

The tax system in Argentina

Tax on net income

The tax rate on net taxable business profits is 30% for fiscal years starting on or after January 1, 2018 and 25% for fiscal years beginning on or after January 1, 2020. Legal entities residing in Argentina are subject to tax on Argentine and foreign-source income and are able to claim any similar taxes actually paid abroad on foreign-source income as a tax credit.

The same rate applies on net taxable profits from Argentine source and from activities performed abroad by branches of foreign entities.

Corporate residence

Corporate residence is determined on the basis of incorporation and is unaffected by the place of management. Centers of activity in Argentina of non-Argentine corporations are treated as permanent establishments (PE).

As part of the 2017 tax reform, a PE definition has been introduced into the Income Tax Law. Such a definition is generally aligned with the one included in the OECD's Model Tax Convention for the Avoidance of Double Taxation, although it is broader as it includes the performance of services by a non-resident provider, including services rendered by consultants within the National Territory for a total length greater than six (months) within any 12-month period.

Appendix 1: Income determination

Tax on minimum notional income

This tax was repealed as from fiscal years beginning on or after January 1, 2019.

For prior years, the applicable rate was 1% on the value of fixed and current assets. Income tax was creditable against this tax. In addition, any payment of this tax, not offset by income tax, would be treated as a payment on account of income tax computable for a maximum period of ten years.

Value added tax (VAT)

The current general rate of 21% is applied on the sales value of products and services (including professional services), with a few specific exceptions. This



tax is applicable to imports of goods and services (services rendered abroad and used or exploited in Argentina). The tax paid on imports can be taken as VAT credit.

Certain goods are taxed at a reduced rate of 10.5%, for example, works on real estate for housing, services related to agriculture, operations of certain capital goods and food. Beside, some services taxed at 27%, for example, gas, energy and telephone services.

As a result of the 2017 tax reform, VAT legislation currently includes 'digital transactions' (e.g. digital services, hosting, on-line technical support, software services, Internet services) provided from abroad as a taxable event. Hence, these types of services are now subject to VAT at a 21% rate if they are provided by a non-resident entity to an Argentine final customer, on condition that they are actually used in Argentina.

Exports of goods and services (services rendered in Argentina and used or exploited abroad) are taxed at 0%, which implies that input VAT (VAT credit on purchases of goods and services) related to exports may either be used as a credit against output VAT or refunded pursuant to a special procedure. VAT paid on purchases, final imports and rental of automobiles, not considered as inventory, may not be computed by the purchaser as a credit. The same tax treatment applies to other services, such as those provided by restaurants, hotels and garages. The above-mentioned restrictions do not apply when the engagement of these services is for a conference, congress, convention or any other similar event directly related to the specific activity of the contracting party.

Taxpayers can get the refunding of VAT paid on purchases or import of fixed assets -except automobiles- which had not be used as credits against output VAT after six (6) fiscal periods (months) since the month in which the credit could has been computed. Special conditions exist and certain requirements are met.

Wealth tax or tax on personal assets

Wealth Tax is payable by Argentine companies on all shares issued by them and owned either by individuals, regardless of residence, or by companies residing abroad.

The wealth tax rate for this purpose is 0.25% on the value of the shares as of December 31 of each year, based on the Financial Statements of the respective fiscal year. Companies are allowed to request reimbursement from the shareholders.

It is presumed that in the case of real state situated in Argentina owned by companies residing abroad the real owner is an individual domiciled in Argentina. In such a case the tax is payable at the rate of 0,50% on the cost value or the fiscal value, the higher.

Excise taxes

A wide variety of items, such as automotive and diesel motors, tobacco, alcoholic beverages (including beer), insurance, cellular and satellite telephone services, recreational or sport boats, aircraft; luxury goods and non-alcoholic beverages with caffeine and taurine, among others, are taxed at varying rates. For example, motor vehicles that exceed a certain value, cigarettes and luxury objects are taxed at the following effective tax rate: 25%, 233% and 25%, respectively.

In most cases, tax applies on the sale value of the production step only, being the tax part of the taxable base.

Tax on financial transactions

This tax is levied at a general rate of 0.6% on the amounts credited to and/or debited from the taxpayer's bank accounts.

Transactions made in banks without using a bank account and any disposition of one's own funds or the funds of a third party are subject to a tax rate of 1.2%.

