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Global Accelerator on Jobs and Social Protection for Just Transitions

Country Brief: Simplified tax and contribution schemes supporting the transition to formality in Argentina

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Summary

In 1998, Argentina instituted a simplified tax scheme for small taxpayers that includes pension and health insurance contributions. Designed by the Ministry of Economy and the tax authority, the *monotributo* was developed as a voluntary mechanism to formalize small economic units and own-account workers, and as a transitional stage for independent or self-employed workers and micro-entrepreneurs before their entry into the regular tax and social security schemes. It provides for the collection of social security contributions (at a subsidized rate) and the payment of taxes, and has helped to extend social security coverage. The *monotributo social*, a further subsidized version of the *monotributo* for which only vulnerable workers are eligible, allows them to participate in the scheme, with the Government subsidizing part of the beneficiaries' social security contributions.

The *monotributo* has proved to be an effective way of extending social security coverage and formalizing enterprises and workers. The scheme has grown steadily, reaching 2.2 million people in 2023, or 23 per cent of all contributors to the national social security system. However, it has not become a major source of revenue (the income generated is around 0.2 per cent of public revenue) or a stepping stone to fully fledged formalization.

Argentina's experience highlights the potential of simplified tax and social security contribution schemes to expand social security coverage, but it is also clear that complementary measures are required to ensure sustainability and an effective transition to formality.

Relevance to the Global Accelerator

Argentina's simplified tax and contribution scheme, the *monotributo*, integrates social security contributions and the payment of taxes, and it is helping to extend social security coverage through contributory social protection.

The *monotributo* has mobilized a greater share of workers and employers to contribute to social security financing. It has mobilized explicit public subsidies (in the case of the *monotributo social*) and implicit cross-subsidization within

the social security schemes to offer health and pension coverage to previously uncovered workers. Moreover, the *monotributo* has helped to advance the transition from the informal to the formal economy (see box 1), in line with the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). By offering alternative

financing modalities for social security coverage, it extends the principle of solidarity in financing enshrined in the Social Security (Minimum Standards) Convention, 1952 (No. 102).

Box 1. How the *monotributo* is promoting social security extension and formalization in Argentina

- ◆ The *monotributo* scheme in Argentina integrates tax and social security policies to effectively extend social security coverage to the informal sector. With over 2 million workers now making monthly contributions, the scheme has succeeded in simplifying procedures and expanding health and pension coverage. It has served as an effective tool for bringing previously informal activity into the formal sector and extending social security coverage to own-account workers and small enterprises.
- ◆ Several lessons have been learned from its implementation:
 1. The low cost, direct social security and formalization benefits, and simple administrative procedures are attractive: the *monotributo* has brought many previously informal workers into the formal economy.
 2. Design matters: beneficiaries may inadvertently be “locked” into the scheme if graduating out of it is too expensive or complicated.
 3. Formalization and effective extension of social security coverage do not occur immediately: the first *monotributistas* (that is, workers benefiting from the *monotributo*) were registered own-account workers; only after a few years with the scheme in place did workers from the informal sector begin to transition into the formal sector.
 4. Owing to the large numbers of workers participating in the scheme and their limited contributory capacity, the tool has been more effective in formalizing economic activity and extending social security coverage than in increasing public revenue.

Context

One of the main challenges in providing social protection to workers in Argentina is the fact that around 45 per cent of them operate in the informal economy. Informality is especially high among independent or self-employed workers, who account for roughly a quarter of the workforce. They are a very heterogeneous group in terms of type of employment (ranging from owners of large companies to small shopkeepers), their qualifications and their income levels (ILO 2025).

A large number of self-employed individuals work in precarious conditions, with low and unpredictable income, no access to social security and inadequate workplace protection measures. In addition, many of them may not be in self-employment by choice, but, rather, because of a lack of opportunities for salaried employment (ILO 2018; 2025).

High informality among the self-employed poses a challenge for the collection of taxes and social security

contributions. In response to this, several Latin American countries, including Brazil and Uruguay, have introduced simplified mechanisms for the payment of taxes and social security contributions, seeking to facilitate a gradual transition to formality for such workers (Cetrángolo et al. 2014; Bertranou, Casali and Cetrángolo 2019).

In 1998, Argentina was one of the first countries in the region to include the payment of social security contributions for old-age pension and health insurance schemes under the umbrella of a simplified tax scheme. This has enabled Argentina to collect information on the turnovers and profits of the self-employed, providing a basis for more effective tax collection efforts. The ultimate aim of the *monotributo* scheme is to facilitate a transition into the general tax and social security scheme for the self-employed (Cetrángolo et al. 2013).

