

Doing Business in Argentina



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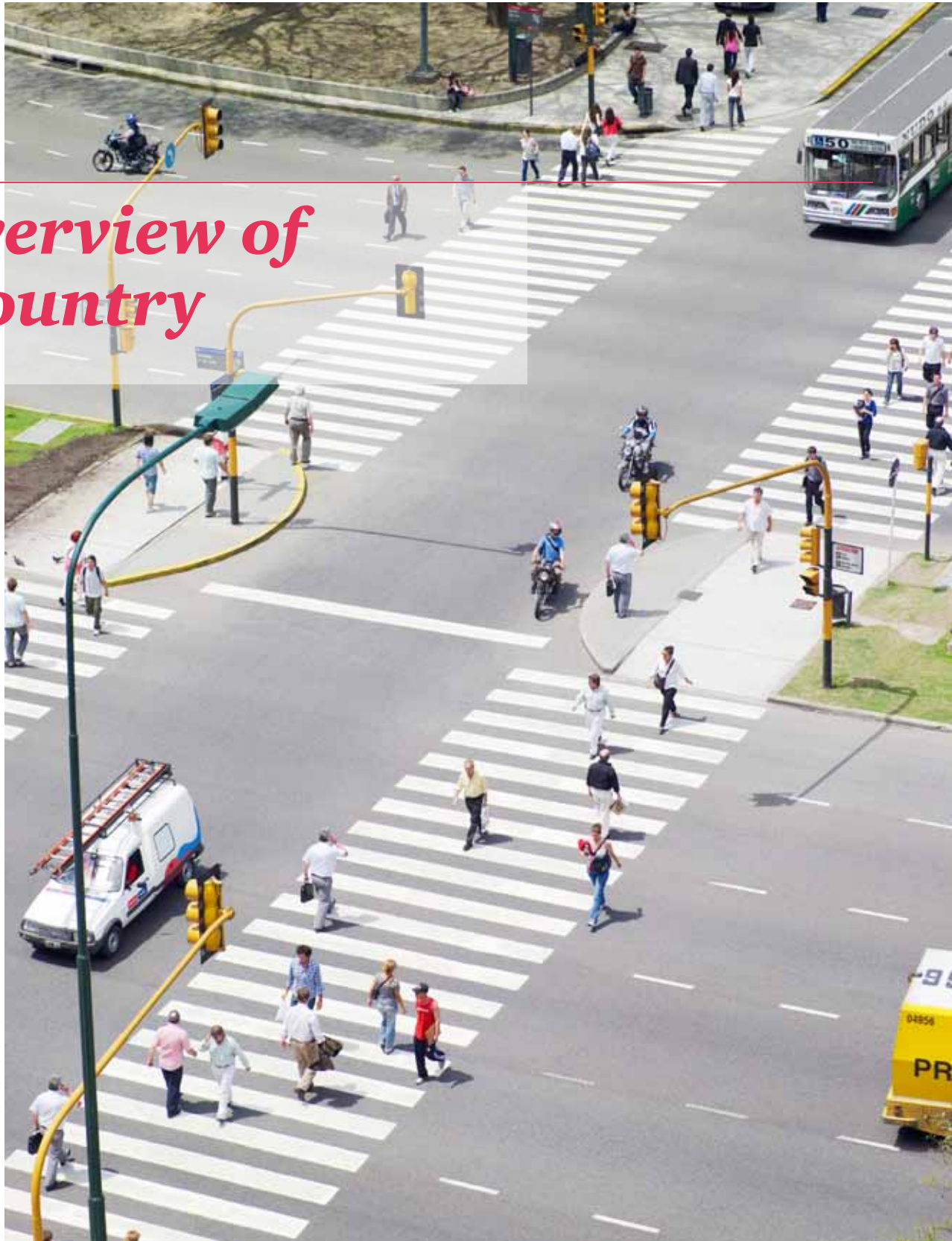




- 6 ***An overview of the country***
- 13 ***General business and investment climate***
- 16 ***Form of foreign investment***
- 21 ***Tax system***
- 30 ***Reference information***
- 32 ***Contacts***



*An overview of
the country*



Geographical and demographical background

Location

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; 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 began a process that led to independence in 1816, although for over sixty years there were internal battles for control of income from Customs monopolized by the Province of Buenos Aires.

