co-participation arrangement beginning in 1934. Over time, the range of taxes subject to co-participation has grown to the point that collection of most tax instruments is centralized at the federal level and then redistributed to provinces according to predetermined percentages. This centralized system fundamentally disconnects provincial spending decisions from the political and economic costs of taxation.

In practice, two-thirds of Argentina's provinces derive at least 70% of their total revenues from federal co-participation transfers, and several exceed 80–85%. This creates a powerful structural incentive for provincial governments to spend—on public employment, subsidies, or inefficient infrastructure—without facing the full electoral backlash that would

accompany equivalent local tax increases. The political economy is straightforward: Governors gain credit for visible spending while blaming any fiscal shortfalls on federal transfers. The predictable outcome has been persistent provincial overspending, chronic deficits in many jurisdictions, ballooning public-sector wage bills, and reliance on regressive and distortionary local levies (especially gross receipts taxes) to close gaps rather than pursue growth-oriented policies.

The political economy is straightforward: Governors gain credit for visible spending while blaming any fiscal shortfalls on "insufficient" federal transfers.

Equally damaging is the suppression of inter-provincial fiscal competition. Provinces possess limited discretion over major tax bases or rates, and the automatic inflow of co-participated funds dulls any incentive to restrain spending and taxes to attract more residents or investment. High-performing provinces—those that maintain fiscal discipline, reduce informality, streamline regulations, and foster private-sector dynamism—effectively subsidize undisciplined provinces. This cross-subsidization entrenches inefficiency, rewards poor governance, and discourages emulation of successful models.

To correct these pervasive distortions and restore genuine fiscal federalism, the political and economic costs of taxation must coincide with spending decisions. In other words, provincial governments should raise and keep the majority of their own revenue rather than rely on transfers from the federal government. A full proposal along these lines has been articulated by Manuel Solanet and Franco Marconi of Libertad y Progreso,[62] but the main components are summarized below:

- **Collection of several national taxes should be devolved to provincial governments.** Full legislative authority, administration, and collection rights for taxes economically generated within a provincial territory should be given to the provinces. This includes: personal income taxes (while federal jurisdiction remains over corporate income taxes); fuel taxes; personal property taxes; and internal taxes, such as excises on tobacco,

[62] Ibid.

beverages, luxury goods, and other consumption items. Provinces should be empowered to establish their own rates, exemptions, and enforcement priorities within federal guidelines. As a beginning point, provinces could adopt the existing federal tax rates and definitions and then iterate over time. Revenue would become directly proportional to local economic performance, strengthening the incentive for governors to prioritize formality, investment attraction, regulatory simplification, and efficient delivery of public services.

- **All revenue sharing between the federal and provincial governments should end.** Once taxing authority is devolved to provincial governments, there should be no further automatic redistribution of national tax proceeds to provinces. The federal government would retain jurisdiction over its remaining levies, including: corporate income taxes, a reduced VAT, employer and employee contributions to social security, export and import duties, financial transaction taxes, etc. According to estimates developed by Solanet and Marconi at Libertad y Progreso, these levies would leave the National Treasury with roughly equivalent annual income after removing the existing obligation to distribute income downward to provincial governments.
- **The provinces should create a temporary stabilization fund to pool some resources and smooth the transition toward fiscal federalism for some provinces.** To prevent abrupt fiscal shocks—especially for poorer or less-developed provinces that currently receive disproportionate benefits from the distribution formula under co-participation—the provinces should create a temporary fund that would horizontally redistribute financial resources amongst the provinces themselves. Tax revenues resulting from the devolved fuels transfer tax (and perhaps other excise taxes) in each province should be dedicated to this special fund. The fund would distribute its resources according to fixed ratios that would exactly compensate certain provinces for the loss of enhanced revenue they currently receive under the co-participation scheme. These distribution formulas would remain inalterable for the fund's duration, which could potentially last 10–15 years or until objective convergence criteria are met. These empirical criteria could include per-capita GDP differentials below a given threshold or informality rates converging toward a national average. This fund would ensure that no province experiences a net revenue gain or loss in the initial transition to a more federalist system and that the reform is focused on structure rather than revenue outcomes.

Implementation of these structural changes, along with the transition from VAT to retail sales tax revenues recommended in Section 9.2, could occur in tandem through federal enabling legislation.

