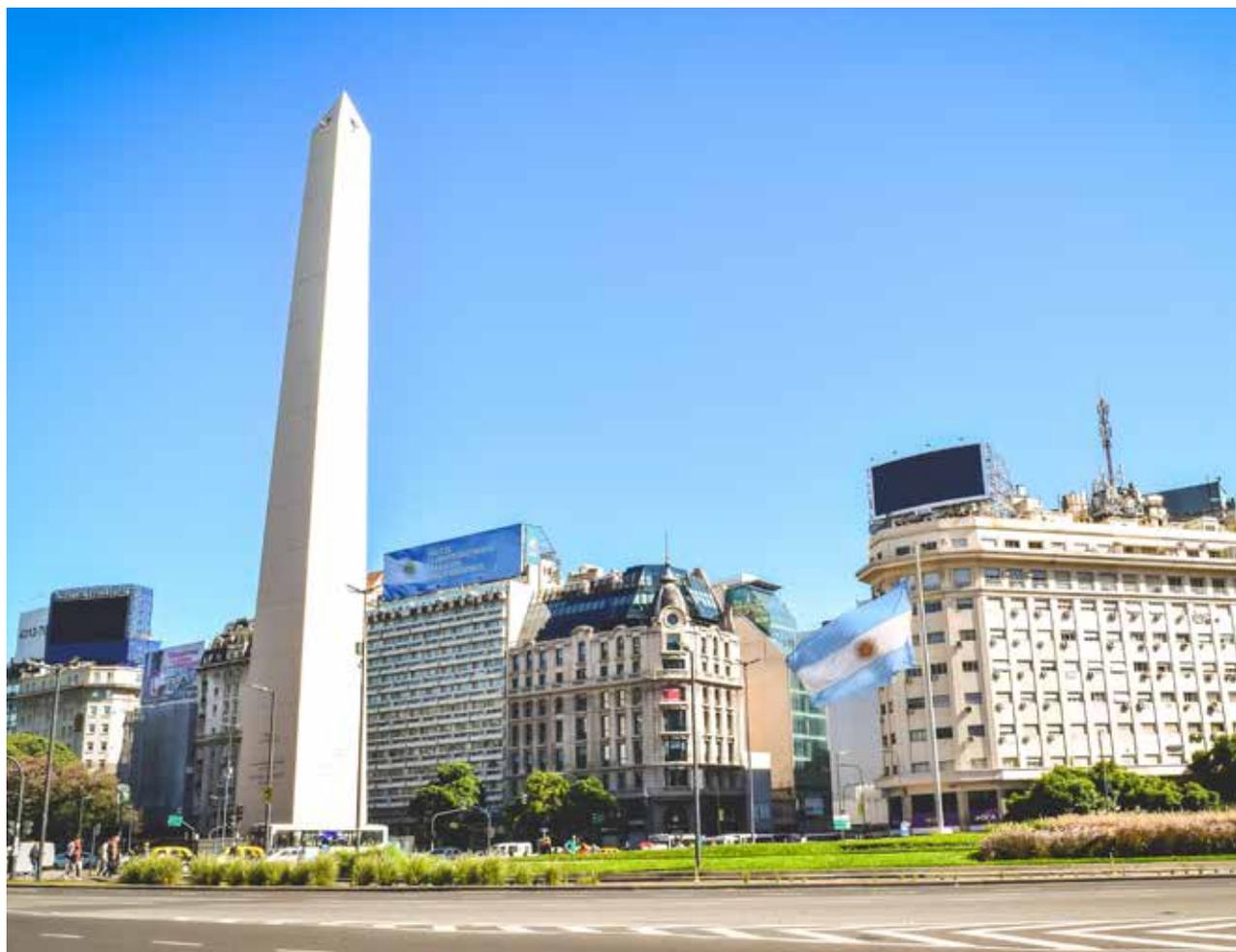