Description of the *monotributo* scheme

Act No. 24.977 of 3 June 1998 introduced a simplified scheme for small taxpayers known as the *monotributo* (meaning “single tax” or “monotax”). This law established an integrated and simplified tax scheme 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* scheme include people involved in commercial activities, individual service providers and members of work cooperatives.

Workers who choose to enrol in the scheme are subject to conditions such as: (a) not exceeding an annual income ceiling (US\$24,700 in the case of individual service providers or US\$37,000 for those involved in commercial activities in 2021); (b) a maximum price per unit of sale (US\$400) for commercial activities; (c) not having imported commercial goods for their export in the last 12 months; and (d) not carrying out more than three commercial activities simultaneously or owning more than three establishments.¹

Workers self-classify 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) plus three additional categories only for the sale of commercial goods (I to K). The amount of the monthly fee for each taxpayer comprises two components: (a) a fixed tax that depends on their category (from US\$2 to US\$168); and (b) 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 the scheme, taxpayers must confirm their status every four months and are required to change their category as soon as they become ineligible.

Each participant’s contribution to the pension system allows them to maintain their status as a taxpayer and to obtain a pension upon retirement, subject to the relevant statutory conditions. Argentina has a defined benefit pension system, and pension benefits are calculated on the basis of the contributions made in the past ten years of activity. If workers complete the full ten-year contribution period under the *monotributo* scheme, they become eligible for an old-age pension with statutory minimum rates. Under the scheme, workers also have the right to disability and survivor’s pensions, other old-age benefits and family

allowances (participants in the highest income categories do not have access to family allowances).

Participants not covered by any other health insurance scheme can access the basic medical assistance coverage provided under the Compulsory Medical Programme (*Programa Médico Obligatorio*). Additionally, family members may be covered on a voluntary basis by paying the corresponding fee. The benefits offered can be complemented with supplementary plans through additional contributions.

The scheme’s characteristics, in particular the possibility of receiving comprehensive benefits while paying relatively low contributions, help to explain its rapid uptake. Since its inception in 1998, the number of participants in the *monotributo* scheme has grown swiftly: by 2018 they accounted for nearly a fifth of the total contributors to the Argentine Integrated Social Security System (*Sistema Integrado Previsional Argentino*) (see figure 1).

The *monotributo* scheme is part of a government effort to expand social protection coverage and facilitate the transition to formal employment. Additionally, a number of special arrangements for low-income workers from certain economic sectors have been incorporated into the scheme over the years. In these cases, workers are exempt from paying the tax component of the *monotributo* while still being covered by the social protection system. These special schemes are described below:

- Under the Social Inclusion and Promotion of Self-Employment Scheme, which includes low-income workers, participants pay a “social inclusion fee” for the pension system and may voluntarily enrol in the health insurance scheme.
- The Simplified Scheme for Local Development and Social Economy Providers (also called the *monotributo social*) is designed for low-income workers. They enjoy the same benefits as those under the general *monotributo* scheme, including an old-age pension, 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 Human Capital (formerly Ministry of Social Development).

¹The amounts in Argentine pesos were taken from the federal tax authority’s website (<https://www.afip.gob.ar/monotributo/categorias.asp>) and converted to US dollars using the reference exchange rate of the Central Bank of the Argentine Republic as at 16 June 2021 (US\$1 = 95.32 pesos).

- The Special Scheme for Cooperative Workers covers the members of such organizations, under certain conditions related to income and type of activity.