After this period of civil war, the country began a process of modernization in 1880, with the creation of new public institutions and efforts to build a foundation to incorporate the country into the international system of division of labor as an agricultural commodity producer. At the beginning of the twentieth century, Argentina followed an agro-export economic model which placed it as a leader in the world economy. This model was based on three pillars: a) high prices of commodities, b) incorporation of extensive croplands to the production process, c) and the incorporation of hundreds of thousands of relatively highly skilled immigrants to the labor market. Between 1930 and 1983 there was a period of institutional instability, characterized by rotating civilian and military governments.

The effects of the Great Depression severely affected the country in the thirties, essentially due to a drop in trade and export volumes. From the beginning of the fifties and until the seventies Argentina changed its economic model to substitute imports, in an attempt to create an industrialized economy. In the seventies, under a new military regime, the country adopted an open economic 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 stagnant, as in most Latin American countries, with episodes of hyperinflation toward the end of the decade. At the beginning of the nineties, Argentina adopted a convertibility plan with a pegged exchange rate. Many of the country’s public utility companies were privatized during this decade.

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

After the 2002 economic and social crisis, convertibility and the pegged exchange rate were abandoned and replaced with a controlled floating rate system.

During the first decade of the twenty-first century, Argentina experienced rapid growth driven mainly by commodity exports. During the period 2003-2011, the country's GDP grew at an average rate of almost 8%. As from 2012, the economy recorded a strong deceleration, with a GDP growth of 1.90% annually, always at constant prices. The main cause of this drop was the decrease in exports –of about 6.64%- and in the Fixed Domestic Gross Investment (FDGI) –of about 4.86%. They were both offset by the 4.77% increase in total consumption (public and private), compared with the previous year. Regarding 2013, last data available reported a growth of 5.53% in the third quarter compared to the same quarter of 2012, driven mainly by private and public consumption, which both experienced an increase of more than 8% compared to the third quarter of 2012.

The forecasts for 2014, even if moderately positive, give rise to a certain level of uncertainty, considering the fact that the evolution experienced by most macroeconomic variables was not quite positive. In this context, the International Monetary Fund (IMF) estimated at October 2013 that GDP at constant prices in Argentina will grow 2.8% by 2014.

The climate

The climate varies from subtropical in the north to sub-Antarctic in the south, featuring a wide temperate belt between these two extremes. The city of Buenos Aires and most of the other main cities and industrialized areas are situated in this temperate region, where maximum summer temperatures average between 27° C (81° F) and 32° C (90° F), with temperatures occasionally exceeding 38° C (100° F). Winters are relatively mild, with occasional frost. Snow and prolonged frost are rare except in the western mountainous areas and in the south.

| Population, major races, legal language, common languages/dialects used: | |
|---|--|
| Area ² | 2.78 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: National Institute of Statistics and Census (INDEC) and Wikipedia.

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

Mineral and energy resources

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

Education in Argentina

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

Prominent industrial sectors in the 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. Agriculture is the productive sector with the most important and dynamic assets.

Political and legal system

Major government authorities:

President³ Cristina Fernández de Kirchner⁴

Vice President Amado Boudou

Cabinet Cabinet appointed by the President

Note: The President and Vice President were elected (the President, in fact, was re-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 is a federal republic. The federal government consists of an Executive branch, embodied by the President; a Legislative branch (Congress), divided into two chambers: the Senate and the Deputies Chambers, and a Judicial branch. Provincial governments are generally organized along similar lines.

Legislative Branch

The Bicameral National Congress (Congreso Nacional) is made up of 72 seats in the Senate and 257 seats in the Chamber of Deputies. All members are elected by direct vote⁵. The governing Party gained some parliamentary seats in the legislative elections of October 2013, achieving 32 seats in the Senate and 118 seats in the Chamber of Deputies.

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 for a six-year term to the Senate, and one half of the members are elected every two years for a four-year term to the Chamber of Deputies. The next election will be held in October 2015.

