Santiago Resico
Strategist
sresico@tpcgco.com
+54 11 4898 6615

Provinces – Argentina

September 22, 2023

Provinces Strategy Flash

The newly proposed Income Tax Law is poised to cause a significant reduction in provincial income sources

On Tuesday , Mr. Massa's proposed new Income Tax law was approved in the lower house with 135 positive votes, with the measure poised to have a significant impact in the provincial space.

On Tuesday, Mr. Massa's proposed new Income Tax law was approved in the lower house with 135 positive votes, with the measure poised to have a significant impact in the provincial space. The new legislation proposes a significant increase in the minimum monthly income needed to pay such tax, raising it to 15 minimum wages, which currently amount to around ARS 1.770.000 (roughly USD 5000 at the official FX rate, USD2400 at the BCS). Having the approval from the Lower House, which was granted by a combination of UxP, Federal Peronism, and Libertarian votes, the measure now moves to the Senate where it will be discussed by the end of next week. Approval in the Upper House does seem somewhat more complex, as numbers are not as supportive of the UxP-impulsed project. Still, we expect the law to pass, as the math, albeit slim, does allow the administration to power it through. In this context, we expect the whole UxP block to support the measure (31 seats), in addition to a fraction of the rebel block of Unidad Federal (4 seats), which should compound with another three independent senators to push the supporting caucus beyond the needed votes to 38 (the law needs 37 votes for approval). The project has already been greenlighted by the corresponding senate commission and will be discussed next Thursday by the entire Upper House. In this context, we expect the measure to pass by a slim margin, with the JxC caucus trying to form a blocking position.

Figure 1: Impact of the new Income Tax Law

Total Impact on Income	ARSmn	% of GDP
Treasury	-1,054,993	-0.30%
AFIP	-55,615	-0.02%
Judicial Power	-100,503	-0.03%
ATNs Fund	-28,715	-0.01%
Provinces	-1,687,299	-0.48%
Total	**-2,927,125**	**-0.84%**

Source: TPCG Research based on OPC

The measure is poised to impact the 2024 budget significantly, as it is forecasted to cause a 0.84pp of GDP drop in Income sources including falls in National and Provincial Revenues.

The measure is poised to impact the 2024 budget significantly, as it is forecasted to cause a 0.84pp of GDP drop in Income sources including falls in National and Provincial Revenues. While the Income Tax is a national revenue source, it is included in the income sources that qualify to enter into the overarching Federal Coparticipation System. This means that part of the collection corresponding to the Income Tax is taken by the National Government, while another portion is redistributed to the provinces, as automatic national government transfers. The current system envisages all collection of the Income Tax to be redistributed in the following manner. 40.24% of the total collection is assigned to the National government, 58.76% is redirected to the provinces (including CABA), while the remainder goes to finance the ATNs Fund (1%), a Deficit Compensation Fund (which receives a lump sum amount) and the AFIP, which receives a 1.9% of the tax collection prior to the redistribution. Then, in this context, the brunt of the measure will be endured by the Provinces, as the sub-sovereign space as a whole will be more affected by the newly instituted regime than the National Government. According to the calculations made by the Congress Budget Office, the measure is bound to reduce the Tax collection by -0.84pp of GDP. In accordance with the established coparticipation system, this loss is split as described above. In particular, the National Treasury will endure a -0.3pp of GDP drop in collection, which compounds with an -0.02pp loss for the AFIP, a -0.03pp drop in Judicial Power revenues, a -0.01% reduction in the ATNs fund, and finally, a -0.48pp decrease in Provincial income. These calculations are made for the 2024 period, based on the macroeconomic assumptions made in the 2024 budget presented in Congress.