Practically, provinces will need substantial technical assistance from ARCA to modernize their systems of tax administration and enforcement. This may include an integrated digital collection platform, unified taxpayer registries, risk-based auditing tools, and staff training. A joint federal-provincial oversight committee could monitor this implementation to ensure provincial governments are sufficiently equipped for an expanded role in tax administration. This implementation phase would mean that the actual change in tax structures would not take effect for one year following adoption of the reform.

By realigning provincial incentives so tightly with local outcomes, this reform transforms subnational governments from passive recipients of redistributed national wealth into active architects of their economic futures.

By realigning provincial incentives so tightly with local outcomes, this reform transforms subnational governments from passive recipients of redistributed national wealth into active architects of their economic futures. The result is a more accountable, competitive, transparent, and dynamic federal fiscal architecture—one far better suited to supporting widespread formalization, private investment, productivity growth, and rising living standards across Argentina's diverse regions.

9.4 PHASED ELIMINATION OF MAJOR DISTORTIONARY TAXES

Several major tax instruments in Argentina violate the principle of neutrality by deliberately impeding international trade. Barriers to trade restrict the opportunities available to Argentine producers, consumers, and workers alike. Exporters are deprived of access to global customers who might pay higher prices for their goods; importers and final consumers are denied cheaper or higher-quality inputs, capital equipment, intermediate goods, and consumer products available on world markets; and domestic firms face artificially inflated costs that reduce their competitiveness both at home and abroad. These restrictions are not merely economic inefficiencies. They are limits on human freedom,

preventing individuals from engaging in voluntary exchange with other people who happen to live in different places.

The economic consequences are severe and well-documented. Import duties lower real wages by raising the price of tradable goods and inputs. Export duties make Argentine products less competitive in foreign markets.

Import duties lower real wages by raising the price of tradable goods and inputs. Export duties make Argentine products less competitive in foreign markets.

These levies should be targeted for eventual repeal. Their elimination would restore neutrality by allowing market forces—rather than government-imposed price wedges—to determine the pattern of production, consumption, and trade. The resulting increase in formal trade volumes and access to imported capital goods would broaden the VAT base, raise labor and capital productivity, and generate dynamic revenue gains that static models understate.

A key limitation, however, is that any reform of import tariffs must respect Argentina's obligations under MERCOSUR's Common External Tariff (CET). The CET establishes a shared schedule of external tariffs for imports from non-MERCOSUR countries, with most rates falling between 0% and 35% and an average around 13–14%. Unilateral reductions below CET levels on a broad basis would require either renegotiation with the broader membership or invocation of national-exception mechanisms (which are limited and politically contentious). Accordingly, import tariffs can only be reduced for categories of goods where flexibility is allowed under the MERCOSUR framework (e.g., capital goods and certain intermediate products subject to exceptions) or for classes of goods where national tariffs exceed the MERCOSUR minimum. Fortunately export duties face no such supranational constraint and can be reduced or eliminated unilaterally.

In addition to the conditions highlighted in Section 9.1, elimination of these levies could be subject to:

- An annual decline in informality in trade-sensitive sectors such as agriculture and manufacturing, as measured by EPH;
- A measurable annual increase in formal export registrations and customs-reported trade values; and
- An annual increase in private investment in export-oriented or import-using activities.

By systematically dismantling these trade barriers within the constraints imposed by the MERCOSUR framework, this reform would restore Argentina's integration into global markets, accelerate the return to formal production and export activity, and set the stage for subsequent reform phases that address domestic distortions in income and labor taxation.

9.5 LONG-TERM REFORM

Later stages of the reform roadmap should address the deepest structural disincentives to formal employment and investment. This includes continued reductions in corporate income and payroll taxes but also a realignment of labor market incentives through changes to labor and retirement policies. At a top marginal rate of 35%, Argentina's corporate income tax is globally high, and contains a limited availability of deductions. As Argentina better integrates with global markets, its access to international sources of capital will be limited by this tax rate because capital tends to flow to areas where it produces the highest after-tax return. Likewise, Argentina's high rate of payroll taxes creates a labor tax wedge that discourages formalization.

However, these levies are broad-based, transparent, and mostly neutral, so they violate fewer of the basic tenets of sound tax policy. In a reformed tax environment, they would continue to form the backbone of public revenues and so reduction of these taxes should be viewed as a long-term goal, once the tax base has materially widened through prior stages.

