



▶ Social Protection in Action: Building Social Protection Floors for All

2022

Argentina: Expanding coverage through the Monotributo scheme

Summary

In order to increase social protection coverage and reach unprotected workers, Argentina instituted a simplified tax regime for small contributors to facilitate their contributions to national pension and health insurance schemes.

The scheme, known as Monotributo, has evolved and expanded rapidly since its launch in 1998. At present, it reaches just over 2 million people, who make contributions to the pension system and enjoy coverage by the national health insurance scheme.

This note presents the characteristics of this regime, the reasons for its expansion and the lessons that can be learned from it. It further highlights the challenges involved in creating bridging solutions for extending social protection to alter the incentives for individuals to further develop and formalize their enterprises.

Main lessons learned

- ▶ In economies with a high incidence of informality, such as Argentina, simplified schemes enable the transition to formality for small taxpayers who, for economic or administrative reasons, face serious obstacles in their development.
- ▶ Simplified regimes offer a bridging solution that can effectively broaden social protection coverage for workers and enterprises outside the formal economy.
- ▶ It is important that such bridging solutions expand social protection and maintain incentives for individuals to continue to further develop and formalize their enterprises.
- ▶ Monotributo alone cannot address all the challenges posed by high informality in the economy and should be linked with other formalization policies and strategies that promote the inclusive growth of the economy.

Social Protection Floors Recommendation, 2012 (No. 202)

SDG 1.3 aims to implement nationally appropriate social protection systems and measures for all, including floors, and by 2030, achieve substantial coverage of the poor and the vulnerable.

Social protection floors (SPFs) guarantee access to essential health care and basic income security for children, persons of working age and older persons.

187 countries have adopted the Social Protection Floors Recommendation, 2012 (No. 202), to achieve universal social protection.

The Monotributo scheme contributes to the guiding principles set forth in Recommendation 202. In particular, the scheme is proactive in ensuring the universality of protection based on social solidarity; enables the inclusion of persons in the informal economy; and enhances coherence between social, economic and employment policies.

- The Monotributo experience shows how mechanisms for extending social protection to workers in the informal economy can contribute to some extent to the formalization of the economy; an effective transition to formalization requires linking these mechanisms to other measures related to the labour market, the creation of sustainable enterprises, and access to credit and markets, among others.

Context

One of the main challenges in providing social protection to workers in Argentina is the high rate of informality, especially among independent or self-employed workers. These groups represent an important share of employment – almost one quarter of all workers. They are a highly heterogeneous group in terms of type of employment (from owners of large companies to small shopkeepers), qualifications and income levels.

A large number of self-employed workers work in precarious conditions, with low and unpredictable income, no access to social security and poor workplace protection measures. In addition, many of them may not be in self-employment by choice but rather due to a lack of opportunities for salaried employment.

Consequently, high informality among the self-employed poses a challenge for the collection of taxes and social security contributions. In response, several countries in the Latin American region, including Brazil and Uruguay, have implemented simplified mechanisms for paying taxes and social security contributions that aim to facilitate these workers' gradual transition to formality (ILO 2014 and 2019).

Similarly, Argentina incorporated the payment of social security contributions for old-age pension and health insurance schemes under the umbrella of the simplified tax regime. This has enabled Argentina to collect information on the turnovers and profits of the self-employed, providing a basis for tax collection efforts. The ultimate aim of the scheme is to facilitate a transition into the General Regime for Self-Employed Workers. According to Cetrángolo and Grushka (2020), *monotributistas* account for 67 per cent of

independent contributors to the Integrated Argentina Pension System (SIPA).¹

Description of the Monotributo scheme

Law No. 24.977 of 1998 established the Simplified Scheme for Small Taxpayers, known as Monotributo (meaning single tax or monotax). The law established an integrated and simplified tax regime for collecting income and value-added taxes, pension system contributions, and, later on, health insurance contributions. Small taxpayers eligible for filing taxes under the Monotributo include people involved in commercial activities and service providers, as well as members of work cooperatives, among others.

Workers who choose to enrol in Monotributo are also subject to conditions such as a limit on their annual income (US\$24,700 for the provision of services or US\$37,000 for commercial activities in 2021); a maximum price per unit of sale (US\$400) for commercial activities; not to have imported commercial goods for export in the last 12 months; and not to carry out more than three simultaneous activities or own more than three establishments.²

Workers are classified into different categories according to their gross income, the size of the area in which the activity is carried out, their electricity consumption and the value of accrued rentals. There are eight general categories (A to H) and three additional categories for the sale of commercial goods only (I to K). The amount of the monthly fee for each taxpayer includes two components: a fixed rate that depends on their category (from US\$2 to US\$168) and a social security rate, which corresponds to a pension contribution (from US\$11 to US\$27) and a fixed health insurance contribution (US\$15). Once they have enrolled in Monotributo, taxpayers must revalidate their status every four months and are required to change their category as soon as they no longer fulfil the eligibility conditions.

Monotributistas' contributions to the pension system allows them to maintain their status as taxpayers and to obtain a

¹ Social security for independent workers in Argentina is organized into two contributory regimes at the national level: the General Regime for the Self-Employed and the Simplified Regime for Small Taxpayers. At the provincial level, the Pension Fund and Social Security for Professionals also provides pension coverage.

