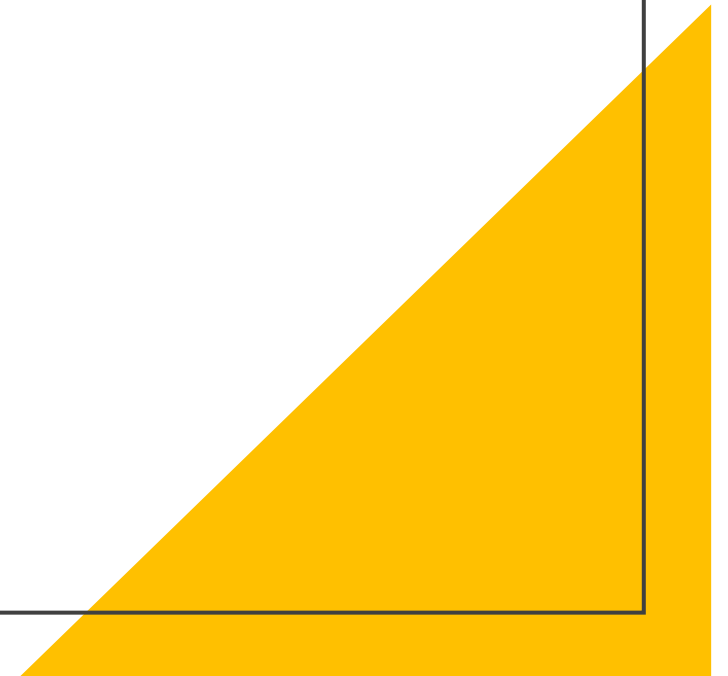



Value-added tax (VAT)

Some general characteristics and the
argentinian case



VAT Characteristics

- Taxes the consumption
 - The tax goes to value-added, not the total value
 - In theory, is not a distorsive tax
 - Is one of the most important sources of governments collection and state finance
 - The seller can “recover” the VAT paid when he/she bought his/her supplies
 - Can be used to modelate the consumer behaviour and the shape of the entire productive structure
 - 166 countries (out of 193 in the UN) uses VAT or similar taxes
- 
- A large yellow triangle is positioned in the bottom right corner of the slide, pointing towards the top right.

Critics to VAT

- Is said to be a REGRESSIVE TAX
- In cash transactions, is easy to avoid it
- For the governments, the VAT collection is always less than expected



VAT in Argentina

- It was imposed as an emergency tax, in 1975
- It was incremented several times during the 90's
- Today, the VAT has different rates:

21%

The general rate

Almost every good or service has this rate

10.5%

Reduced rate

Is used for Good considered "a priority", basic food like rice, flour, fruits, etc. And for some other industries that the government tries to help or encourage

27%

Increased rate

Is rarely used, but is usual to find it on services like telecommunications or electricity

Exemptions to VAT



To be included on the VAT regime, you must be “Responsable Inscripto” (in english: Registered Manager) or you must be a bussines.



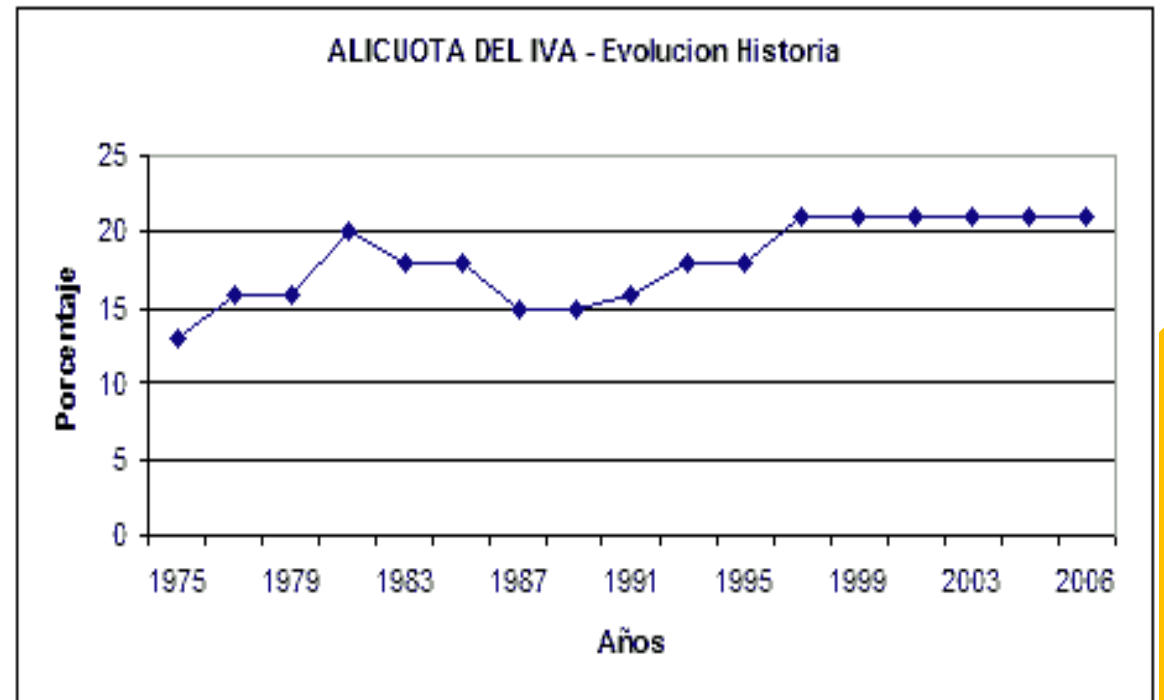
Some organisations or operations are not taxed with VAT, like: Medical supplies, educative activities, social and cultural activities, charities, etc.