One third (33%) of the tax on financial transactions effectively paid on bank account transactions (0.6%+0.6%) and movement of funds (1.2%) is creditable against income tax and/or the respective income tax prepayments. Due to the Tax Consensus signed in 2017 between the National Government and most of the Provinces it is foreseen that since 2022 that percentage will be of 100%.

Import & Export duties

The level of import duties currently ranges between 0% and 35%, except in cases where specific minimum duty is applied or which involve merchandise with a specific treatment. In general, merchandise originating from LAIA and MERCOSUR countries is entitled to a preferential duty treatment.

The levels of export duties range from 5% to 20% for certain specific products.

Besides, there is an additional export duty of 12% with a maximum of ARS 4 of ARS 3 for each US dollar of the taxable value or the official FOB price, which is applicable for all the tariff positions.

Statistical rate on import operations

By means of Decree No. 332/2019, the Executive Branch increased the Statistical rate which is levied on all imports operations, including some imports that were exempted, such as intra-Mercosur origin transactions. The new rate has been increased from 0,5% to 2,5% and it will be applicable until December 31, 2019.

In addition, whenever the 2,5% rate applies, the maximum ceilings that are charged for each import operation were modified from USD 500 to a maximum caps of USD 125,000; being the latter applicable if the taxable base is USD 1,000,000 or higher.

According to Decree No. 361/2019, the statistical rate will be 0% for: (a) imports of capital goods that are brought into the country to be used for investments in hydrocarbon production developments; (b) goods to be imported under special regimes (such as “Used Production Lines”, and others); (c) goods to be imported under temporary import destinations.

Social security taxes

Law No. 24241 (Argentine Integrated Pension Fund System Law) establishes the territoriality principle, under which Argentina's Social Security System covers all persons providing services under a permanent or temporary employment contract within the national territory.

Each month, local employers must deposit the employer contributions jointly with the employee withholdings into the National Social Security System and the National Health Care System.

The employer social security tax is payable on the total monthly compensation and is not subject to any cap amount. Since January 2019, the total employer contribution is 20.4% for companies whose main activity consists of rendering services or commerce, provided their annual sales exceed AR\$48,000,000 and 18% for all other companies. The contribution to health is 6%.

The employee social security withholdings which include pension fund, health care and social services are levied on the monthly salary up to a monthly cap of AR\$ 159,028.80. This salary cap is index-adjusted in March, June, September and December of each year. The total employee social security tax rate is 17%,

which consists of contributions of 11% to the pension fund, 3% to health care and 3% to social services.

Since January 2019, a non-taxable amount of AR\$ 7,003.68 per employee is established for purposes of the employer contribution to the Social Security System (20.4% of the 26.4% and 18% of the 24%, referred to above). Therefore, AR\$ 7,003.68 from each employees' compensation is non-taxable (for some agricultural and textile activities the non-taxable amount is AR\$ 17,509.20).

Employer contributions will be modified in 2020, and 2021 and will be 25.5% for all activities as of January 2022. In addition, the non-taxable amount will be increased each year based on the consumer price rate.

Should any employee serve as Director of the same Company, the social security liability shall be limited to the contributions made as a self-employed individual for the management duties performed. The employee's enrollment in the Social Security System will be voluntary regarding a salary as employee. Thus, if the Director opts not to pay these contributions, the Company is not obliged to pay any employer contributions.

Tax incentives

Mining activity

Law No. 24196 created an investment regime for the mining activity and is applicable to individuals and legal entities.

Mining ventures included within this regime enjoy fiscal stability (i.e., tax rates will remain basically the same) for a term of 30 years, except for VAT, which will adjust to the general regime. Furthermore, the regime grants incentives for tax on profits, tax on assets, import duties, and any other tax for introduction of certain assets. Additionally, the possibility to obtain a VAT reimbursement during the exploration stage as indicated in Law No. 24196 has been regulated by General Resolution No. 1641/2004.

Forestry

Law No. 25080 established an investment regime for plantation, protection and maintenance of forests and contains rules similar to tax incentives for mining.

Tierra del Fuego

Although with certain limitations in the case of new projects, companies established in this province enjoy a general tax exemption as well as important

benefits in customs matters, based on a system established by Law No. 19640 and supplementary regulations.

Renewable Energy

Companies engaged in the production of energy through renewable sources are entitled to certain tax benefits, like early return of VAT or accelerated depreciation of capital goods for Income Tax purposes, among others.

