

TAXES AND SUBSIDIES

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Subsidies and taxes are tools used to promote agricultural production or to control internal market prices if they are below the world market prices. Taxes are important in every country to cover government and social expenses, and the balance between both shows the real contribution of the sector to the community.

Both tools have an influence on competitiveness.

In Argentina there are no subsidies to agriculture. On the contrary, from 1950 to 1990 and again from 2002 on, export taxes have been imposed on agricultural products, in addition to normal taxes. These were imposed to avoid the increase of internal food prices in relation to the world market and, during the last few years, in order to overcome the economic crisis.

In Argentina, the principal employer is the state, and low salaries are important to keep state expenses low. With low salaries, food prices must also be low.

Argentine Taxation System is also extremely complex and unstable. Our taxation system is based upon VAT (which is a consumption tax), Income Tax and Social Liabilities, which comprise about 60% of government resources. The recently reestablished Export Tax is also a main source of income, representing about 15 % of the total resources.

Taxes are cashed on three different levels: 1) Municipal level: road maintenance fees (even when the roads are often not kept in good condition) and food safety control (not at farm level); 2) Provincial level: return taxes, land and car taxes and again food safety control (not at farm level except on direct sales); 3) National level: official stamps, social liabilities, pensions, capital or property, presumed profit, real profit, fuel, taxes on bank checks, VAT, “in account of” VAT and export.

At a 500 ha soybean farm with a yield of 3,5 ton/ha and a FOB price of 238 U\$\$/ton (FAS U\$S 176.1), in April 2005, total taxes amounted to 90 U\$\$/ton. (Graph Nr. 1).

As in Argentina tax evasion is high (45 % of the economy is black) and control capacity is low, some systems which are easy to tax, are used: bank movements, property, income tax in addition to VAT, and exports. Profit tax may not seem high in comparison to other countries, but the Argentines consider it high in relation to the services offered by the state (security, health and education all need to be augmented additionally). In other countries where Income Tax rate is higher, VAT rate is kept low. In Argentina, both tax rates are high, 35 % for the former and 21 % for the latter. Profit tax, social fees and VAT are the main objects of evasion. “In account of” profit to be paid in advance and “in account of” VAT taxes (retained at each purchase) exist due to this problem. This means that if your profit is low due to low prices or low yield, you will pay more in “in account of” tax, than the real amount you should pay according to your annual profit. Normally you do not receive the difference back, or you may get it some years later. The same happens with VAT on the occasion of a sale. More than half of the sale VAT is retained by the buyer (8 % of the 10,5%) and paid straight to the state and not to the farmer.

As exports are easy to control, this tax is important for the government. The export tax absorbs the entrepreneurs benefit and part of overhead costs, which would be

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covered at FOB prices, as you may see in graphs Nr. 2 and 3 on the next page. At a FOB price of 238 U\$\$/ton (April 2005), the yield must reach 4 t/ha to cover the costs. At a yield of 3 ton/ha, which is nearly the Argentine average, a FOB price of 170 U\$\$/ton already cover total costs if there would not be the export tax, but with export taxes the FOB price has to be higher than 290 U\$\$/ton.

As a long term consequence of all the above mentioned points, stagnation occurs due to lack of investments in production and technology. An example of this is the stagnation in agricultural production in Argentina between 1950 and 1990.

