

Doing Business in Argentina 2011



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*An
overview
of the
country*



Geographical and demographical background

The **Republic of Argentina**¹ is located in South America, between latitudes 23°S (Tropic of Capricorn) and 55°S (Cape Horn). The Andes separate the country from Chile to the west; Argentina borders Bolivia and Paraguay to the north, and Brazil, Uruguay and the South Atlantic Ocean to the east.

Brief history of the country

The history of Argentina begins in 1776 with the creation of the “*Virreinato del Río de la Plata*”, the name given to the colonial territories of Spain. In 1810, Argentina started a process that would lead to independence in 1816, although for over sixty years, there have been internal battles for the control of income from Customs monopolized by the Province of Buenos Aires.

After this period of civil war, a process of modernization of the country began in 1880 with the creation of new public institutions and efforts to build a foundation to incorporate the country into the international division of the labor system as a commodity food producer. With the beginning of the twentieth century, Argentina followed an agro-export economic model placing it in a leading position in the world economy. This model was based on three pillars: a) the high level of commodity prices, b) extensive land for crops incorporated into the production process, c) and the incorporation of hundreds of thousands of relatively high skilled immigrants to the labor market. Between 1930 and 1983, a period of institutional instability took place, characterized by the rotation of civil and military governments.

The effects of the great depression severely affected the country in the thirties, essentially due to a drop in trade and the volume of exports. At the beginning of the fifties up to the seventies Argentina changed the model to substitute imports, in an attempt to create an industrial economy. The country under a new military regime in the seventies adopted an open economy model, eliminating mechanisms to protect industry.

Once democracy returned in the early eighties, the country faltered in finding a clear path to growth, GDP was stagnate like most Latin American countries, together with episodes of hyperinflation. Then, at the beginning of the nineties, Argentina adopted a convertibility plan with a currency board regime. In this decade, many public utility companies in the country were privatized.

¹ Argentina has six major regions: the Northwest, Northeast, West (Cuyo), Central (Pampeana), South (Patagonia), and the Greater Buenos Aires metropolitan areas.

After the economic and social crisis in 2002, the currency board regime and convertibility was abandoned and replaced with an administered floating rate regime.

During the first decade of the twenty-first century, driven by a commodity export process, Argentina experienced a rapid path to growth. From 2003-2010, the country had an average GDP growth rate of 8%.

The climate of the country

Climate varies from the subtropical to the sub-Antarctic and within these two extremes, there lies a wide temperate belt. The city of Buenos Aires and most of the other principal cities and industrialized areas are situated in this area, where maximum summer temperatures average from 27°C (81°F) and 32°C (90°F), with occasional temperatures of over 38°C (100°F). The winters are relatively mild with occasional frost, but snow and prolonged frost are rare except in the western mountainous areas and in the south.

Mineral and energy resources

Energy resources: oil, gas and electricity and mineral resources: gold, copper, lead, zinc, natural borates, bentonite, clays and construction stone.

Population, major races, legal language, common languages/dialects used:	
Area ²	2.8 million km ²
Population	40.1 million
Population per km ²	14.4
Population growth	1%
Urban Population	92%
Form of Government	Republican, representative and federal
Language	Spanish
Currency	Argentine peso (\$)
Political division	24 autonomous provinces with their own political, administrative and economic administrations (23 provinces and the Autonomous City of Buenos Aires)
Capital City	Autonomous City of Buenos Aires
Ethnic groups	White (85%); mixed-race (10%); indigenous and others (5%)

Source: INDEC and Wikipedia

² Argentina is 2nd in territorial size in Latin America and 8th in the world.

Education standards in Argentina

Education is free; however it is mandatory from the ages of 5 to 18, to encourage high attendance rates in school. Over one million students attend the many public and private universities.

What are the prominent industrial sectors in major cities?

Petrochemicals, Steel, Foodstuffs, Textiles, Metalworking, Cement, Other construction materials, Printing and publishing, Glass, Pharmaceuticals, Industrial Gases, Agrichemicals, Tires for vehicles, Basic chemical products and Sugar, with, however, Agriculture and Raising Cattle as the productive sectors with the most important and dynamic assets.

Political and legal system

Major government authorities:

President ³	Cristina Fernandez de Kirchner ⁴
Vice President	Amado Boudou
Cabinet	Cabinet appointed by the President

Note: The President and Vice President were elected by popular vote for a four-year term in the same election in October 2011. The previous election was held October 28, 2007; the next election will be held in October 2015.

Brief description of the legal framework

Argentina like the United States is a federal republic. The federal government consists of the Executive branch, headed by the President; the Legislative branch (Congress), divided into two chambers: the Senate and the Chamber of Deputies respectively; and the Judicial branch. Provincial governments are generally organized along similar lines.