The economy

By the year 2012 the Argentine economy had experienced ten consecutive years of growth according to official figures. However, after two years of strong growth in the GDP, with 9.2% annually in 2010 and 8.9% annually in 2011, 2012 recorded a strong deceleration, with a GDP growth of 1.9 annually, always at constant prices.

The main cause for this drop was the decrease in exports –of about 6.6%- and in the Fixed Domestic Gross Investment (FDGI) –of about 4.9%. They were both partly offset by the 4.8% increase in total consumption (public and private), as regards the previous year. In turn, the Economic Activity Monthly Estimator (EAME) showed a 1.9% variation against 2011.

In spite the deceleration in the level of activity, inflation accelerated compared to the previous year. However, exact figures are uncertain, as the methodology used by the INDEC is still under question, and the official rate of inflation differs significantly from estimates by private consultants. In 2012 the official inflation was 10.8%, compared to 9.5% in 2011.

As regards the foreign sector, the trade balance showed a surplus of more than US\$ 12,4 billion in 2012, more than 24% higher than the previous year. As a result of government efforts to control imports, imports dropped more than 7% compared to 2011, while exports were reduced by almost 4% against 2011.

After a surplus of almost AR\$ 5 billion in 2011, the fiscal balance showed a deficit of AR\$ 4,4 billion in 2012. This is explained by the significant increase in current expenses, which exceeded the growth in current revenues, driven by Social Security Benefits, Operative and Consumer Expenses, and Current Transfers, which together accounts for almost 25% of this increase.

The financial result (primary result minus interest payments on debt) reflected a mayor loss, having gone from AR\$ -30,7 billion in 2011 to AR\$ -55,6 billion in 2012.

The fiscal balance, another pillar supporting expansion in the last decade, began to weaken in 2008, especially due to escalating expenses, thus resulting in the fiscal balance in deficit in 2012 for the first time since 1996.

Additionally, figures from early 2013 show no significant recovery. In the first quarter of 2013 both GDP at constant prices and the Monthly Economic Activity Indicator (EMAE in Spanish) grew 3% compared to the same quarter in 2012. The trade surplus fell more than 25% in the same period, and the official inflation was 10.5% annually for the first semester of the year.

Forecasts for 2013 point to uncertainty, given that the evolution of most macroeconomic variables in the first months of 2013 was less than positive. According to IMF (International Monetary Fund) estimates, as of April 2013, the GDP at constant prices in Argentina will grow by 2.8% annually in 2013 and 3.5% annually in 2014.



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 ⁶ |
|------|----------------------|--|
| 2007 | 359,170 | 8.7% |
| 2008 | 383,444 | 6.8% |
| 2009 | 386,704 | 0.9% |
| 2010 | 422,130 | 9.2% |
| 2011 | 459,571 | 8.9% |
| 2012 | 468,301 | 1.9% |