> *As Argentina better integrates with global markets, its access to international sources of capital will be limited by this tax rate because capital tends to flow to areas where it produces the highest after-tax return.*

The phase-out of these taxes must be deliberately paced over an extended horizon and conditioned on continued progress in formalization, positive labor productivity growth, macroeconomic stability, and overall revenue growth. This data-driven approach reflects both the need to allow the dynamic effects of formalization to compound, such as raising total factor production through capital deepening or improved access to capital and lifting real wages to boost consumption and the quality of life. Tax revenues from the remaining tax instruments will rise in proportion to this improvement in overall economic conditions, permitting a reduction in their rates.

However, policymakers in Argentina should complement this tax reform with a major overhaul of the pension system and labor policies to lower the relative costs and restore the relative benefits of formal employment. Expansive moratoria and non-contributory benefits should be phased out for new entrants and pension access should be tied more closely to contributions, which would lower the tax burden shouldered by the contributors. Requirements to pay extended severance benefits to formal employees also creates liabilities for the employer that are difficult to plan for and can make an enterprise less nimble during periods of economic turbulence. Most importantly, it raises the cost of formal employment relative to informality.

When combined with prior reforms—gross receipts elimination, co-participation realignment, trade-barrier removal, and transitional credits—this long-term phase completes the transition to a neutral, simple, and growth-oriented tax system. Over a decade or more, Argentina can realistically achieve informality levels comparable to neighboring Chile (26%), restore capital deepening and real wage growth, and return to a path of sustained prosperity. The key is sequencing and patience: allow each verifiable step forward to unlock the next, letting market responses—rather than central fiat—drive the recovery.

> *Expansive moratoria and non-contributory benefits should be phased out for new entrants and pension access should be tied more closely to contributions, which would lower the tax burden shouldered by the contributors.*

9.6 A COHERENT PATHWAY TO FORMALIZATION, GROWTH, AND FISCAL SUSTAINABILITY

The reform roadmap outlined in this section integrates five tightly linked components into a single, internally consistent strategy. Each element addresses a distinct but interrelated barrier to formality and growth, while the overall design respects the central empirical reality that behavioral change occurs slowly and cumulatively. Firms and households will not shift *en masse* to formal arrangements the moment headline rates fall; they will do so incrementally as perceived risks decline, complementary infrastructure (credit, training, legal protections) improves, provincial incentives realign, and visible successes accumulate. The proposal therefore rejects one-shot "big bang" cuts in favor of sequenced, conditional, and data-verified steps that allow dynamic productivity gains to emerge and compound over time.

The elimination of gross receipts taxes and their replacement with a retail sales tax removes the single most distortionary and pyramiding-prone levy in the system. By shifting taxation from intermediate revenues to final consumption, the reform promotes neutrality, reduces cascading burdens on complex production chains, and simplifies compliance for businesses that previously faced overlapping provincial and national obligations. Retail sales tax rates could be calibrated to also replace the share of VAT that is currently distributed to provinces through the co-participation scheme and allow for a substantial reduction in the VAT so that it only generates the share of revenues currently accruing to the National Treasury.

The devolution of taxing authority from the federal to provincial level promotes greater fiscal discipline at the local level to attract residents and investment. Politicians who make

spending decisions will also bear the political and economic costs of the tax levels needed to support that spending. At the same time, relatively poor provinces that currently benefit from an enhanced share of revenues under the co-participation scheme, could be held harmless from this structural change using a transitional stabilization fund supported by the revenues from dedicated tax instruments.

The sequenced phase-out of the remaining major distortionary taxes removes successive layers of disincentives only after earlier reforms have demonstrably widened the base and raised formality. Trade-distorting levies (export duties and import tariffs) are addressed first because they generate clear distortions that alienate Argentines from the benefits of international trade. Income and payroll taxes follow later, once markets have responded to the initial reforms. Every step is gated by the same primary threshold—a sustained decline in national and sectoral informality—plus supporting indicators of investment and productivity growth. This deliberate pacing allows dynamic effects (higher productivity, rising real wages, broader consumption) to offset static revenue losses and, over a decade-long horizon, to generate net fiscal space for further rate reductions.

The strategy is deliberately paced to match the slow, iterative nature of real-world behavioral change, yet it is sufficiently ambitious to unlock the substantial productivity and growth dividends that have eluded Argentina for decades.

Taken together, these components form a coherent, mutually reinforcing pathway. The strategy is deliberately paced to match the slow, iterative nature of real-world behavioral change, yet it is sufficiently ambitious to unlock the substantial productivity and growth dividends that have eluded Argentina for decades.