Legislative Branch

Bicameral National Congress (*Congreso Nacional*) is made up of 72 seats in the Senate and 257 seats in the Chamber of Deputies and all members are elected by direct vote⁶. The President lost a much-desired parliamentary majority in the legislative elections of June 2009, at which time half of the Chamber of Deputies and one third of the Senate were elected.

³ The President is both the Chief of State and Head of Government.

⁴ Since October 2011

⁵ One-third of the members are elected every two years to a six-year term.

⁶ One-half of the members are elected every two years to a four-year term.

The economy

By 2010, the Argentine economy had eight consecutive years of growth. The hardest part of the global international crisis had been overcome and a key factor in Argentina's growth that year was the recovery from a sharp slowdown in 2009. GDP at constant prices increased more than 9% year-on-year, primarily driven, according to official figures, by private consumption.

Growth in domestic demand and the level of activity put pressure on inflation, which accelerated in comparison to the previous year. However, precise figures are uncertain, since the methodology used by the National Institute of Statistics and Census (INDEC) is still under question, with significant discrepancy between the official inflation rate and the estimates by private consultants. With a surplus of USD 12 billion by the end of the year, the trade balance was positive. Exports continued growing, but to a lesser extent than imports, which was explained by economic growth and a slight appreciation in the rate of the Argentine peso. International Reserves rose to US\$ 52 billion by December 2010.

The fiscal balance continued to show both a primary and a financial surplus. In 2010 the tax revenue growth rate was 33.1% in nominal terms, a variation considerably higher than the 26.7% average over the last 7 years. The increase was driven by Social Security resources (32.1%) and Value Added Tax (33.2%). Thus, the primary surplus in 2010 represented 1.6% of GDP up from the 1.4% in 2009. Nevertheless, these figures include as income the transfers of Special Drawing Rights by the IMF to all member countries and the profits of BCRA⁷ and ANSES⁸. When compared and without the effects of these items, the fiscal result turns into a deficit of -0.3% of GDP in 2010 and -0.4% of GDP in 2009. Financial results (primary result less interest payments on debt) showed a surplus of 0.2% of GDP in 2010 and 1.7% of GDP, when adjusted similarly, instead of -0.6% and -2.4% of GDP in 2009, respectively.

As noted, there was major economic activity in 2010 in Argentina, after the slowdown of 2009. The trade surplus was one of the pillars of the economy and supported expansion during the period following the crisis of 2001. It still remains close to the average values of the last 7 years. However, a fiscal surplus, another pillar supporting expansion in the last decade began as of 2008 to weaken, especially due to escalating expenses.

Even though some economic indicators began to show signs of deceleration in early 2011, they have remained strongly positive (the Monthly Economic Activity Indicator EMAE) showed an annual growth of 8.2% in June 2011.

⁷ Central Bank of Argentina.

⁸ Social Security Agency.

The global economic crisis worsened in 2011. The final impact on the domestic economy will mostly depend on how the crisis, commodity prices, particularly soybean and the relative value of the Brazilian real, the currency of our principal trade partner, fare.



Gross domestic product at market prices - Gross added value at producer prices

Millions of pesos at 1993 prices

Year	GDP at market prices	GDP growth at market prices ⁹
2006	330,565	8.5%
2007	359,170	8.7%
2008	383,444	6.8%
2009	386,704	0.9%
2010	422,130	9.2%

Source: Based on data from the Economic Policy and Economic Information Secretariat at the Ministry of Economy and Production.