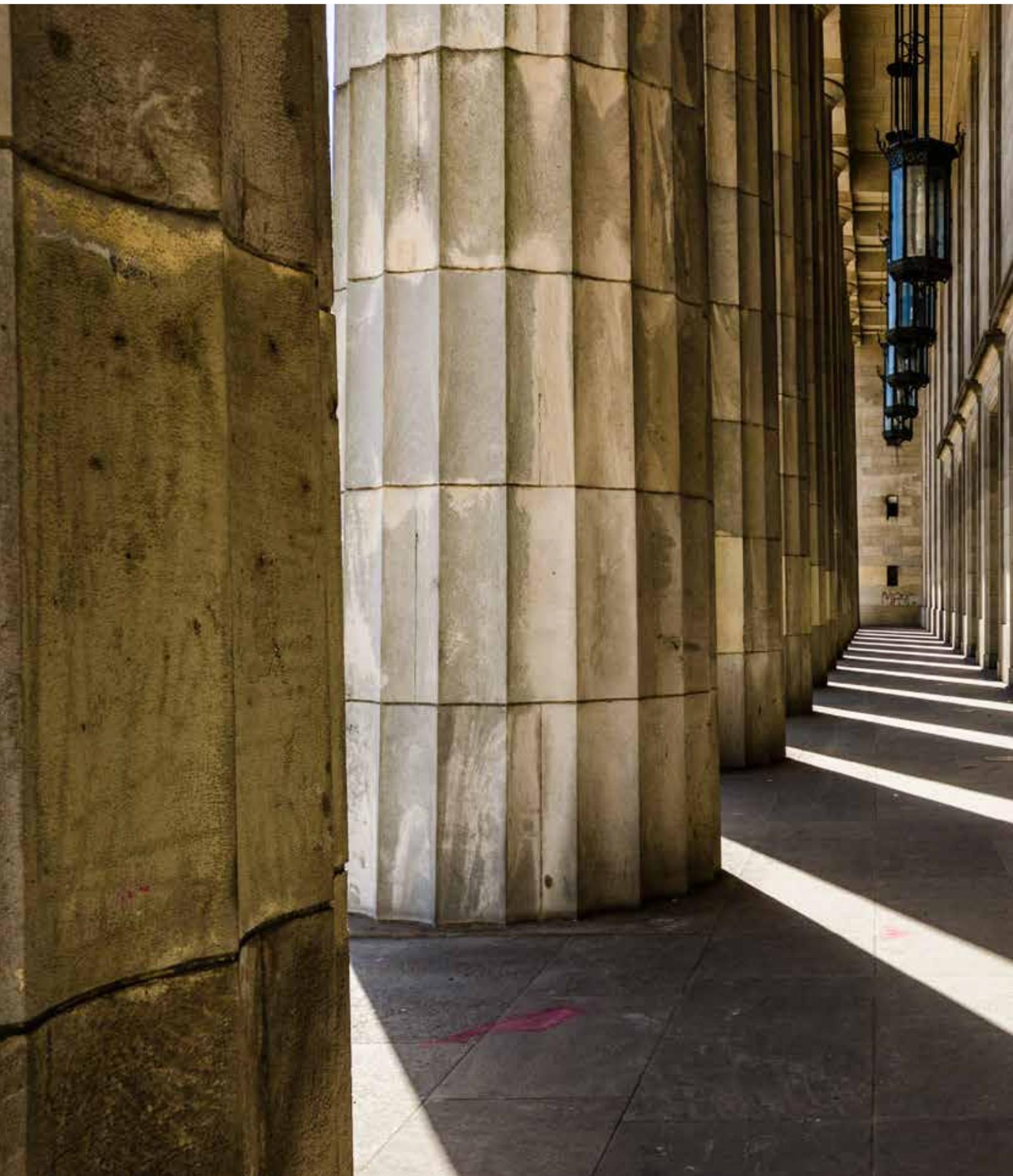