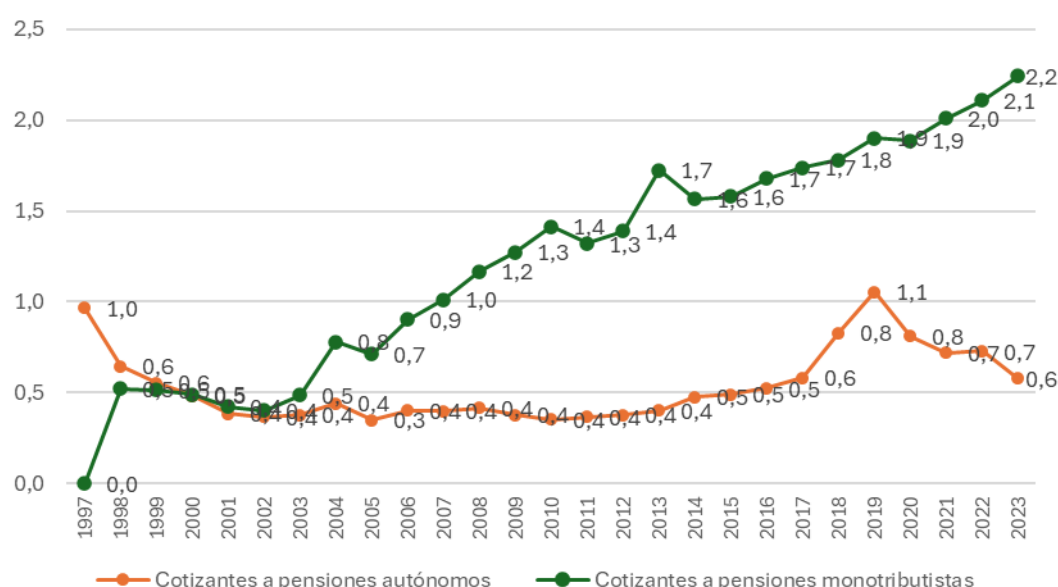
Impact and challenges

The main achievement of this simplified scheme is that it provides social security to workers who were previously excluded. Since its launch in 1998, the number of participants has grown steadily to reach 2.3 million workers in 2023, covering over 10 per cent of the workforce.

While the *monotributo* scheme in its first years seems to have attracted, at least to a certain extent, self-employed workers previously enrolled in the general scheme, its expansion subsequently seems to have been driven by the

formalization of workers previously operating in the informal economy (see figure 1). The level of contributions paid by participants depends on their self-classification into one of ten income categories. In 2024, more than 70 per cent of participants were self-classified into the lowest income category: they may have selected that category either because it really did correspond to their financial situation or because they had few incentives to register in a higher category.

Figure 1. Number of workers in Argentina enrolled in the *monotributo* scheme and the general scheme for the self-employed, 1997–2023 (millions)



Source: Author's own elaboration, based on Argentina, Ministry of Human Capital (n.d.).

The *monotributo* scheme also exemplifies the principle of solidarity in social security. Participants receive an implicit subsidy, as their contributions are low relative to the pension and health benefits that they receive. For those enrolled in the *monotributo social* scheme there is, in addition, an explicit subsidy, as the Government pays a share of their pension and health insurance contributions. The reduced administrative burden and the benefits that it offers have made the *monotributo* scheme very attractive in comparison with the general scheme for the self-employed. If left unmonitored, this may lead to a situation where participants either underreport their activities or deliberately fail to further develop their enterprises in an attempt to avoid progressing into the more formal scheme. Owing largely to its design and the difference in

contributions between the *monotributo* scheme and the general scheme for self-employed workers, the former has not proved to be the stepping stone to fully fledged formality that it was intended to become (Goldschmit and Cetrángolo 2025).

Nor has the *monotributo* developed into a significant source of tax revenue for the Government. Income from the scheme accounted for 0.22 per cent of public revenue in 2023 (equivalent to 0.10 per cent of GDP). Overall, contribution levels are unsustainably low, impacting Argentina's fiscal position in the medium and long term. However, the fiscal implications need to be set against the alternative of millions of workers relying solely on non-

contributory social protection (Goldschmit and Cetrángolo 2025).

Trade union federations have been critical of the *monotributo* scheme, as it has not ushered in an effective

transition to fully fledged formalization. Trade unions have also pointed out that the scheme can be abused, increasing the precariousness of employment, and that it has resulted in the emergence of a group of workers with second-tier labour rights.

What next?

Although the *monotributo* scheme has certain challenges, many workers rely on it for social security coverage. Its impact depends on wider societal and policy developments, which must be coordinated in order to increase the formalization of employment and help participants in the scheme to transition to full formality.

Some measures can be implemented to improve the scheme and its linkages with the broader social protection system, such as:

- Analyse the incentive structure for workers and employers to use, and remain in, the scheme while supporting participants to transition to higher income categories and out of the scheme, for

example by providing them with access to training, markets and financial services.

- Analyse the explicit and implicit subsidies and cross-subsidization involved in the scheme so as to accurately gauge its effectiveness against that of other mechanisms for expanding social protection coverage.
- Monitor groups of workers and contributors who may need special support, in particular in the wake of economic and other shocks.

Main takeaways for the Global Accelerator

The *monotributo* scheme illustrates the potential of **integrated policy responses** to expand social protection coverage. By leveraging tax simplification, social security contributions and streamlined administrative procedures, the scheme has effectively increased social protection coverage.

The experience gained with the scheme also highlights the importance of combining the extension of social protection with a clear **integrated financing approach** in order to address the coverage needs of groups that may lack the capacity to pay the full contribution rates. This may be done

either by offering cross-subsidization within the social security scheme or by directly subsidizing the contributions paid by workers in vulnerable situations.

Simplified tax and contribution schemes can effectively formalize workers, if they are designed so as to incentivize participants to eventually move to the general contribution scheme and if they do not result in second-tier access to social security. As they involve implicit subsidies, equity and fiscal concerns need to be considered in the design, implementation and monitoring of such schemes.

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