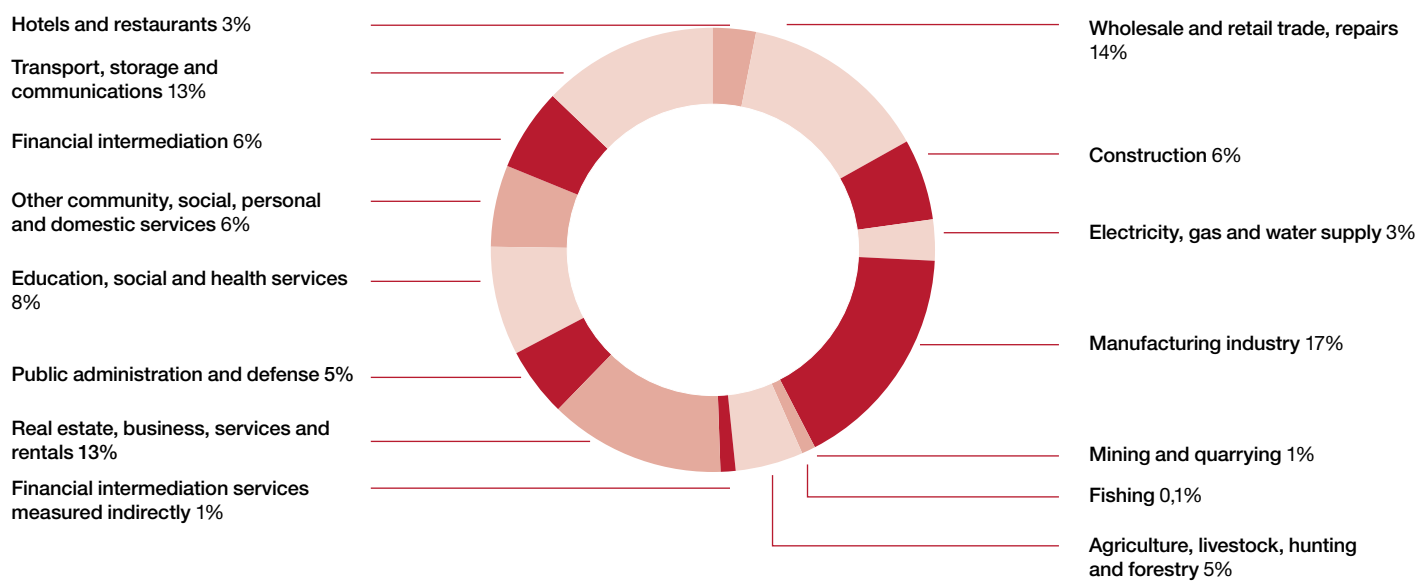
Balance of payments estimations (1) – In millions of dollars

		2008	2009	2010
Current Account	Total	7,037	11,127	3,572
	Current transfers	150	2,669	-358
Capital and Financial Account	Total	-8,263	-9,330	711
Net Errors and Omissions		1,054	-451	-126
Variation in International Reserves		9	1,346	4,157

Source: Based on data from the National Institute for Statistics and Census (INDEC).

⁹ Compared with previous year.

Participation by industry in GDP



Source: Based on data from the Argentine Ministry of Economy

General business and investment climate

Government attitude toward foreign investment

The Argentine government through its International Trade Under-Secretariat promotes and coordinates foreign investment opportunities in Argentina. This Under-Secretariat identifies and assists potential foreign investors interested in developing new productive activities in Argentina or the expansion and improvement of existing activities

To do so, the country is able to count on a series of regulations available to both domestic and foreign investors and designed to promote investment.

- **Horizontal incentives:** Instruments and measures to encourage investment applicable to all regions and areas of economic activity.
- **Sectoral incentives:** Incentive regimes targeting specific sectors of the economy.
- **Regional incentives:** Provincial promotion regimes to support infrastructure for investment.

Investment protection agreements

Local legislation provides foreign investment with protection and an arbitration process for disputes with Argentina. In addition, Argentina has signed Bilateral Investment Treaties (BITs) and is a member of the Multilateral Investment Guarantee Agency (MIGA), the Overseas Private Investment Corporation, and the International Centre for the Settlement of Investment Disputes (ICSID).

The trademark legislation (Law No. 22362 and Law No. 24481 and its amendments) provides for the protection of trademarks that have been duly registered with the National Industrial Property Institute (INPI).

Under case law, protection is also granted to de facto brands, provided they have been used to such an extent that they have built up a degree of customer allegiance. This registration is subject to payment of a fee. Protection is granted for a maximum of 10 years each time a trademark is registered, but registration may be renewed indefinitely, provided the trademark has been used in the last five years.

Argentina has adopted the international classification of goods and services used by the International Intellectual Property Organization.

Local competitor attitude toward foreign investment

The main aspects to the existing legal framework in relation to FDI concern: a) domestic treatment for foreign investors; b) lack of prior approval requirements or registration of investment; c) access to all sectors of the economy; d) access to domestic incentive schemes, and e) possibility of transferring profits and repatriating capital.

The trade policy of the country

Argentina is a member state of MERCOSUR (Common Market of the Southern Cone) with Brazil, Paraguay and Uruguay; and Bolivia, Chile, Peru, Ecuador and Colombia as associate MERCOSUR members. In 2006, Venezuela began the process to become a MERCOSUR member, but is still awaiting Paraguay's approval.

Since MERCOSUR was established, Argentine trade with other member countries has greatly increased. At the end of the 1980s, following a significant reduction in tariff and non-tariff barriers, foreign trade and trade with the countries in the region have been significantly dynamic.

Argentina is also a member of LAIA, the Latin American Integration Association, or ALADI, Asociación Latinoamericana de Integración, which was created by the Montevideo Treaty of 1980. This association includes Mexico and all the Latin American countries in South America. Its long-term objective is to establish a common market in a gradual and progressive manner. Duty concessions have been extended to many products shipped by other LAIA countries.