Source: Based on data from the INDEC

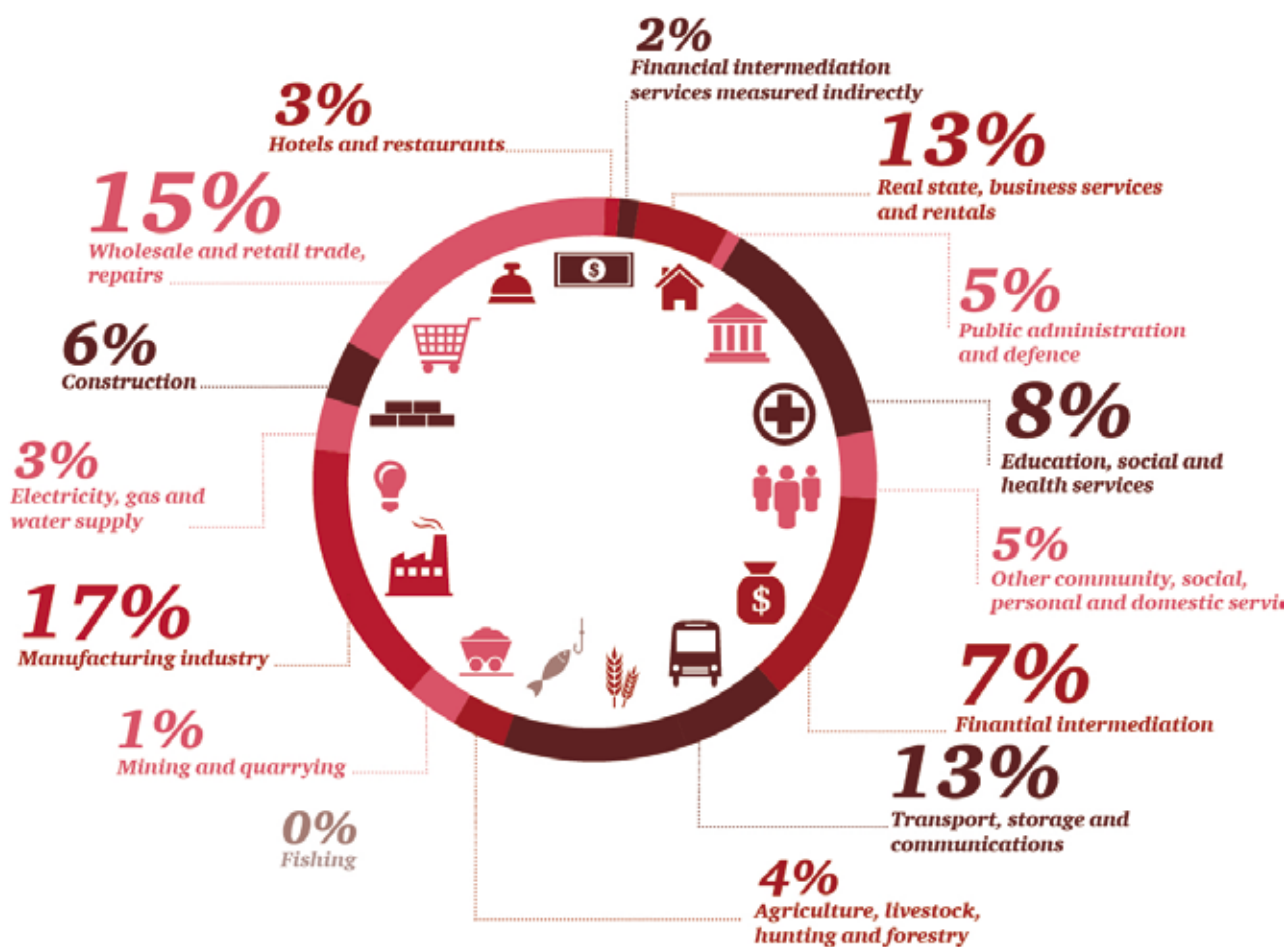
Balance of payments estimates

| | | 2011 | 2012 |
|-------------------------------------|-------------------|---------|---------|
| Current Account | Total | 17 | 479 |
| | Goods | 13,540 | 15,642 |
| | Services | -2,230 | -3,460 |
| | Interests | -10,829 | -11,307 |
| | Current transfers | -464 | -397 |
| Financial Account | Total | -2,267 | -3,475 |
| Net Errors and Omissions | | -3,928 | -347 |
| Variation in International Reserves | | -6,108 | -3,305 |

Source: Based on data from the INDEC

⁶ Compared with the previous year

Share in GDP by industry- 2012



Source: Based on data from the Argentine Ministry of Economy

General business and investment climate

Government attitude toward foreign investment

Through its International Trade Under-Secretariat, the Argentine government 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 in expanding and improving existing activities.

To this end, the country has a series of regulations available to both domestic and foreign investors 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).

Trademark legislation (Law No. 22362 and Law No. 24481 and its amendments) provides protection for 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, and 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 of the existing legal framework governing FDI address: a) domestic treatment of foreign investors; b) absence of prior approval requirements or registration of investment; c) access to all sectors of the economy, and d) access to domestic incentive schemes ⁷.

⁷ Lastly, Law 21737, enacted in December 2011, establishes that foreigners may not own more than 15% of national territories.





Form of foreign investment

The exchange control system has been regulated since 2001 by the Central Bank of Argentina (BCRA) as well as by the Federal Administration of Public Revenue as of October 2011 (Administración Federal de Ingresos Públicos, AFIP), establishing the necessary validations to allow access to the Single Free Foreign Exchange Market (Mercado Único y Libre de Cambios, MULC).