Biotechnology

Law No. 26270 established a promotion system for the development and production of biotechnology and grants benefits for tax and social security contributions that may be claimed if specific requirements are met.

Small and medium-sized enterprises (Law No. 27264)

Law No. 27264 (passed in August 2016) established a special tax system for small and medium-sized enterprises (SMEs) and for infrastructure investments conducted by SMEs. The most relevant benefits include the following:

- Full exemption on Minimum Notional Income Tax starting January 2017 (tax to be repealed by 2019).
- Full credit (against income tax and its prepayments) on tax on financial transactions paid by micro and small-sized enterprises. A 50% credit on the tax paid by medium-sized manufacturing entities.
- Deferral of due date for payable VAT balance
- Fiscal stability (from July 2016 to December 2018) for SMEs that invest in infrastructure projects and/or capital goods.
- Income tax credit for an amount equal to 10% of the amounts invested in infrastructure projects and capital goods.
- Tax bond (creditable against federal taxes) for the Input VAT credit balances resulting from infrastructure investments.

The regulatory authority would be in charge of carrying out a registry of companies that are considered SMEs and are therefore entitled to the benefit.

Knowledge- based activities

This regime, established by Law 27,506, is intended to replace the former Software Promotional Regime, but also would broaden its scope to contemplate and promote other economic activities that are knowledge- based and/or intensive in the use of new technologies. Benefits include fiscal stability, a reduction of Corporate Income Tax rate to 15%, a higher deduction for the calculation of social security contributions, a transferable tax certificate that can be used to offset other Federal tax obligations and a non-withholding certificate for VAT purposes.

The promotional regime will be applicable as from January 1, 2020 and will be in force until December 31, 2029.

Export incentives

Exports of goods and services are exempt from value-added and excise taxes. The temporary import of raw materials and intermediate and packaging goods for the manufacture of products for export is free of duty with the obligation to offer sufficient guarantees for the import. A reimbursement system is in place for VAT credits paid to suppliers in relation to export activity.

Provincial taxes

Turnover tax (gross income tax)

Each of the 24 jurisdictions into which Argentina is divided (Buenos Aires City and 23 Provinces) imposes a tax on gross revenues from the sale of goods and services. Exports of goods are exempt from this tax. Rates, rules and assessment procedures are determined locally. The average effective rate at the country level is 3%.

Note that in accordance with the Tax Consensus, adhering Provincial governments have agreed to progressively reduce the turnover tax rates for certain activities over a 5-year period as well as to set forth exemptions for services that are economically used abroad. For manufacturing industry, commerce and building the rates are:

Activity	Alícuotas IIBB				
	2018	2019	2020	2021	2022
Manufacturing industry	2,00%	1,50%	1,00%	0,50%	Exempt
Commerce	Unlimited	5,00%	5,00%	5,00%	5,00%
Building	3,00%	2,50%	2,00%	2,00%	2,00%

Stamp tax

Each of those 24 jurisdictions applies this local tax on documents or agreements that evidence acts or transactions for valuable consideration (usually referred to as taxable documents).

The average tax rate is 1% and is applicable on the economic value of the agreement.

Real estate selling	
Provincia	%
Ciudad de Buenos Aires	3,6
Provincia de Buenos Aires	1,2

Municipality Tax

But in the case of Buenos Aires City there are local taxes that municipalities in the different provinces apply due to the public services (cleaning, security, etc.) they provide to companies that develop activities in there.

Those taxes used to be fixed amounts based on square meters used or number of employees. However, many municipalities have established taxes that are determined with rates applicable on the gross income obtained for the Company in its activity within the respective jurisdiction.

Real Estate Tax

Each of those 24 jurisdictions imposes taxes which are determined applying rates on the fiscal value of the real estates located in each jurisdiction.

Appendix 1: Income determination

Inventory valuation

Inventory valuation is based on the latest purchase. Thus, LIFO may not be chosen for tax purposes.

Conformity between book and tax reporting is not required.

Capital gains

Capital gains and losses attract normal profit tax treatment, except for those losses from the sale of shares, quotas, bonds and other securities that may be offset only against the same type of income.

Intercompany dividends

These dividends are not included in the tax base of an Argentine entity (the recipient) if distributed by another Argentine company. However, tax is levied if the dividends are distributed by a foreign company.

Foreign income

Foreign income received by resident corporations is subject to tax.