Trade barriers

Barriers preventing access by foreign investors to certain sectors of the economy have been removed in Argentina, capital markets opened up, along with a sound economic performance, all of which has attracted numerous direct foreign investment projects in various sectors of economic activity: like the Manufacturing industry (34%), Oil (20%), Electricity, Gas and Water (14%), Banking (10%), Transport and Communications (9%), Retail and Wholesale trade (4%), Mining (1%) and Others (8%).

Regional free trade agreements

Argentina has entered into bilateral investment treaties with Austria, Armenia, Australia, Bolivia, Bulgaria, Canada, Croatia, Cuba, Chile, China, Denmark, Ecuador, Egypt, Finland, France, Germany, Hungary, Indonesia, Israel, Italy, Jamaica, Luxembourg, Malaysia, Morocco, the Netherlands, Peru, Poland, Portugal, Rumania, Senegal, South Korea, Spain, Sweden, Switzerland, Tunisia, Turkey, Ukraine, the United Kingdom, the United States, Vietnam and Venezuela, with the aim of protecting investments and avoiding double taxation.

Taxation policy

Taxes are levied by the federal government, the provinces and local authorities.

Form of foreign investment¹⁰

Joint venture, wholly owned company, branch, representative office, partnership

Foreign investors may make use of any of the legal forms under Argentine law. Local companies with foreign capital can access domestic credit with the same rights and under the same conditions as local companies.

Formation procedure

In all cases, foreign companies operating in Argentina must name individuals who will be legally responsible for them; separate accounting records must be kept for all company operations in Argentina.

Regulatory environment

General commercial laws and regulations

Area	Regulations
Foreign investment	Law No. 21,382/ 1993 on Foreign Investment, and Regulatory Decree No.1,853/ 1993.
Labor Law	Labor Contract Law No. 20,744, Labor Law No. 25,877, Law No. 24,241 (Integrated Retirement and Pension Benefit System), Law No. 24,557 (Work Risks) and Collective Bargaining Agreements
Commercial Companies	Commercial Companies Law No.19,550, Bankruptcy and Creditor Protection Law No.19,551
Immigration Policy	Law No. 25,871
Trade	Code of Commerce, Law No.2,637

Restrictions on foreign investment

- No restrictions on any industrial sectors.
- No restrictions on the percentage of foreign ownership in a local entity¹¹

¹⁰ Law No. 21382/ 1993 – Inversiones Extranjeras y Decreto Reglamentario N° 1853/ 1993.

¹¹ In April 2011, the Executive Branch sent a Bill to Congress to limit access to foreigners of land/property ownership.

- **Income tax and incentives, industry incentives:**

Some of the sectors most attractive to investors include mining, forest industries, leather and leather products, the petrochemical industry, agricultural machinery, vegetable oils, wine growing, cultural-related industries, software, outsourcing and tourism.

- **Financial subsidies:**

The Bank for Investment and Foreign Trade (BICE) has made credit lines available to companies to finance their exports and productive investments at the most competitive market rates. BICE's role is to support and strengthen businesses so that they can operate successfully in international markets. The bank also provides credit lines for pre- and post-export finance, for capital equipment, durable and consumer goods, industrial plant and turnkey projects and services sold by companies based in Argentina. BICE also offers financial products designed to meet the demands of the local manufacturing sector for funds to purchase capital goods, intermediate goods and services, as well as to obtain quality certifications and environmental impact studies.

Labour supply			
Rates	Total for urban agglomerates		
	Fourth Quarter (in %)		
	2009	2010	2011 ¹²
Activity	46.3	45.8	46.6
Employment	42.4	42.4	43.2
Unemployment	8.4	7.3	7.3
Under-employment	10.3	8.4	8.4
Under-employment seeking work	6.9	5.5	5.7
Under-employment not seeking work	3.4	2.8	2.7

Source: Based on data from the Permanent Household Survey (EPH) carried out by the National Institute for Statistics and Census (INDEC).

¹² Data related to the second quarter.

Availability of labor

The Argentine workforce is highly qualified with a total of 18.7 million people classified as economically active.

Employee training programs

The State has programs to qualify and train workers, such as: Crédito Fiscal, Programa Nacional de Calificación Sectorial, Prácticas Calificantes para Jóvenes en Ambientes de Trabajo, Programa Nacional de Formación Continua y Permanente.

Labor law requirements¹³

- ***Working conditions:***

Working conditions have been established in Law No. 20744, with collective bargaining agreements, and depend on the kind of activity carried out. Hygiene and work safety conditions have in general been established.