If implemented with the same fiscal discipline that has already produced sustained surpluses and falling inflation under the current administration, this roadmap offers a realistic prospect of reducing informality to levels comparable to Chile or Uruguay, restoring capital deepening and productivity improvements, and returning Argentina to a trajectory of sustained prosperity. The key is patience combined with persistence: let each

verifiable step forward unlock the next, allowing market forces—rather than central decree—to drive the recovery.

TABLE 10: SUMMARY OF RECOMMENDED REFORMS

Component	Description	Primary Objective	Implementation Timeline	Key Mechanisms / Conditions	Expected Outcomes
1. Replacement of Gross Receipts Taxes with Provincial Tax on Final Sales & Calibration with Reduced VAT	Complete replacement of provincial gross receipts taxes with a new retail sales tax; align definitions with national VAT standards to facilitate quick adoption. Reduce the national VAT rate to <10% (only the federal share).	Eliminate pyramiding, promote neutrality, simplify compliance and administration, reduce informality.	Year 1: Congress passes a law outlining this reform and provinces upgrade systems of tax administration and enforcement with counsel from ARCA. To expedite adoption of industrial definitions for a sales tax, provinces should begin with the existing federal definitions under VAT.	Provincial sales tax rates calibrated to replicate prior gross receipts revenue and provincial share of VAT revenue.	Broader tax base, lower effective burdens on production chains, formality gains in sectors where private enterprises dominate.
2. A Return to Fiscal Federalism	Transfer collection authority for key taxes generated in provincial territory (personal income, fuels, personal assets, internal taxes) to the provinces and end the co-participation scheme. Establish a temporary stabilization fund among provinces with fixed compensatory percentages to ensure smooth transition.	Recouple provincial revenues with local outcomes; reward fiscal discipline, formality growth, and administrative efficiency.	Years 1-2: Congress passes a law outlining this reform and provinces upgrade systems of tax administration and enforcement with counsel from ARCA. Provinces may need online tax payment portals and electronic monitoring mechanisms.	Criteria: Distribution from the stabilization fund should be calibrated to ensure provinces currently benefiting from enhanced federal distributions under co-participation are held harmless during the transition.	Competition among provinces, reduced cross-subsidization of low performers, faster provincial reforms.
3. Phased Elimination of Major Distortionary Taxes	Sequenced removal of export fees and import tariffs to the extent allowed by MERCOSUR.	Progressively eliminate distortionary barriers that isolate Argentina from international buyers and sellers.	Years 3–10: Export fees are reduced and eliminated to the extent the remaining tax instruments generate real revenue growth.	Conditioned on real revenue growth from the remaining tax instruments. Reductions in informality and growth of exports could also be considered.	Access to cheaper or better products, including input and capital goods from foreign suppliers, improving the buying power of individuals. Access to international buyers for Argentine products.

PART 10

CONCLUSION

Argentina's century-long economic decline, from global prosperity to stagnation and poverty, underscores the perils of a tax system that punishes productivity and rewards evasion. As detailed in this analysis, the Milei administration's decisive fiscal consolidation has achieved a remarkable surplus and tamed inflation, dropping from 25.5% monthly in December 2023 to 2.7% by December 2024. Yet, these gains represent only a first step toward sustainable recovery. Argentina’s punitive tax environment pushes nearly half of the workforce into the shadows as individuals have developed networks of informal and unregistered working relationships so they can evade taxation.

This behavior staunchly limits productivity, access to capital, and real wage growth. Even worse, public coffers derive little benefit from Argentina’s excessive rates of taxation. The empirical data presented here provides tangible evidence that Argentina’s tax rates are beyond the revenue-maximizing level implied by the Laffer Curve. High rates of taxation are driving rational actors underground and eroding the tax base. This means Argentina could generate more revenue with lower taxes, at least to the extent that individuals and businesses respond to rate reductions by re-integrating into the formal economy.

This paper outlines a phased roadmap for tax reform designed to eliminate the most destructive taxes, realign taxing and spending authority at the provincial level, phase out trade-distorting levies, and allow for gradual reduction in the rates of core tax instruments. These reforms rely on data-driven thresholds to ensure that markets are responsive to changes in tax policy before proceeding to subsequent phases.

At the heart of this strategy lies the imperative to reduce informality and expand the formal economy, which serves as the linchpin for advancing every major policy goal articulated herein. Reducing informality is essential for the expansion of economic opportunity. Individuals should not have to hide in the shadows because their government has erected a tax and economic environment that is unworkable. A tax environment that allows people to prosper can restore growth and hope in Argentina.