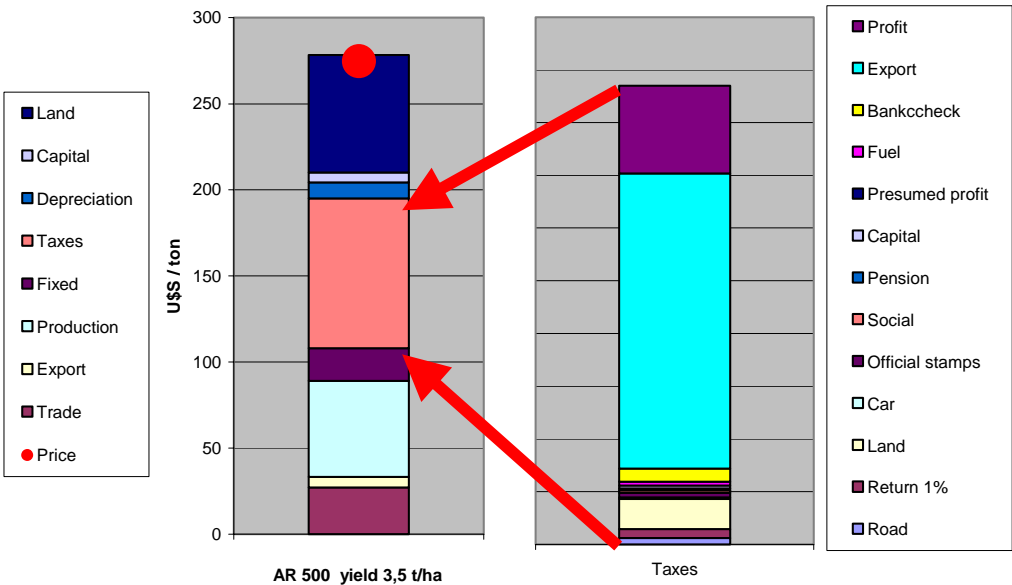
Despite this situation, the soybean production boomed between 2002 and 2004/5 due to other reasons, such as high world market prices, few financial alternatives on the Argentine money market, and the possibility of using black money in agricultural production. If the prices sink, the situation will change. A possible consequence to this will be a drop in land costs. At present the land rent is based on a fixed amount of soybean according to soil quality, but this fixed amount may be reduced.

The exchange rate has a direct relation to this situation. In December 2001 the US dollar price increased from Argentine pesos 1 to 2.90. The soybean dollar is now worth U\$ 2.22. Inflation at WPI increased from 1.00 to 2.46. Due to the export tax, industrial export exchange rate has grown more than the inflation. The same occurs with the financial and the milk dollar. The soy dollar increased less than inflation.

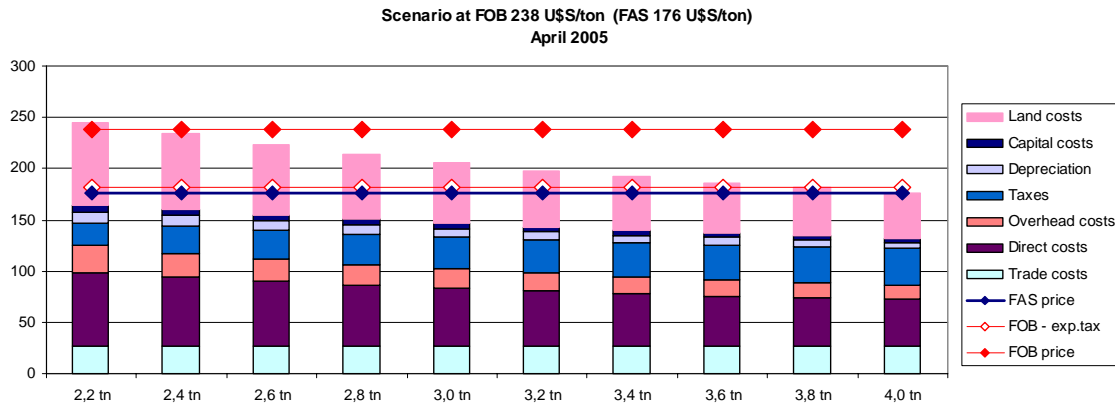
INFLATION AND DOLLAR EVOLUTION					
	WPI inflation	U\$S fin.	IND.U\$S	SOY U\$S	MILK U\$S
2001	1,0417	1,000	1,000	1,000	1,000
2002	1,8392	3,390	3,221	2,570	3,221
2003	2,1683	2,830	2,689	2,230	2,689
2004	2,3287	2,970	2,822	2,260	2,822
2005	2,4607	2,900	2,755	2,200	2,465

Price-cost comparison in Argentina is more related to world price, exchange rate and export taxes than to production costs.

Graph Nr. 1: Proportion of taxes in total costs.



Graph Nr. 2: Cost-price comparison with fixed price and different yields



Graph Nr. 3: Cost-price comparison with fixed yield and different prices.