A series of mechanisms has been established to determine how to obtain validation of the transaction prior to implementation. The mechanisms are as follows:

- Foreign Currency Transactions Consultation Program (Programa de consulta de operaciones cambiarias, COC) which requires validation of the amount of foreign currency an Argentine resident wants to purchase to pay tourism and travel expenses; the program in addition records all exchange transactions conducted for any reason;
- Early Sworn Statement for Imports (Declaración Jurada anticipada de importaciones, DJAI) under which prior consent is required to pay for the import of goods and carry out the import for consumption; and
- Early Sworn Statement for Services (Declaración Jurada anticipada de servicios, DJAS), requires the prior consent of the AFIP, and is for the payment of certain services provided by nonresidents.
- Sworn Statement of Payments Abroad (Declaración Jurada de Pagos al Exterior, DAPE) for the payment of financial debts arising from the purchase of goods not brought in and sold to other countries, payment of interest and dividends, payment of transactions under the courier system and some import sub-systems and payments of lease of machinery, tools and other movable properties with purchase option.

In 2012, AFIP created Multidisciplinary Teams for Verification Valuation and Control Inspection (EMVIC) led by customs control for valuation and classification of imported goods and requires thorough control.

Financial debts

The time frame has been reduced for bringing funds for foreign financial debts into the local foreign exchange market. This time frame is 30 (thirty) calendar days counted as from the date of disbursement of the funds.

In addition, the time frame has been reduced for settling principal and interest installments.

Access to the MULC to settle capital services has been authorized for up to 10 (ten) business days prior to expiration of the term, after prior compliance with the minimum applicable time limit in the MULC, except for cases requiring a longer term.

Partial payments are authorized if financed in their entirety through imported funds that arise from capital contributions or funding granted by foreign banks or international organizations and its agencies or official entities granting export loans, and if all other applicable requirements have also been fulfilled.

Interest installments may be settled 5 (five) business days prior to the expiration of each installment, in arrears. Interest accrued not in arrears cannot be paid. AFIP requires the DAPE to have an exit status to pay interest abroad.

Imports of goods

Advance or demand payments for imports of goods can be made in advance with the required DJAI in the exit stage for the registration and subsequent nationalization of the goods.

Deferred payments for imports of goods may be made up to 5 (five) business days in advance of the due date of the obligation with the foreign creditor. Prior approval with greater anticipation is required of the Argentine Central Bank

Evidence of the advance payment of the importation of goods must be provided within 365 calendar days from the date of access to MULC or within 90 calendar days in the case of payment on demand. In the event of noncompliance, the importer must usually bring the amount in and within the same period.

The financial entity appointed to follow up the transaction may grant an additional term to complete registration, if required, when the established requirements for the regulations in force have been met. Otherwise, prior approval by the BCRA will be required.

Payment of services provided by nonresidents

For collection purposes, some services rendered by nonresidents require compliance with AFIP (DJAS) and BCRA regulations.

The conditions established by the AFIP include reporting through its website, if applicable, the service to be paid abroad attaching the contract and/or the commercial invoice, or a similar document, in a pdf file. When the reported transaction obtains approval and passes to the exit stage, access to the MULC would be requested to make the payment.

Further, as established by the Central Bank, to make payments for (i) amounts in excess of USD 100,000 per item code per annum, and (ii) for the same items for which DJAS is required, to pay rent to nonresidents and pay commercial commissions, the Central Bank's prior authorization must be obtained when (a) the payment is to be made to a related company under the terms of BCRA Communication "C" 40209, and/or (b) the funds are transferred to an account opened in a low or zero taxation country, and/or (c) the beneficiary is an individual or a legal entity domiciled or incorporated in a low or zero taxation country.

Exports of goods

The time frame for bringing foreign currency into the Argentine market from the collection of the exports of goods has been reduced. The time frame granted per tariff position has been modified in this regard and the additional term of 120 (one hundred and twenty) business days granted by the BCRA has been eliminated.