- ***Wages and salaries:***

In September 2011, the minimum wage was set at \$ 2,300 monthly. Each sector of activity uses its collective bargaining agreement to set the payable wage according to the job performed.

- ***Fringe benefits:***

Employees receive aguinaldo, an additional month's salary by law, which is paid in two semi-annual installments in June and December each year that are equal to 50% of the highest salary received in the first half of the year.

- ***Hours worked:***

The working day is a maximum of 8 hours, or 48 hours per week.

- ***Paid holidays and vacations:***

The minimum vacation entitlement is 14 calendar days, and the maximum is 35.

- ***Equal opportunities***

Employers are required to treat all employees in the same manner in identical situations. Unequal treatment will be deemed to exist when there is arbitrary discrimination on the basis of sex, religion or race, but not when the difference in treatment is based on the common good, such as in cases based on greater efficacy, industriousness or dedication to work by the employee.

¹³ Ley de Contrato de Trabajo N° 20744 and Ley de Ordenamiento Laboral N° 25.

- **Health and Pension fund:**

Workers are provided with access to a welfare fund and contribute towards their future pension. These social benefits are funded out of payments by workers and employers to the social security system totaling 17% and depending on the employer's activity 23% or 27%, respectively, of the salary paid by the employer. The employee's contribution is levied up to a compensation of AR\$ 13,279. (In September or October, this amount will be increased by approximately 16%).

- **Dismissal:**

Severance payable to the employee in the case of dismissal without cause depends upon seniority. The Labor Contract Law has established severance to be one salary for each year of service or fraction thereof greater than three months. The salary is determined by the highest ordinary and regular monthly compensation of the employee in the last year, with one month's salary set as minimum severance payment.

The salary considered for the determination of the severance should not exceed the caps implemented by the collective bargaining agreements for the employee's activity. For employees who are not subject to such collective agreements, the Supreme Court established recently that the severance should be at least equal to 67% of the highest ordinary and regular compensation received by the employee.

Foreign personnel

- **Work permits and visa requirements:**

Local regulations on immigration establish three types of residence: permanent, temporary and transitory, with a permanent or temporary residence permit necessary to set up business in Argentina. There are no restrictions as to the nationality of company directors, but they must have legal domicile in Argentina.

Foreign investors seeking to obtain permanent residence must demonstrate that they have invested at least \$ 100,000, or have left a deposit in that amount (US\$ 26,000). To be able to hire foreign workers, the work contract must be in line with labor legislation requirements in Argentina.

- **Restrictions on employment:**

Argentina has no restrictions or quotas for foreign workers, as long as they comply with immigration regulations; and all foreigners hired to work in Argentina must have a work permit and legal residence in Argentina.

- **Living conditions:**

Foreigners in Argentina enjoy the civil rights common to all citizens: to carry out their industry, trade or profession, own, purchase and sell real estate, navigate rivers and coastal waters, freely practice their religion, and make wills and marry in accordance with the law. They are not obliged to take up citizenship, nor make extraordinary forced contributions. They can obtain citizenship by residing for a continuous period of two years in Argentina, although the authorities may reduce this period upon request, in the case of demonstrated service to the Republic.

Tax system

Significant developments

The exchange restrictions for certain transactions in foreign currency for transferring funds abroad and the floating exchange rate for the peso in relation to the US dollar implemented in 2002 are still in force. These measures impact the tax system.

On January 1st, 2011 a tax on gift, inheritance & charitable donations ruled by Law 14044 came into effect in the Province of Buenos Aires. The promotional tax regime for the software industry was extended to 2019. No other significant developments in the tax system have occurred in the past few years.

Taxes on corporate income

- **Profits tax:**

The rate of profit tax on net taxable business profits is 35%. Corporations resident 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.

- **Tax on minimum notional income:**

The rate is 1% on the value of fixed and current assets. Income tax can be credited against the tax settlement for the tax return of the same fiscal year. In addition, any payment of this tax, not offset by income tax, will be treated as payment on account of income tax chargeable for a maximum period of ten years.

- **Corporate residence:**

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

Other taxes

- **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.

Exports of goods and services are taxed at 0%. Nevertheless, input VAT related to exports can 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 cannot 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 are for a conference, congress, convention or any similar event directly related to the specific activity of the contracting party.

- **Turnover tax (gross income tax):**

Each of the 24 jurisdictions into which Argentina is divided 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.

- **Wealth tax:**

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 0.5% on the value of the shares as at December 31 of each year, based on the Financial Statements of the respective fiscal year. However, companies are allowed to request reimbursement from the shareholders.

- **Excise taxes:**

A wide variety of items, such as tobacco, wines, soft drinks, spirits, petrol, lubricants, insurance premiums, car tires, mobile services, perfumes, jewellery and precious stones, are taxed at varying rates.