Figure 2: Impact of the new Income Tax Law by province

Loss of Income	ARSmn	% of GDP	USDmn	Automatic Transfers 2024	as % of Forecasted Automatic Transfers	Automatic Transfers as % of Income	As % of Income Sources
Provinces with Oustanding USD Debt							
La Rioja	34,399	0.01%	57	505,991	6.8%	84.0%	5.7%
Jujuy	47,199	0.01%	78	703,116	6.7%	77.7%	5.2%
Tierra del Fuego	20,490	0.01%	34	301,010	6.8%	69.0%	4.7%
Chaco	82,878	0.02%	137	1,247,198	6.6%	69.6%	4.6%
Salta	63,679	0.02%	105	975,463	6.5%	67.6%	4.4%
Río Negro	41,919	0.01%	69	619,608	6.8%	64.7%	4.4%
Entre Ríos	81,118	0.02%	134	1,205,359	6.7%	57.7%	3.9%
Mendoza	69,279	0.02%	114	1,030,882	6.7%	53.5%	3.6%
Santa Fe	148,477	0.04%	245	2,248,257	6.6%	52.9%	3.5%
Córdoba	147,517	0.04%	243	2,187,967	6.7%	47.4%	3.2%
Chubut	26,274	0.01%	43	396,729	6.6%	34.9%	2.3%
PBA	364,832	0.10%	601	6,034,507	6.0%	37.8%	2.3%
Neuquén	28,834	0.01%	48	436,084	6.6%	20.3%	1.3%
CABA	40,980	0.01%	68	567,116	7.2%	10.8%	0.8%
Rest							
Santiago del Estero	68,639	0.02%	113	1,024,815	6.7%	83.0%	5.6%
Catamarca	45,759	0.01%	75	666,381	6.9%	77.7%	5.3%
San Juan	56,159	0.02%	93	824,759	6.8%	76.8%	5.2%
Formosa	60,479	0.02%	100	898,904	6.7%	77.1%	5.2%
San Luis	37,919	0.01%	62	551,105	6.9%	74.3%	5.1%
Corrientes	61,759	0.02%	102	940,582	6.6%	72.3%	4.7%
La Pampa	31,199	0.01%	51	465,066	6.7%	52.2%	3.5%
Misiones	54,879	0.02%	90	841,105	6.5%	51.4%	3.4%
Tucumán	79,038	0.02%	130	1,182,940	6.7%	46.0%	3.1%
Santa Cruz	26,274	0.01%	43	389,363	6.7%	40.2%	2.7%

Source: TPCG Research based on OPC

We find the possible approval of the law credit negative for the entirety of the provincial space, as it compromises a significant portion of the provincial budgets, causing a major reduction in income sources.

We find the possible approval of the law credit negative for the entirety of the provincial space, as it compromises a significant portion of the provincial budgets, causing a major reduction in income sources. Taking a look at the programmed automatic transfers to provinces for 2024, the new Income Tax law shaves a significant proportion of this income source to several provinces. From an absolute perspective, we find the most affected provinces are PBA, Santa Fe, and Córdoba, as they are poised to receive -USD601mn, -USD245mn and -USD243mn fewer automatic transfers than what the 2024 budget stipulates. However, neither of these is the most affected by the measure, as the three provinces are not as dependent on Automatic transfers as other provinces. Compounding the drop in automatic transfers with the relative importance of this segment on the entirety of provincial income sources, we find that, on average, the provincial space is bound to lose 3.9% of its revenues due to this measure. The most affected provinces are La Rioja (-5.7% of revenues), Santiago del Estero (-5.6%) Catamarca (-5.3%), Jujuy (-5.2%), San Juan (-5.2%) and Formosa (-5.2%), with only La Rioja and Jujuy having international hard currency outstanding debt. In this category, Tierra del Fuego and Chaco will also suffer an above-average drop in revenues, of -4.7% and -4.6% respectively. On the other hand, the less affected provinces in terms of revenue should be CABA (-0.8%) Neuquén (-1.3%) PBA (-2.3%), and Chubut (-2.3%). In this context, we expect the entirety of the provincial space to suffer in the fiscal department if the law is approved and implemented. Furthermore, additional risks arise when considering the compounding effect this drop in automatic transfers could have if the next administration substantially reduces discretionary transfers, or economic activity grinds to a halt. Provincial Non-royalty tax revenue is especially sensitive to economic activity levels, and a failure from the next administration to stabilize the economy could strain activity figures, pressing the provincial fiscal position even harder, especially as a majority of public spending in the provinces is both inflexible and indexed (salaries and opex). Regarding the first issue of discretionary transfers, PBA could be the most affected province in the space, as it does receive a large portion of the administration's discretionary funds, and the health of its fiscal balance largely depends on these. All in all, the new Income tax Law is poised to leave most provinces in a more fragile position to withstand what will likely be a difficult end of 2023 and a rough start of 2024.

TPCG Analysts & Staff

Research			
Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Federico Martin	Strategist	famartin@tpcgco.com	+54 11 4898-6633
Santiago Resico	Strategist	sresico@tpcgco.com	+54 11 4898-6615
Sales & Trading			
Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Institutional Sales			
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Trading			
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693
Corporate Finance			
José Ramos	**Head of Corporate Finance**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Corporate Sales			
Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612
Capital markets			
Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
Wealth Management			
Josefina Guerrero	Private Wealth Management Specialist	jguerrero@tpcgco.com	+54 9 11 6556 2401
Asset Management			
Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

No part of the document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted without the prior written consent of TPCG Valores SAU. No part of the report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

For U.S. persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.