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# *Doing Business in Argentina 2017*







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# Geographical & demographical background



## Location

The **Republic of Argentina**<sup>1</sup> is located in South America, between latitudes 23°S (Tropic of Capricorn) and 55°S (Cape Horn). The Andes separates the country from Chile to the west and Bolivia to the northwest; Paraguay lies directly to the north, with Brazil, Uruguay and the South Atlantic Ocean to the east.

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



## **Brief history of the country**

The history of Argentina began 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 initiated 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 into 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.



## **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.

## **Education in Argentina**

Education access in Argentina is free; however, to encourage high attendance rates in school, it is mandatory from the age of 4 to 18. Over twelve million students attend public and private schools and universities.

## **Mineral and energy resources**

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

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.

After the 2001-2002 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 2012-2015 average annual GDP growth of 1.56%, always at constant prices. The main cause of this drop was the growing imbalances in both the internal and external sectors.



## 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.

### Population, major races, legal language, common languages/dialects used:

Area <sup>2</sup>	2.78 million km <sup>2</sup>
Population	42.3 million
Population per km <sup>2</sup>	15.1
Population growth	5% <sup>4</sup>
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: UN Factbook, Worldbank and Wikipedia.



## Political and legal system

### Major government authorities since December 10, 2015:

President <sup>3</sup>	Mauricio Macri
Vice President	Gabriela Michetti
Cabinet	Cabinet appointed by the President



## Brief description of the legal framework

Argentina is a federal republic. The federal government consists of an Executive branch, headed by the President; a Legislative branch in the form of a Congress, which is divided into two chambers: the Senate and the Chamber of Deputies; 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 vote<sup>4</sup>. The governing Party has no majority in either Chamber, a situation that has never happened in the modern history of the Country.

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

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

4 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.

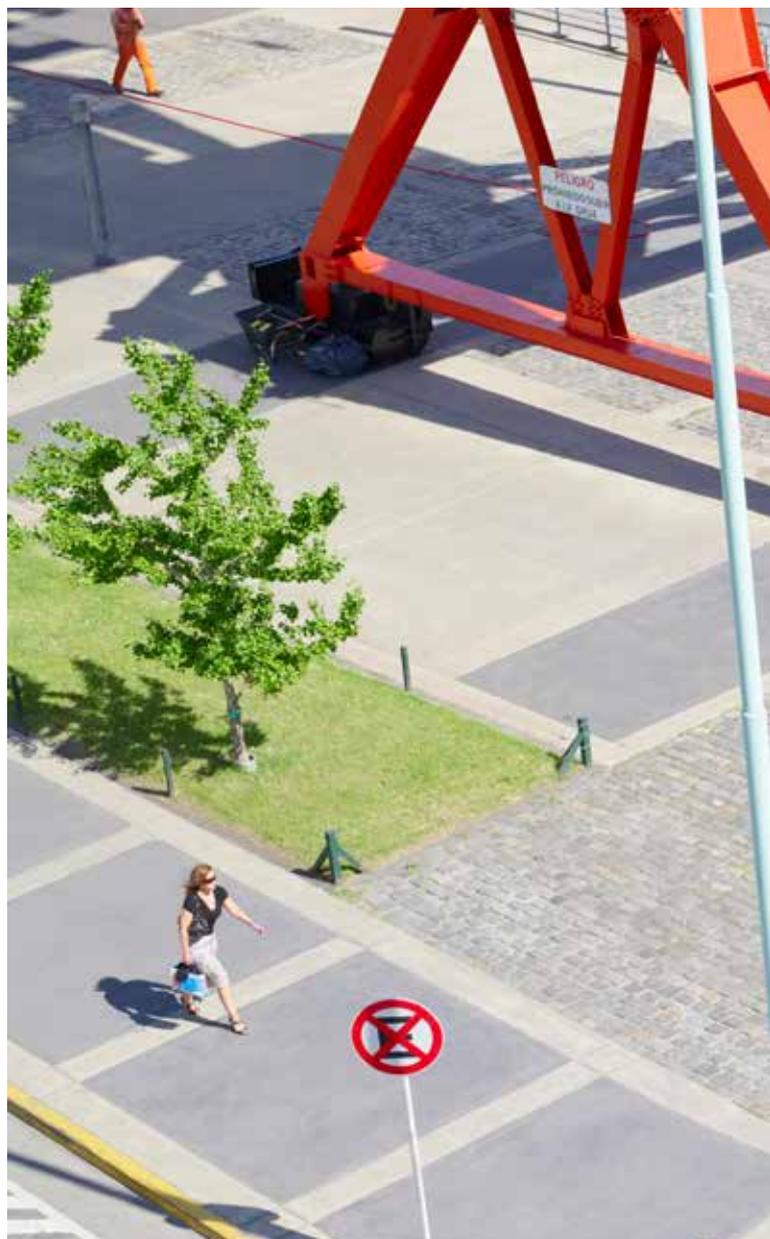
## **The economy**

2016 was a year of changes for the Argentine economy; the focus of economic policy was placed on certain economic variables that allowed for the correction of the most urgent macroeconomic imbalances, in an international context that changed throughout the year becoming more uncertain. Among the most remarkable achievements are the unification of the exchange rate, the return to capital markets, the normalization of the functioning of national institutions and the strengthening of relations with international organizations and governments of other countries.