Individuals should not have to hide in the shadows because their government has erected a tax and economic environment that is unworkable.

This change could spur a profound cultural transformation that fosters values of trust, accountability, and civic participation because people no longer feel the need to conceal their activities. Literature comparing Argentina and Chile has shown that low compliance stems not merely from high tax rates but from diminished social trust, dissatisfaction with government services, and weakened moral sanctions against evasion. Those attitudes are amplified by a system that renders full compliance unviable. This transparency can rebuild social cohesion and reverse the cynicism bred by decades of hyperinflation and fiscal instability.

The Milei administration's early successes provide a historic window for these reforms. If executed, this roadmap can restore Argentina's trajectory as a beacon of opportunity, proving that liberty and free enterprise are the true engines of prosperity. Through these reforms, Argentina can not only reclaim lost growth but also heal the social fabric frayed by decades of excessive intervention.

ABOUT THE AUTHOR

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Lawrence has been a financial executive in both the public and private sectors and has served as chief financial officer of publicly traded, growth stage, and startup manufacturing and distribution companies. He was CFO of Players Network, the first fully reporting, publicly traded marijuana licensee to be listed on a U.S. exchange, CFO of C Quadrant, a startup manufacturer and distributor that was subsequently sold to Lowell Farms (LOWL), CFO of Apex Extractions, a manufacturer and distributor based in Oakland that he helped take public, and, most recently, CFO of Claybourne Co., a top-3 flower brand in California by market share. Through these roles, Lawrence raised capital, planned capital expenditure, prepared financial forecasts, implemented systems for accounting and inventory control, designed internal control processes, managed monthly and quarterly closings and reporting, managed compliance with state and local regulations, negotiated contracts, and prepared filings with the U.S. Securities and Exchange Commission.

Lawrence also served as a senior appointee to the Nevada Controller's Office, where he oversaw the state's external financial reporting. Prior to joining Reason Foundation in 2018, Lawrence had also spent a decade as a policy analyst on labor, fiscal, and energy issues between North Carolina's John Locke Foundation and the Nevada Policy Research Institute.

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Lawrence holds an M.S. and B.S. in accounting from Western Governors University, an M.A. in international economics from American University, and a B.A. in international relations from the University of North Carolina at Pembroke. He lives in Las Vegas with his wife and two children and enjoys baseball and mixed martial arts.

APPENDIX A

COMPARATIVE TAX SYSTEMS IN LATIN AMERICA AND THE USA

To understand Argentina's challenges, this section compares its tax structure and burden to those of five large Latin American peers—Brazil, Chile, Colombia, Mexico, and Peru—and the United States, highlighting differences in complexity, rates, and economic outcomes. It shows that Argentina's unique combination of value-added tax (VAT), corporate income tax (CIT), gross receipts taxes, and high payroll taxes creates distortions that push rational individuals and firms toward informal markets where they can evade taxation. Many Latin American peers also impose complicated tax systems and experience high rates of informality, including Brazil, Colombia, Mexico, and Peru. By contrast, simpler and lower-rate systems in Chile and the United States encourage compliance, offering lessons for a reform agenda in Argentina.

ARGENTINA

The International Monetary Fund estimated Argentina's tax burden, as a percent of GDP, at 32.5% in 2023. Argentina also had the fifth-highest public debt burden among the 150

countries in the IMF database at 155.4% of GDP.[63] However, it is not only the total tax burden that matters, but also the ways in which taxes are assessed that influence behavior. As detailed in Part 2, Argentina relies on a complex web of national, provincial, and municipal levies. Key components include:[64]

• **Corporate Income Tax (CIT):** Progressive rates of 25% for profits up to ARS $50 million, 30% for ARS $50–500 million, and 35% for profits above ARS $500 million. Small businesses can opt for a simplified regime, but compliance remains complex.

• **Personal Income Tax (PIT):** Progressive rates of 5% to 35% across eight tax brackets. Individuals who work as independent contractors are also subject to gross receipts taxes assessed at the provincial level. Capital gains are taxed at a flat 15%.

• **Value-Added Tax (VAT):** A 21% standard rate, with a lower 10.5% rate for essential goods like food and clothing and a higher 27% rate for utilities.

• **Payroll Taxes:** Social security contributions total 41–43.4% (24–26.4% employer, 17% employee), uncapped for employers and capped at ARS $2,841,525 monthly for employees.