Note that an Argentine taxpayer is taxed on passive income generated by a 'Controlled Foreign Corporation' (CFC) that is directly or indirectly held by the Argentine taxpayer, to the extent that more than 50% of that CFC's income is passive and the CFC's is effectively subject to a tax that is lower than the 75% of the applicable Argentine income tax rate. Taxation arises in the fiscal year where the income is generated, respectively of the later distribution of profits by the foreign vehicle.

Tax losses from a foreign source may only be offset against income from a foreign source.

Transfer pricing rules

The transfer pricing regulations governing intercompany transactions. Income Tax Law adopts principles similar to those of the Organization for Economic Cooperation and Development (OECD) pursuant to which companies must comply with the arm's length principle to determine the value of goods and services in their transactions with foreign-related companies.

This principle is extended to transactions with companies located in non-cooperative jurisdictions or low or zero tax jurisdictions. The tax authorities will determine income by applying one of the following methodologies: comparable uncontrolled price, resale price, cost plus, profit split, and transactional net margin.

Deductions

Depreciation and depletion

Depreciation is generally computed on a straight-line basis over the technically estimated useful life of the assets or, alternatively, over their standard useful lives (e.g., machinery and equipment, ten years; furniture, ten years). Depreciation of buildings and other construction on real estate is 2% per annum on cost (on a straight-line basis), unless it can be proven that useful life is less than 50 years.

Depreciation of automobiles with an original cost in excess of AR\$20,000 is not deductible. Related expenses (fuel vouchers, insurance, rentals, repairs and

maintenance, etc.) are deductible for up to an amount of AR\$7,200 per car per year. Conformity between book and tax depreciation is not required.

Percentage depletion is available for natural resources (mines, quarries, forests).

Net operating losses

Tax losses can be carried forward for five (5) years.

Payments to foreign affiliates

Payments to foreign affiliates or related parties and companies located in low or zero tax jurisdictions that represent income of Argentine source are tax deductible, provided they are paid before the due date for filing the tax return and the corresponding withholding is paid to the tax authorities.

Other significant items

1. Donations: when made to companies and associations expressly exempt from assessment of tax on profits, donations up to a maximum of 5% of the donor's net taxable profits are admissible deductions, provided certain requirements are fulfilled.
2. Representation expenses: if adequately documented, representation expenses are admissible deductions up to 1.5% of the amount of salaries accrued during the fiscal year.
3. Directors' fees: amounts of 25% of after-tax profit or AR\$12,500 per individual, whichever is greater, are deductible in the financial year to which they apply, provided they are approved and available for the director before the tax return is due, or in a later year of payment.
4. Thin capitalization: except for financial institutions governed by Law No. 21526 and leasing companies, interest and foreign exchange losses derived by an Argentine resident on loans granted by a related party - whether local or foreign- would be deductible up to a limit equal to 30% of the taxpayer's taxable income before deducting Interest, foreign exchange losses and depreciation (EBITDA). The portion of non-deductible interest will be carried forward for up to five years. Deductible capability not used can also be carried forward for up to three years. Certain exemptions to thin capitalization rules are available.

Withholding taxes

Dividend distributions and branch profit remittances paid out of profits generated in fiscal years beginning on or after January 1, 2018 are subject to a 7% withholding tax in Argentina. The rate would be increased to 13% from fiscal year 2020 onward. Although the equalization tax is no longer in force due to the amendment introduced by Law No. 27430, it still remains applicable on dividend and branch profit distributions made out of earnings accumulated prior to January 1, 2018 and which were in excess of tax earnings as of the year-end prior to the relevant distribution.

Furthermore, in the case of non-residents, gains on the sale of shares, share certificates and quotas of Argentine entities would be subject to a 13.5% tax on gross proceeds or, alternatively, 15% on actual proceeds duly supported.

Similar rates would apply in the case of transfers of bonds, digital currency and other Argentine securities denominated in foreign currency. For securities denominated in pesos, the rates would be reduced to 4.5% on gross proceeds or 5% on net gain.

Certain securities disposed by a non-resident such as government bonds (except LEBACs), corporate bonds (obligaciones negociables), bonds issued by local financial trust (fideicomisos financieros) and quotas issued by local collective investment funds (fondos comunes de inversión) -in the three cases, when they are quoted in Argentina-, shares quoted in Argentine stock exchange and ADR/ADS, are exempt from the capital gains tax provided certain requirements are met.