The new time frames per tariff position will not be applied to (i) exporters which in 2011 have exported a total amount of less than USD 2MM, and to (ii) those who have contracts in force and recorded as of April 26, 2012. To these exporters, the time frame predating the effective date of the resolution will be maintained for all their exports, including those to related companies, at the discretion of the BCRA.

The term to bring in foreign currency arising from exports to related companies is 30 (thirty) consecutive days counted as from the date of shipment, irrespective of any extension granted.

Likewise, the new time frame established per tariff position may be extended if the company obtains a favorable resolution from the Unit of Assessment, under the authority of the Ministry of Economy and Public Finance, as regards its petition for extension of the time frames.

Exports of services

The funds for collections of exports of services must be traded on the MULC within 15 (fifteen) business days counted as from the date of their collection in Argentina or abroad.

The amount that is to be brought into Argentina for exports of services must coincide with the amount collected, net of withholdings or discounts and/or when the company uses international clearing systems for transaction conducted in different countries, it must coincide with the net amount offset in the period.

Formation of external assets

Effective July 6, 2012, the Central Bank indefinitely suspended the possibility of purchasing foreign currency to be held in Argentina or to be transferred abroad as a portfolio investment, real estate investment, direct investment contribution or loan, among other purposes.

Travel and tourism

Access to the MULC is allowed for the purchase of foreign currency (bank notes or traveler's checks) to travel abroad, up to an amount that is validated by the AFIP through the COC. If the trip is suspended, the purchased amount must be returned. Only the national currency of neighboring countries may be acquired.



Tax system

Significant developments

During 2012, Argentina terminated the provisional application of the Double Tax Treaty with Switzerland and denounced the treaties with Chile and Spain. The termination of the Swiss treaty operated with immediate effects while, in the case of the treaties with Chile and Spain, the termination will have effects –in most cases- as from January 1st, 2013.

On May 30, 2013, a new, more dynamic, list of non-cooperative countries for purposes of the exchange of tax information was published in the official gazette, substituting the country's old tax haven blacklist. In principle, jurisdictions that have not concluded a tax information exchange agreement or double tax treaty with Argentina with a comprehensive exchange of informational clauses would be regarded as non-cooperative.

By means of Law 26,893 (published September 23, 2013), a relevant tax reform was introduced in Argentina. The enactment of a 15 percent tax on capital gains and a 10 percent tax on dividend distributions was among the most notable amendments.

In accordance to the new legislation, the capital gains in scope are those derived by Argentine individuals from the sale or disposal of depreciable movable assets, shares, quotas and participations in Argentine entities, and bonds and other securities in Argentina. Capital gains derived from the sale of publicly traded shares and securities would remain exempt. Similar tax treatment would apply upon the disposal of Argentine shares and other securities by a nonresident (regardless of whether the shares or securities are publicly traded or not).

Finally, dividends paid by Argentine companies to Argentine individuals and nonresidents will be subject to a 10 percent tax, without regard to the application of the “equalization tax” - 35 percent withholding on profits distributed in excess of accumulated taxed earnings.

Taxes on corporate income

- **Profits tax:**

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

- **Tax on minimum notional income:**

The rate is 1% on the value of fixed and current assets. Income tax can be credited against the settlement of taxes 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, jewelry 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 those losses from the sale of shares and other equity interest 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.

- **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.

- **Transfer pricing rules:**

The transfer pricing regulations governing intercompany transactions, which were introduced into 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 construction 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 the 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 – except for financial institutions governed by Law No. 21,526, leasing companies and certain financial trusts, whose interest is paid by an Argentine resident on loans granted by foreign-related parties would not be deductible if the 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. An exception to thin capitalization rules applies in case the interest payment is subject to an effective withholding tax of 35%.

Tax incentives

- **Mining activity:**

Law No. 24,196/93 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. 24,196/93 has been regulated by General Resolution 1641 (Official Gazette dated February 27, 2004).

- **Forestry:**

Law No. 25,080 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. 25,865 and 25,922 (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 specific requirements are met. This regime has 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:**

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. Additionally, starting in 2013, a 10% withholding tax would be applicable on dividends distributions made to a non-resident.