• **Gross Receipts Taxes:** Provincial taxes usually between 0–5% on business revenue, applied regardless of profitability.

• **Other Levies:** Financial transaction tax (0.6%), export duties (up to 33%), municipal and excise taxes.

A defining feature of Argentine tax policy is that a single transaction may be taxed multiple times. One sale by a business is taxed via gross receipts taxes, VAT, and CIT. Effectively, this means the transaction is taxed on its gross value, its gross margin (sales price less cost of goods) and net profit, if any remains.

The cost of tax compliance is also high in Argentina. In 2019, when the World Bank last estimated the amount of time required, on average, for firms to remain compliant with just three major types of taxes (CIT, VAT, and payroll taxes), it estimated these would take a

[63] "Public Finances in Modern History: 1800 – 2023: Government Expenditure, Percent of GDP," International Monetary Fund, Datamapper, https://www.imf.org/external/datamapper/datasets/FPP.

[64] Price Waterhouse Coopers, "Worldwide Tax Summaries: Argentina."

knowledgeable professional 311.5 hours annually to complete for each filer.[65] This time estimate accounts for only a small fraction of the 155 different tax levies in effect in Argentina.

BRAZIL

The IMF estimates Brazil's tax burden at 45.5% of GDP[66]—higher than Argentina's—and with a similarly complex federal and state system. Key features include:[67]

• **Corporate Income Tax (CIT):** A flat 34% rate (15% base rate plus 10% surtax and 9% social contribution).

• **Personal Income Tax (PIT):** Progressive rates of 7.5% to 27.5% while the first $R 27,100 (BRL) (roughly $4,776 USD) in annual income is exempt from taxation. Capital gains are taxed progressively at 15% to 22.5%.

• **Value-Added Tax (VAT):** State-level taxes (ICMS) range from 17–20%, varying by product and region, with federal taxes (PIS/COFINS) adding 3.65–9.25%. Complexity arises from variations across states.

• **Payroll Taxes:** Employee contributions toward social security are progressive, ranging from 7.5% to 14% of wages. Employers contribute 20% of wages, for a total of 27.5 – 34%.

Brazil's system is complex, with high compliance costs. The World Bank estimates it would cost a firm 1,501 hours of a knowledgeable professional's time to remain compliant, on average, with just CIT, VAT, and labor taxes.[68] However, Brazil avoids gross receipts taxes, relying on VAT and income taxes. The Brazilian government estimated informality at 38%

65 "World Development Indicators: Time to Prepare and Pay Taxes," World Bank, Updated June 28, 2024. Available at: https://databank.worldbank.org/metadataglossary/world-development-indicators/series/IC.TAX.DURS.

66 "Public Finances in Modern History: 1800 – 2023: Government Expenditure, Percent of GDP," International Monetary Fund, Datamapper, https://www.imf.org/external/datamapper/datasets/FPP.

67 "Worldwide Tax Summaries: Brazil," Price Waterhouse Coopers, Updated January 2025, https://taxsummaries.pwc.com/brazil.

68 World Bank, "World Development Indicators: Time to Prepare and Pay Taxes."

in the first quarter of 2025, lower than in Argentina, but still higher than in advanced economies.[69]

CHILE

The IMF estimates Chile's tax burden at 27.4% of GDP and its system is structured to prioritize simplicity. Key features include:[70]

• **Corporate Income Tax (CIT):** A flat 25% rate, with partial integration to avoid double taxation of dividends.

• **Personal Income Tax (PIT):** Progressive rates of 4.0% to 35.5% while the first $11,368 annually in USD equivalent is exempt from taxation. Capital gains are taxed as ordinary income.

• **Value-Added Tax (VAT):** A 19% uniform rate, with exemptions for essential goods.

• **Payroll Taxes:** Total 20% (10% paid by the employer and 10% by the employee). Wages above 75.7 unidades de fomento (approximately $3,049 USD per month) are not subject to payroll taxes.

Chile's system avoids gross receipts taxes, relying primarily on VAT and income taxes. The World Bank estimates it would take a knowledgeable professional 296 hours to stay compliant with CIT, VAT, and labor taxes on behalf of a typical firm.[71] Regionally low payroll taxes incentivize formal participation. In the fourth quarter of 2024, the Chilean government estimated informality at 26.4% of the workforce—the lowest among large Latin American nations.[72]

69 Marcelo Osakabe, "Informal Employment in Brazil Hits Lowest Rate Since Pandemic," *International Valor*, May 7, 2025, https://valorinternational.globo.com/economy/news/2025/05/07/informal-employment-in-brazil-hits-lowest-rate-since-pandemic.ghtml.