- **Tax on credits and debits on bank accounts:**

This tax is levied at a rate of 0.6% on the amounts credited to or debited from the taxpayer's bank accounts. Transactions made in banks without using a bank account and any disposal of one's own or a third party's funds are subject to a tax rate of 1.2%.

- **Branch income:**

The rate of income tax on net taxable profits from Argentine sources and from activities performed abroad by the branch is 35%.

- **Stamp duty:**

This local tax is applicable 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.

- **Import & Export duties:**

The levels of import and export duties currently range 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 preferential duty treatment.

Income determination

- **Inventory valuation:**

Inventory valuation is based on the latest purchase. Thus, LIFO may not be elected for tax purposes. Conformity between book and tax reporting is not required.

- **Capital gains:**

Capital gains and losses attract normal profit tax treatment, except that losses from the sale of shares and other equity interest may be offset only against the same type of income.

- **Intercompany dividends:**

These dividends are not included in the tax base by the recipient if distributed by an Argentine company. However, see “*Withholding taxes*”; tax is levied if the dividends are distributed by a foreign company.

- **Foreign income:**

Foreign income received by resident corporations is subject to tax.

- **Stock dividends:**

These dividends are tax exempt if distributed by an Argentine company. However, see “*Withholding taxes*”; tax is levied if the dividends are paid by a foreign company.

- **Transfer pricing rules:**

The transfer pricing regulations governing intercompany transactions, which were introduced in income tax law by Law 25,063 as amended by Laws No. 25,239 and 25,784, adopt 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.

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 constructions on real estate is 2% per annum on cost (on a straight-line basis), unless it can be proved 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 (gasoline vouchers, insurance, rentals, repairs and maintenance, etc.) are deductible 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:**

The available life of income tax loss carry-forward is five years.

- **Payments to foreign affiliates:**

Transactions between related parties should be at arm's length. This principle was included in the new transfer pricing rules introduced by the 1998 tax reform and was extended to transactions with companies located in low or no tax jurisdictions, by tax reform of October 2003. The tax authorities will determine income by applying one of six methodologies: comparable uncontrolled price, resale price, added cost, profit distribution, residue from profit distribution, and net margin of the transaction. Payments to foreign affiliates or related parties and companies located in low or no 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.

Technical assistance and services that involve transfer of technology should be covered by agreements duly registered with the National Institute of Intellectual Property for information purposes. These transactions are governed by the Transfer of Technology Law (Law 22,426).

- **Taxes:**

All taxes are deductible except for the profit tax and tax on minimum notional income.

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. Although the Convertibility Law is no longer in place, the adjustment of inflation for tax purposes is not yet in force. There is a strong debate regarding the reinforcement of this procedure for fiscal years ended, up to December 2002. However, no final decision is in view.
5. Thin capitalization—the 1998 tax reform established thin-capitalization rules, which have been amended by tax reform of October 2003, Law No. 25784. Except for financial institutions governed by Law No. 21526, interest deductibility will be subject to a test to determine whether interest can be deducted in the same fiscal year or whether it can be transferred to subsequent fiscal years. Recently, Law No. 25784 has limited the rule to interest on loans granted by non-resident bank entities which additionally have control over the local debtor and for which debt exceeds twice the net equity of the local debtor. The portion of non-deductible interest will be treated as if it were a dividend.

Tax incentives

- ***Mining activity:***

Law No. 24196/93 created an investment regime for mining activity and is applicable to natural and legal persons. 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. 24196/93 has been regulated by General Resolution 1641 (Official Gazette dated February 27, 2004).

- ***Forestry:***

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

- ***Software:***

Law No. 25865 and 25922 (Official Gazette February and December 2004) establish that the development of software in the country is considered an activity similar to industrial activities and it grants benefits for tax, social security, financing and other purposes which can be claimed if the specific requirements are met. This regime has recently been extended to 2019.

- ***Tierra del Fuego:***

Although with certain limitations in the case of new projects, companies established in this province enjoy a general tax exemption and 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 regime for the development and production of biotechnology and grants benefits for tax and social security contributions which can be claimed if specific requirements are met.

- ***Export incentives:***

Exports of goods and services are exempt from value-added and excise taxes. The temporary importation 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 regime is in place for VAT credits paid to suppliers in relation to the export activity.

- ***Withholding taxes:***

In general terms, withholding tax is not applicable to dividends, regardless of the recipient. Gains on the sale of shares are also exempt. As from January 1, 1999, income tax withholding at a rate of 35% is applicable on dividends or other profits distributed by the company if the corresponding amounts have not been subject to income tax in the hands of the company. Other payments to residents and to non-residents are subject to withholding rates as follows.