The exportation of services is also not taxed with VAT.

Some particularities of Argentinian VAT

- Argentina is the second country with the highest VAT in America
- It started with a 13% rate and it only included some particular goods and services



Source: <https://www.econlink.com.ar/impuestos-distorsivos-iva/iva> based on MECON data

Welcome to ESSCALAND!



- ESSCALAND is an island on the middle of the Carribbean Sea, when recent excavations found several mines of gold and oil deposits.
- The brand new president of the Island, Mr. Nicolas Dacunda, has to decide how to charge these activities in order to maximize the wealth of the country and of course, his own goverment



- The president and his team of renowned economists has decided to use a kind of tax very common in Latin America, Europe and the rest of the world: Value-added tax
- Of course, why just tax the mining and oil activities? Why don't we tax other activities, goods and services? It would be a great opportunity to improve the distribution of income in the country and to set some incentives in other activities
- The team has decided: a 14% general rate of VAT in almost every good or service, based on the Latin American average VAT;
A 5% for mining and oil activities, because the president wants to encourage the companies to invest on the extraction of these mayor resources
a 0% VAT on ecological activities, in order to stimulate activities to counter the environmental problems that will come with the mining and oil extraction

Also, a 0% VAT for:



Cultural activities, like libraries, cinemas, theatres



Charities



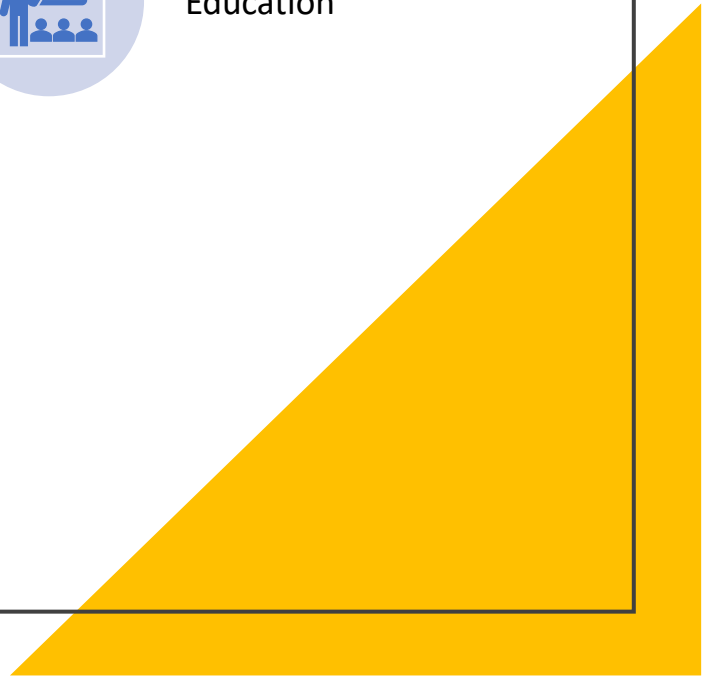
Education



Sports

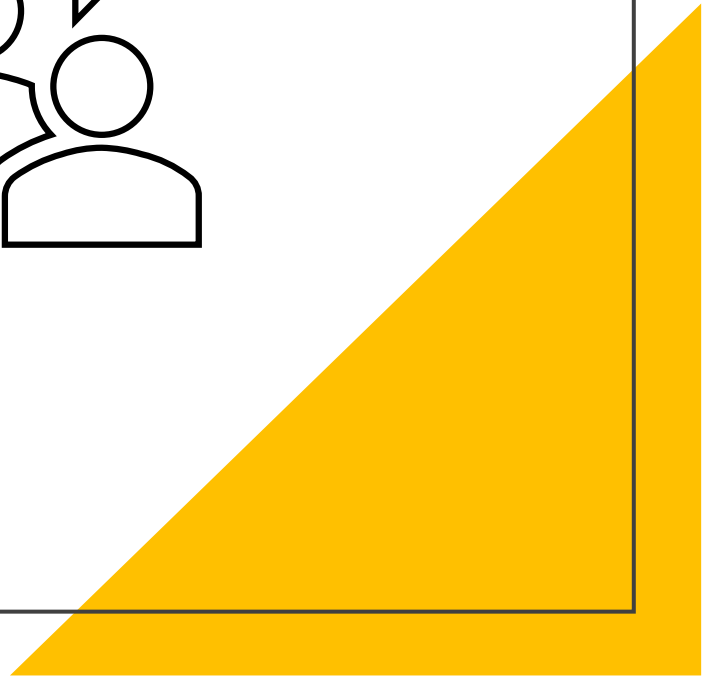
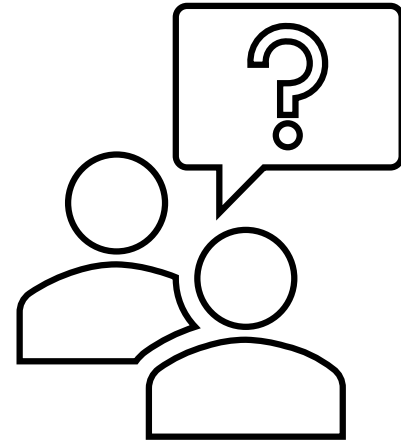


Basic goods and services, like water supply, medicine, electricity and non-luxury food



Thank you very much!

Any questions or comments?



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