70 "Worldwide Tax Summaries: Chile," Price Waterhouse Coopers, Updated January 2025, https://taxsummaries.pwc.com/chile.

71 World Bank, "World Development Indicators: Time to Prepare and Pay Taxes."

72 "Boletin Estadistico: Informalidad Laboral," Instituto Nacional de Estadisticas, Edicion No. 29, Feb. 5, 2025, https://www.ine.gob.cl/docs/default-source/informalidad-y-condiciones-laborales/boletines/2024/ene-informalidad-29.pdf?sfvrsn=493fe769_5.

COLOMBIA

The IMF estimates Colombia's tax burden at 35.4% of GDP. Key features include:[73]

• **Corporate Income Tax (CIT):** A 35% rate, with deductions for investment.

• **Personal Income Tax (PIT):** Progressive rates ranging from 19% to 39%, with the first 1,090 tax units (roughly $12,971 USD) exempt from taxation. Capital gains are taxed at a flat 15%.

• **Value-Added Tax (VAT):** A 19% rate, with exemptions for basic goods.

• **Payroll Taxes:** Total 28.5% (20.5% paid by the employer and 8% paid by the employee). For very low earners, employers do not need to pay contributions to the national health system, saving 8.5% of wages.

Colombia avoids gross receipts taxes, focusing on VAT and income taxes. The World Bank estimates compliance with CIT, VAT and labor taxes would require 255.5 hours, on average.[74] The Columbian government estimated Informality at 55.9% of the workforce in the fourth quarter of 2024.[75]

MEXICO

The IMF estimates Mexico's tax burden at 28.7% of GDP. Key features include:[76]

• **Corporate Income Tax (CIT):** A 30% rate, with deductions for reinvested profits.

• **Personal Income Tax (PIT):** Progressive rates ranging from 1.92% to 35%. Capital gains are taxed as ordinary income.

73 "Worldwide Tax Summaries: Colombia," Price Waterhouse Coopers, Updated January 2025, https://taxsummaries.pwc.com/colombia.

74 World Bank, "World Development Indicators: Time to Prepare and Pay Taxes."

75 "Ocupacion Informal: Trimestre Octubre – Diciembre 2024," Departamento Administrativo Nacional de Estadistica, Boletin Tecnico, Feb. 12, 2025, https://www.dane.gov.co/files/operaciones/GEIH/bol-GEIHEISS-oct-dic2024.pdf.

76 "Worldwide Tax Summaries: Mexico," Price Waterhouse Coopers, Updated April 2025, https://taxsummaries.pwc.com/mexico.

• **Value-Added Tax (VAT):** A 16% rate, with exemptions for essential goods.

• **Payroll Taxes:** Rates are variable depending on the assessed payroll risk for the employer but range from 24% to 38% for the employer and 10% to 30% for the employee. However, contributions are capped at MXN $207,892 annually (roughly $10,669 USD) for the employer and MXN $28,057 (roughly $1,440 USD) for the employee.

Mexico's system avoids gross receipts taxes, focusing on VAT and income taxes. While payroll tax rates are nominally high, maximum contribution amounts may limit the disincentive for informality, at least among high earners. The World Bank estimates compliance with CIT, VAT and labor taxes would require 240.5 hours for the typical firm.[77] The Mexican government estimated informality at 52.2% of the workforce in the fourth quarter of 2024.[78]

PERU

The IMF estimates Peru's tax burden at 22.5% of GDP. Key features include:[79]

• **Corporate Income Tax (CIT):** A flat 29.5% rate.

• **Personal Income Tax (PIT):** Progressive rates ranging from 8% to 30%. Capital gains and income from leases are taxed at a flat 5% rate. Withholdings are not mandatory and taxes must be paid upon filing an annual return.

• **Value-Added Tax (VAT):** An 18% rate, with exemptions for essential goods.

• **Payroll Taxes:** Total 22% (9% paid by the employer and 13% paid by the employee) to finance public pension and healthcare systems.