While these changes have tended to normalize the economy, its performance throughout 2016 has been less favorable than expected. GDP fell by 2.3% year-on-year, affected by the fall in private consumption (-1.4%) and investment (-5,1%). The inflation rate rose 41% primarily as a result of the change in the relative price of some public services, such as electricity, gas, water and transport, and the initial increase in the nominal exchange rate, after freeing up foreign exchange controls. However, during the second half of the year the inflation rate slowed down in line with the Central Bank's target for 2017. This institution, which has started to recover its independence, has made reducing the inflation rate a priority, which in the course of 2016 has pursued a restrictive monetary policy that involved maintaining relatively high interest rates.

The result of these high interest rates has encouraged income from foreign currency with financial objectives; while exiting the default and the return to international markets has generated an inflow of dollars for the placement of debt bonds issued by the National and Provincial Governments and companies. The nominal exchange rate thus remained steady in the first months of the year, closing 2016 at \$15.82 per dollar, 38.5% above December 2015.

The government met the primary deficit target of 4.2% of GDP, revenues from the tax amnesty launched on June 29 being essential to achieving this goal. The public sector has significantly modified its pattern of financing: up to 2015 its main source was financing through the Central Bank; whereas from 2016, funding has come mainly through borrowing in the capital markets.



The main challenge facing the current administration is expenditure on subsidies, which still accounts for an important part of spending, reaching the equivalent of 3.6% of GDP in 2016.

The commercial channel of Foreign Trade has again left a positive balance in 2016, which rose to US\$ 2.124 billion, after falling in 2015; where exports grew 1.7% benefited by the export duties repeal at the beginning of the year, but imports declined by 6.9%, mainly due to a drop in economic activity. Meanwhile, the balance of the services and income account was US\$ 7.01 billion in deficit.

As a result, in the absence of any external shock that might alter the possibility of obtaining financing for the tax deficit and the current forecasts for the growth of public works, the economy could be expected to recover during 2017, with a rate of inflation sharply lower than that of 2016.

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

### Millions of pesos at 2004 prices

Year	GDP at market prices	GDP growth at market prices
2004	485.115	
2005	528.056	8,9%
2006	570.549	8,0%
2007	621.943	9,0%
2008	647.176	4,1%
2009	608.873	-5,9%
2010	670.524	10,1%
2011	710.782	6,0%
2012	703.486	-1,0%
2013	720.407	2,4%
2014	702.306	-2,5%
2015	720.898	2,6%
2016	704.330	-2,3%

### Balance of payments estimates

		2012	2013	2014	2015	2016
Current Account	Total	-2.138	-13.124	-8.674	-17.170	-14.901
	Goods	15.041	4.635	6.015	-363	4.540
	Services	-4.097	-5.329	-4.610	-5.786	-8.446
	Interests	-13.754	-13.165	-11.614	-12.105	-12.152
	Current transfers	672	734	1.535	1.083	1.156
Financial Account	Total	-2.740	-16.131	-9.264	-18.473	-15.606
Net Errors and Omissions		-698	-3.074	-703	-1.407	-1.424
Variation in International Reserves		-3.305	-11.824	1.195	-4.933	13.725

Source: Based on data from the INDEC



# *Investment and Challenges in Argentina*

## *Investing in Argentina*

- The macroeconomic evolution of the fourth quarter of 2016, measured at 2004 prices, determined a variation in global supply of -0,8 in relation to the same period in the prior year, due to the -1,9% decline in GDP and the 3,5% increase in imports of real goods and services. In global demand, there was a 7,7% change in exports of real goods and services and a drop of -5,9% in gross fixed capital formation. Public consumption fell by 2%, while consumption decreased by 2,4%.
- Strict international trade controls performed by the Tax Authority (Federal Administration of Public Revenue, AFIP) and the Argentine Central Bank (BCRA) have been eased, and the informal restrictions established for the payment of the import of goods, services and payment of dividends have been removed
- Unemployment rate for 2016: 7,6 %<sup>8</sup>
- One of the leading producers and exporters of commodities. The country is known for its high productivity, highly efficient business practices, advanced technology, expansive territories, fertile lands and multiple climate types that foster the growth of a wide variety of crops such as: soybeans (top 3 global producer), wheat (top 13), maize (top 5), sorghum (top 5), as well as livestock (beef top 6 and poultry top 8). Endowed also with forest resources, mining deposits of gold, copper, lead, zinc, natural borates, entonite, clays and construction stone<sup>2</sup>.
- World's third-largest producer of GM (genetically modified) crops granting producers considerable advantages in terms of production and profit levels. Also is the largest producer of soybean oil and meal, and the whole soybean group represents almost one quarter of the country's total exports. China is the main buyer in the oil and grain segment.