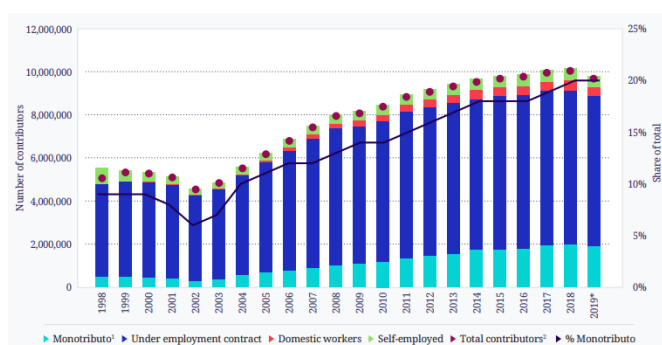
² The data in local currency were obtained from Argentina, Monotributo, "Categorías del Monotributo" and were expressed in United States dollars using the reference exchange rate of the Central Bank of the Argentine Republic as of 16 June 2021 (95.32 pesos = US\$1).

pension at the time of their retirement, subject to the conditions set forth in the law. Argentina has a defined benefit pension system and pension benefits are calculated based on contributions made in the past 10 years of activity. If workers complete the full 10-year contribution period under Monotributo, they will become eligible for an old-age pension, with minimum rates set forth by law. Under Monotributo, workers also have the right to disability and survivors' pensions, other old-age benefits and family allowances (contributors in the highest income categories do not have access to family allowances).

Monotributistas who are not covered by any other health insurance scheme can access the basic medical assistance coverage provided under the Obligatory Medical Programme. Family members may also be covered on a voluntary basis by paying the corresponding fee. The benefits offered can be complemented with supplementary plans through additional contributions.

The characteristics of this regime, including the relatively comprehensive benefits provided against low contributions, help explain its fast uptake. Since its onset in 1998, the number of contributors to Monotributo has grown rapidly, representing nearly one fifth of the total contributors to the SIPA in 2018 (see figure).

Figure. Number of contributors to Argentina's SIPA and workers in Monotributo as a share of total contributors, 1998–2017



► Notes: * Data for 2019 corresponds to September 2019. ¹ Monotributo includes workers in the Social Monotributo. ² As the same person can belong to several groups, total contributors are less than the sum of partial values.
► Source: Argentina, Boletín Estadístico de la Seguridad Social.

Monotributo has also incorporated a series of special regimes for low-income workers from certain economic sectors. In these cases, workers are exempt from paying the tax component of Monotributo but remain covered by the social protection system. These special regimes are:

- Under the Regime for Social Inclusion and Promotion of Independent Work, which includes low-income
- workers, workers pay a “social inclusion fee” for the

pension system and may voluntarily affiliate with the health insurance scheme.

- The Simplified Regime for Actors in Local Development and Social Economy (also known as the Social Monotributo) is designed for vulnerable workers. They enjoy the same benefits as those under the general Monotributo, including old-age pension contributions, with reduced contribution rates of 50 per cent for both primary beneficiaries and their dependants. The remaining 50 per cent is subsidized by the Ministry of Social Development.
- The Special Regime for Cooperative Workers covers the members of these organizations, under certain conditions on income and type of activity.

Monotributo is part of a wider government effort to expand social protection coverage and facilitate the transition to formal employment. For instance, the Simplified Regime for Domestic Workers was created in 2005 to address informality among domestic workers and provide them with access to health coverage and old-age pensions. Both employers and workers make contributions based on the number of hours worked. In case they work for over 16 hours per week, the mandatory employer’s contribution provides domestic workers with access to the pension system, employment injury and disability and survivors’ pensions. In addition, workers are provided with health insurance under the same conditions as monotributistas while employed and, upon retiring, under the same conditions as retired formal economy workers. However, in case they work for less than 16 hours per week the employer’s contributions alone do not reach a mandated “minimum contribution level”, requiring domestic workers to pay the remaining contribution themselves before benefits are provided.

Impact and challenges

The main achievement of this simplified scheme is that it provides social security to workers who were previously excluded. Combined with improvements in administrative records and the regularization of tax obligations, this will facilitate the transition of these workers to the formal economy. In addition, the reduced administrative burden and other benefits have made Monotributo very attractive compared to the general regime. If left unmonitored, this may lead to a situation in which monotributistas either under-report their activities or purposely under develop their enterprises in an attempt to prevent progression into the formal scheme.

Also, contribution levels are unsustainably low, further impacting Argentina's fiscal position. This financing modality risks becoming unsustainable in view of the lack of predictability of public budgetary allocations.

What's next?

Monotributo provides relatively comprehensive social protection benefits against low contributions and has been very effective in making the right to social security a reality for workers in the informal economy in Argentina. However, there are today too many reasons for contributors to remain in Monotributo and reform measures could be considered to encourage the progressive transition of Monotributistas to the general social security scheme. This may include integrated policy

measures including access to skills development, support to enterprise development including accounting services, access to credit at reduced rates, access to technology transfers, access to markets, participation in public procurement, and fiscal incentives. While introducing these changes, the Government should identify and support Monotributistas that face the most significant obstacles for formalization through a mix of social services, counselling and incentives during their transition. Finally, the Monotributo scheme should remain a budgetary priority of the Government; based on a continuous monitoring of the number of beneficiaries and expenditure, it is key to continue to secure the necessary budgetary allocations that will guarantee access to adequate social security benefits to all those included in the scheme.

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