Peru avoids gross receipts taxes, relying on income taxes and VAT. The World Bank estimates compliance with CIT, VAT and labor taxes would require 260 hours for the typical

77 World Bank, "World Development Indicators: Time to Prepare and Pay Taxes."

78 "Encuesta Nacional de Ocupacion y Empleo (ENOE)," Instituto Nacional de Estadistica y Geografia, Boletin de Indicador 111/25, https://www.inegi.org.mx/contenidos/saladeprensa/boletines/2025/enoe/enoe2025_02_Mex.pdf.

79 "Worldwide Tax Summaries: Peru," Price Waterhouse Coopers, Updated February 2025, https://taxsummaries.pwc.com/peru.

firm.[80] In 2024, the Peruvian government estimated as much as 57.8% of the labor force worked informally.[81]

UNITED STATES

The IMF estimates the United States' tax burden at 36.3% of GDP, decentralized between the federal, state, and local levels. Unlike most countries, the United States issues the global reserve currency and can finance deficit spending at the federal level through the issuance of new currency. Key features include:[82]

• **Corporate Income Tax (CIT):** A flat 21% federal rate, with state taxes averaging 4%, totaling 25% on average. Deductions are broadly allowable for investment.

• **Personal Income Tax (PIT):** Progressive rates ranging from 10% to 37%. Capital gains are taxed at 0%, 15% or 20%, depending on the taxpayers' overall tax bracket. Additionally, 41 states impose income taxes with rates ranging between 1% and 10%.

• **Sales Tax:** State-level sales taxes range from 0% to 10.1%.[83] These taxes are applied at purchase and paid by the customer. The United States does not levy a VAT.

• **Payroll Taxes:** Total 15% (7.65% paid by the employer and 7.65% paid by the employee) for public pensions and old-age health insurance), capped at $160,200 in annual wages.

At the federal level, the United States avoids gross receipts taxes although a handful of states impose these taxes. The World Bank estimates compliance with CIT, VAT and labor taxes would require 175 hours for the typical firm—lower than all large Latin American countries considered herein.[84] Informality is so negligible the government makes no attempt to measure it.

80 World Bank, "World Development Indicators: Time to Prepare and Pay Taxes."

81 "Persistencia de la Informalidad y Precariedad del Empleo," Centro Nacional de Planeamiento Estrategico, Observatorio (CEPLAN), November 2024, https://observatorio.ceplan.gob.pe/ficha/tg18.

82 "Worldwide Tax Summaries: United States," Price Waterhouse Coopers, Updated February 2025, https://taxsummaries.pwc.com/united-states.

83 Jared Walczak, "State and Local Sales Tax Rates, 2025," Tax Foundation, Feb. 4, 2025, https://taxfoundation.org/data/all/state/sales-tax-rates/.

84 World Bank, "World Development Indicators: Time to Prepare and Pay Taxes."

COMPARATIVE ANALYSIS

Argentina's tax system is an outlier due to its complexity, high rates, and multiple taxation of transactions. Table 1 summarizes key metrics:

TABLE A1: MAJOR TAX RATES AND INFORMALITY BY COUNTRY

Country	Tax Burden (% GDP)	CIT Rate	PIT Rate	VAT/Sales Tax	Labor Taxes	Informality
Argentina	32.5%	25–35%	5-35%	21%	41–43.4%	44.1%
Brazil	45.5%	34%	7.5-27.5%	17–29%	27.5-34%	38.0%
Chile	27.4%	25%	4-35.5%	19%	20%	26.4%
Colombia	35.4%	35%	19-39%	19%	28.5%	55.9%
Mexico	28.7%	30%	1.9-35%	16%	24-38%	52.2%
Peru	22.5%	29.5%	8-30%	18%	22%	57.8%
USA	36.3%	25%	10-37%	0–10%	15%	<5%

Sources: IMF, Price Waterhouse Coopers World Tax Summaries, national labor statistics agencies.

Argentina's 41–43.4% labor taxes are the highest among large Latin American countries, although Argentina is not unique in experiencing a high rate of informality. Argentina is the only country among this peer group to impose a gross receipts tax in addition to both VAT and income taxes.

High corporate income taxes discourage investment because they limit the return to capital. Chile and the United States stand out for imposing the lowest rates of corporate income tax.

Direct taxes on formal employment (usually intended to finance public pension and healthcare systems) create a tax wedge between formal and informal employment arrangements. Employers who hire workers informally can realize a labor-cost savings, while workers may also increase their take-home pay by avoiding these taxes. Labor taxes are lowest in the United States and Chile, which both exhibit the lowest level of informality.