Furthermore, gains on the sale of shares would be subject to a 13.5% tax on gross proceed or, alternatively, 15% on actual (provided duly supported).

Other payments to residents and to non-residents are subject to withholding rates as follows.

| Recipient | Interest % | Royalties % |
|---|--------------------|--------------------|
| Resident corporations | 6, 28 or 35 (1) | 6 or 28 (2) |
| Resident individuals | 6 or 28 (1) | 6 or 28 (2) |
| 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 | 12 (5) | 3,5,10 or 15 |
| Bolivia | 15.05 or 35 | 21, 28 or 31.5 |
| Brazil | 15.05 or 35 | 21, 28 or 31.5 |
| Canada | 12.5 (5) | 3,5,10 or 15 |
| Chile | 15.05 or 35 | 21, 28 or 31.5 |
| Denmark | 12 (5) | 3,5,10 or 15 |
| Finland | 15 (5) | 3,5,10 or 15 |
| France | 15.5 or 20 (6) | 18 |
| Germany | 10 or 15 (7) | 15 |
| Italy | 15.5 or 20 (5) (6) | 10 or 18 |
| Netherlands | 12 (5) | 3,5,10 or 15 |
| Norway | 12.5 (8) | 3,5,10 or 15 |
| Spain (10) | 12 (5) | 3,5,10 or 15 |
| Sweden | 12.5 | 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. The 28% rate is applicable to non-registered taxpayers. As regards 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. Interest paid between two resident companies may be subject to a 35% withholding tax
2. Resident corporations and individuals who are registered for tax purposes are subject to a 6% withholding (28% if not registered)
3. Withholding from payments of interest and royalties to non-residents is based on a flat rate of 35% applied to a presumed percentage of gross profit margin. This margin is not contestable, but the resulting rate may be limited by bilateral treaty. Under the 1998 tax reform, the general margin for interest paid on credit 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 corresponding 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 presumed profit of 60%);
 - b. Cessation of rights or licenses for working of invention patents and technical assistance obtainable in Argentina—28% (35% on presumed profit of 80%). (On non-registered agreements the rate is 31.5% (profit of 90% is presumed) or 35% (profit of 100% is presumed), depending on the case.). Several other "royalties" charges are subject to rates that may, in turn, be limited by treaty. A broad sample of these concepts and the non-treaty effective rates are set forth in Note 4
4. 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 presumed gross profit margins (Note 3), 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 of projection, reproduction, transmission, or broadcasting of image or sound; sale of assets located in Argentina (9,10) | 17.5 |
| Rental of real estate | 21.0 |
| Any other Argentine-source income (unless the non-resident is or was temporarily a resident) | 31.5 |

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

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%
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. Except for shares and other securities that are taxed at a rate of 13.5% on gross proceeds or, alternatively, 15% on actual gain.

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 15 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 promoted price agreements in various sectors with the aim of curbing price increases of certain consumer goods. There are several laws dealing with unfair trade, including: a) Law No. 22,802 on Fair Trade, b) Law No. 24,425 (GATT, WTO Unfair Trade and Safeguards); c) Decree 1,326/98 (Regulating Law No. 24,425 - Dumping and Subsidies); d) Decree 1,059/96 (Regulating Law No. 24,425 - 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 issues¹:***

The Secretariat for the Environment and Sustainable Development has issued a series of regulations relating to the environment which are frequently consulted by users. In addition to the National Constitution, which contains three articles that relate to the environment, at national level there are close to 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 protection¹⁵:***

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, and all scientific, literary, artistic or educational material, whatever its reproduction procedure. The protection of authors' rights covers the expression of ideas, procedures, methods of operation and mathematical concepts, but not the ideas, procedures, methods and concepts per se.

¹ General Environmental Law, legally protected asset, N° 25675

¹⁵ Intellectual Property Law N° 11,723

Reference Information

General statistics on cost/expense, i.e. average labor costs, office rental, utilities, necessary for 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
- Argentine 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 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 2 pesos, 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 can 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, 12° C

- ***Weights and measures:***

Weight: kilo (k); Measurement: meters (m)

- ***Format of dates***

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

- ***Numbers:***

Thousands separated by a point, decimals by a comma

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