Recipient	Interest %	Royalties %
Resident corporations	6 or 28 (3)	6 (4)
Resident individuals	6 or 28 (3)	6 (4)
Non-resident corporations and individuals ^{(1) (2)}		
Non-treaty	15.05 or 35	21 or 28% or 31.5%
Treaty		
Australia	12	10 or 15
Belgium	0 or 12 (5)	3,5,10 or 15
Bolivia	15.05 or 35	21 or 28%
Brazil	15.05 or 35	21 or 28%
Canada	12.5	3,5,10 or 15
Chile	15.05 or 35	21 or 28%
Denmark	12 (5)	3,5,10 or 15
Finland	15	3,5,10 or 15
France	15.5 or 20 (6)	18
Germany	10 or 15 (7)	15
Italy	15.5 or 20 (5)	10 or 18
Netherlands	12	3,5,10 or 15
Norway	12.5 (8)	3,5,10 or 15
Russia	15 (11)	15
Spain	12.5	3,5,10 or 15
Sweden	12.5	3,5,10 or 15
Switzerland	12	3,5,10 or 15
United Kingdom	12 (5)	3,5,10 or 15

Notes Table (The numbers in parentheses refer to the following 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 bilateral treaty. Under the 1998 tax reform, the general margin for interest paid for credits obtained abroad is 100%. However, a margin of 43% is applicable (1) if the debtor is a local bank, (2) if the creditor is a foreign financial institution located in a country not considered as a low or no tax jurisdiction or in countries that have signed an agreement with Argentina for exchange of information and have no violation of banking secrecy, all of which is under the supervision of the respective central bank, (3) if interest is paid on a loan allocated to the purchase of tangible assets other than cars, (4) if 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 (5) on interest paid on time deposits with local banks. The term "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:

a. Technical assistance, technology and engineering not obtainable in Argentina—21% (35% on assumed profit of 60%);

b. 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 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 to the following are subject to withholding at the rates given below on the basis of assumed gross profit margins (Note 1) unless limited by treaty. The treaty concerned should be consulted to determine any limitation in each case.

	%
Freight and passenger bookings (other than those covered by special treaties), news and feature services, insurance underwriting	3.5
Containers	7.0
Copyright	12.25
Rental of movable assets	14.0
Motion picture, video and sound tape rentals and royalties; radio, television, telex and telefax transmissions; any other means for projection, reproduction, transmission, or diffusion of image or sound; sale of assets located in Argentina (9,10)	17.5
Rental of real estate (9)	21.0
Any other Argentine-source income (unless the non-resident is or was temporarily resident)	31.5

Notes Table (The numbers in parentheses refer to the following notes).

The higher tax rate is applicable on non-registered taxpayers. On interest paid to corporations by financial entities or stock exchange/open market brokers, income tax must be withheld at 3% (10% if not registered); 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 loans 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 15%.

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 Deduction of actual costs and expenses may be optionally exercised.

10 Gains on the sale of shares are exempt, except for companies, permanent establishments, or other entities residing abroad whose main activity based on their statutes consists of investments to be made outside of their country of formation. These entities are subject to income tax withholding at the definite flat rate of 17.5%.

11 This treaty is not yet in force.

Tax administration

- **Returns:**

Tax is assessed on a fiscal-year, self-assessment basis. The due date for filing the profits and the notional income tax return is during the second week of the fifth month after the fiscal year end.

- **Payment of tax:**

Installment payments for tax on profits must be made in the course of the tax year. The installment payments must be made on a monthly basis beginning the first month after the due date for filing the tax return.

- **Exchange control regime:**

As a result of the devaluation of the Argentine peso, several regulations were issued to limit the transfer of money abroad, some of which have recently been made more flexible.

Regulations regarding entrance of funds into the country, the obligation of exchange of foreign currency in the Exchange Market corresponding to payments of exports of goods and services remain in force. The terms to comply with the exchange obligation vary between 60 and 360 days.

There are no restrictions on the payment abroad of interest, dividends or profits, royalties and other commercial payments duly supported by the corresponding documentation. Payment abroad for other concepts may be subject to further filing requirements and it is recommended to confirm the procedure with the bank involved.

In addition, it should be particularly highlighted that a rule issued by the Central Bank in mid-2005 requires a compulsory one-year temporary deposit equivalent to 30% of funds brought by non-residents to Argentina, which must be kept in a reserve (*encaje*) for the term of 1 year. This deposit is made in foreign currency and does not earn interest. Notice that there are some exceptions, for instance, direct investments such as interest in Argentine companies (minimum 10%) or real estate which are not subject to this rule, or if the funds were borrowed for the acquisition of fixed assets and the repayment term is longer than 2 years. However, this issue must be carefully analyzed on a case by case basis depending on the actual facts and circumstances and future amendments to current regulations.