The above tax treatment applies only to the extent that the investor is located or is a resident of a cooperative jurisdiction and the funds have come from those jurisdictions. Otherwise, the applicable tax rates would be increased to 31.5% on gross proceeds or 35% on the actual proceeds duly supported.

Other payments to residents and to non- residents are subject to WHT rates as follows:		
Recipient	Interest (%) (1)	Royalties (%) (1, 2)
Resident corporations	6/28 (3)	6 (4)
Resident individuals	6/28 (3)	6 (4)
Non-resident corporations and individuals:		
Non-treaty:	15.05/35	21/28
Treaty:		
Australia	10/12	10/15
Belgium	0/12 (5)	3/5/10/15
Bolivia	15.05/35	21/28
Brazil	15	10/15
Canada	12.5	3/5/10/15
Chile	4/12	3/10/15
China (10)	12	3/5/7/10
Denmark	12 (5)	3/5/10/15
Finland	15	3/5/10/15
France	15.05/20 (6)	18
Germany	10/15 (7)	15
Italy	15.05/20 (5) (6)	10/18
Mexico	12	10/15
The Netherlands	12 (5)	3/5/10/15
Norway	12 (5) (8)	3/5/10/15
Qatar (11)	12	10
Russia	15	15
Spain	12	3/5/10/15
Sweden	12 (5)	3/5/10/15
Switzerland	12 (5)	3/5/10/15
Turkey (10)	12	3/5/10
United Arab Emirates (9)	12	10
United Kingdom	12 (5)	3/5/10/15

Notes:

1. Withholding from payments of interest and royalties to non-residents is based on a flat rate of 35% applied to an assumed percentage gross profit margin. This margin is not contestable, but the resultant rate may be limited by a bilateral treaty. The general margin for interest paid for credits obtained abroad is 100%. However, a margin of 43% is applicable (i) if the debtor is a local bank; (ii) if the creditor is a foreign financial institution located in a country not considered as a low or zero tax jurisdiction, or in countries that have signed an agreement with Argentina for exchange of information and have no bank secrecy laws, which are under the supervision of the respective central bank; (iii) if the interest is paid on a loan intended to the purchase of tangible assets other than cars; (iv) if the interest is paid on debt



certificates (private bonds) issued by local companies and registered in certain countries that have signed an agreement with Argentina for the protection of investments; and (v) on interest paid on time deposits with local banks. 'Royalties' covers a variety of concepts. The rates given in this column relate specifically to services derived from agreements ruled by the Foreign Technology Law, as follows:

- Technical assistance, technology, and engineering not obtainable in Argentina: 21% (35% on assumed profit of 60%).
- Cessation of rights or licenses for invention patents exploitation and technical assistance obtainable in Argentina: 28% (35% on assumed profit of 80%). On non-registered agreements, the rate is 31.5% (profit of 90% is assumed) or 35% (profit of 100% is assumed), depending on the case.

Several other concepts of 'royalties' are subject to rates that, in turn, may be limited by a treaty. A broad sample of these concepts and the non-treaty effective rates are set forth in Note 2.

2. Payments to non-residents (only) for 'royalties', rentals, fees, commissions, and so on, in respect of the following are subject to withholding at the rates given below on the basis of assumed gross profit margins (Note 1) unless limited by a treaty. The treaty referred to should be consulted to determine any limitation in each case.
3. The higher tax rate is applicable on non-registered taxpayers. Income tax must be withheld at 3% -10% if not registered on interest paid to corporations by financial entities or stock exchange/open market brokers; individuals are tax exempt.
4. Resident corporations and individuals who are registered for tax purposes are subject to 6% withholding (28% if not registered).
5. Interest is exempt if paid on credit sales of machinery or other equipment, specific bank loans at preferential rate or bonds issued by public entities.
6. The treaty limits taxation of interest to 20% (registered).
7. The 10% rate is applicable to interest on credit sales of capital equipment, any bank loan, or any financing of public works; otherwise, a rate of 15% will be applied.
8. Interest paid on loans with guarantee of the Norwegian Institute for Credit Guarantees or paid in relation to imports of industrial equipment is tax exempt.
9. The treaty was entered into on February 4, 2019. Its provisions would generally apply as from January 1, 2020.
10. Treaty signed in December 2018 with the corresponding ratification by both countries still pending.
11. Treaty signed in April 2018 with the corresponding ratification by both countries still pending.