Other issues for attention

- ***Price control and unfair competition:***

There is no law on price control. In recent years the Trade Secretariat has promoted price accords in various sectors with the aim of holding down price increases for certain consumer goods. There are several laws dealing with unfair trading, including a) Law No. 22802 on Fair Trading, b) Law No. 24425 (GATT, WTO Unfair Trading and Safeguards); c) Decree 1326/98 (Regulating Law No. 24425 - Dumping and Subsidies); d) Decree 1059/96 (Regulating Law No. 24425 – Safeguard Clauses); e) Resolution 224/99 (Request for opening of Dumping and Subsidy investigation); f) Resolution 826/99 (Examination of measures on Dumping and Subsidies).

- ***Environmental issues^{14:}***

The Environment and Sustainable Development Secretariat has issued a series of regulations in relation to the environment that are frequently consulted by users. In addition to the National Constitution, three articles of which deal with the environment, at national level there are some 70 laws, 68 decrees, 1 General Resolution, 374 Resolutions, 1 Joint Resolution, 26 Ordinances, 18 Regulations, 4 Minutes, 1 Pact, 30 Declarations, 7 Recommendations and 1 Manifesto on environmental matters.

- ***Intellectual property protection^{15:}***

Scientific, literary and artistic works including all forms of written work are protected by law. Protection covers source and object computer programs, compilations of data or other material, plays, music and musicals, films, choreography and pantomimes, drawings, paintings, sculptures, architecture, models and works of art or science applied in trade or manufacturing industry, printed articles, maps and plans, plastic arts, photography, engravings and recordings, in effect, all scientific, literary, artistic or didactic material, whatever its duplication procedure. The protection of authors' rights covers the expression of ideas, procedures, methods of operation and mathematical concepts, but not those ideas, procedures, methods and concepts themselves.

¹⁴ Ley General del Ambiente, Bien jurídicamente protegido, N° 25675.

¹⁵ La Ley de Propiedad Intelectual es la N° 11.723.

Reference Information

General statistics on cost/expense, i.e., average labor costs, office rental, utilities, necessary to doing business locally

- Ministerio de Economía y Producción: www.mecon.gov.ar
- Instituto Nacional de Estadística y Censos: www.indec.mecon.gov.ar

Local government agencies

- Ministerio de Trabajo, Empleo y Seguridad Social: www.trabajo.gov.ar
- Ministerio de Ambiente y Desarrollo Sustentable: www.ambiente.gov.ar
- PosPeAR, Invierta en Argentina: www.inversiones.gov.ar
- Administración Federal de Ingresos Públicos: www.afp.gov.ar
- Administración Nacional de la Seguridad Social: www.anses.gov.ar
- Ministerio de Relaciones Exteriores, Comercio Internacional y Culto: www.mrecic.gov.ar
- Ministerio de Interior, Dirección Nacional de Migraciones: www.migraciones.gov.ar
- Secretaría de Turismo: www.turismo.gov.ar

Practical Tips for Business Visitors

- Requirements for visitors' visas
- International time zone
- Argentina's time zone is GMT -0400.

Normal business hours

- ***Banks and exchange houses:***

Monday to Friday, from 10am to 3pm.

- ***Business offices:***

Generally from 9am to mid-day and 2pm to 7pm.

- ***Stores:***

In large cities, from 9am to 8pm, although in the interior they tend to close at mid-day. On Saturday many are open only from 9am to 1pm.

- ***Cafés, bars and pizza parlors:***

Open almost around the clock, some closing between 2am and 6am.

- ***Restaurants:***

Lunch is served from 12.30pm and dinner from 8.30pm. Many establishments offer fast food at all times.

- ***Trading currency in the country:***

Argentina's legal tender is the peso. There are notes of 2, 5, 10, 20, 50 and 100 pesos, and coins of 1 peso and 1, 5, 10, 25 and 50 cents.

Although the US dollar and the euro are widely accepted, currency exchange for local currency is performed at banks and authorized exchange houses. The most commonly-accepted credit cards are American Express, VISA, Diners and Master Card. It could be difficult to exchange travelers' checks outside of Buenos Aires.

- ***Climate:***

Argentina enjoys a wide range of climates: temperate and humid on the plains of the Pampas; cold and humid in the extreme west of Patagonia; subtropical in the north of Mesopotamia; and warm in the north-east of the country. From November to March the average temperature is 23° C and from June to September, it is 12° C.

- ***Weights and measures:***

Weight: kilo (k) and measure: meters (m)

Format of dates and numbers

DD/MM/YY (date/month/year)

Numbers: Thousands separated by a point, decimals by a comma.

Contacts

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