- It's one of the largest sunflower producers and is one of the leading exporters of meat.
  - Investment opportunities in the construction and infrastructure industry. In order to catch up with the economic growth that took place over the past 15 years, Argentina needs to carry out large infrastructure projects aimed at improving the productivity and efficiency of industries and the quality of life of Argentine citizens. These projects include: river, water, energy and civil works, like ports, bridges and roads.
  - Energy Industry. Argentina holds the world's second-largest shale gas reserves (802 trillion cubic feet) and fourth-largest shale oil reserves (27b barrels). Vaca Muerte is the largest shale gas reserve in Argentina, located in the Neuquén Basin. Furthermore, the recent development of biofuels exploits synergies with the country's agricultural producers. Production in 2016 is estimated at 2.69 billion liters, a substantial increase from the previous year primarily thanks to growing exports to the US. Production of biodiesel in Argentina in 2017 is forecast to increase to 3.1 billion liters<sup>2</sup>.
- In May 2016, President Macri launched Plan RenovAr, a decade-long plan to attract USD 15 billion in renewable energy investments. The first phase of the bidding process was encouraging: the Argentine government received offers for more than 6,000 MW, and granted contracts to build 1,100 MW (700 MW in wind and 400 MW in solar), with estimated investments of USD 1.8 billion.
- Telecommunications - Argentina has the third biggest telecommunications market in Latin America, and the market has grown over 300% in the last 10 years<sup>1</sup>. The number of Internet users in the country has been estimated at 32 million as of 2016, or 74% of the population. Argentine telecommunication companies reported 32% year-on-year revenue growth in the second quarter of 2016, reflecting the strongest increase in Latin America and the US. The region of Latin America, as a whole, accounts for revenues of the telecommunications sector of \$ 36.175 billion during the second quarter, which represents an annual growth of 3.7%. The three countries that contributed the most to the growth of the region were Argentina with a coefficient of 32.1%, Spain 4.1% and Mexico 3.5%<sup>11</sup>

- National, provincial and local governments have incentive programs and tax benefits designed to promote investment and improve business profitability<sup>1</sup>
- 20 bilateral agreements with other countries to avoid double taxation<sup>2</sup>.
- Founding member of the World Trade Organization (WTO), member of G20 representing Latin America and a full member of MERCOSUR<sup>3</sup>. Even though 2017 presents a challenging environment for Latin America, the economies are expected to recover in 2017/2018 and we expect a continuous improvement in growth for the next decade.
- Current president Mauricio Macri and his cabinet have been visiting many countries including the United States, Spain and China, or attending events at the Davos World Economic Forum in 2016 and 2017 to promote foreign investment.
- Argentina ranked 20th in the World Transparency and Open Government Ranking. Previously, Argentina was in 54th position, climbing 34 place to become the nation with the greatest growth<sup>4</sup>.
- An area with great abundance of natural resources and geographical diversity on the planet. It is the second largest country in Latin America and the eighth in the world<sup>5</sup>.
- High degree of literacy and high rate of student enrollment, providing a qualified and competitive labor force.
- Regarding family businesses, it is common to find founders who decide to sell their businesses when they reach an advanced age, as they have no successor nor the necessary energy to continue. Unfortunately, in many cases, decisions are made late and the expected value of the business is influenced by emotional issues. When analyzing the trajectory of these companies, one sees a marked success with recognized brands. However the products have aged along with their founders and their current businesses have lost the potential they once had in the golden years.
- According to an estimate by PwC Argentina, only 30% of family businesses survive the transfer from the first generation, as some are sold or disappear, and only 10% to 15% survive a transfer to the third generation.
- In a process of advanced growth and diversification, the family business may begin to face financing needs, which may raise the need to incorporate a partner or make a public offer of its shares.
- Crisis is another reason to trigger the decision to sell, especially in the post-crisis period, as a result of agreements with the creditors of the family business



Sources:

- <sup>1</sup>National Institute of Statistics and Census (INDEC).
- <sup>2</sup>United States Department of Agriculture.
- <sup>3</sup>Federal Administration of Public Revenue.
- <sup>4</sup>The Economist.
- <sup>5</sup>CIA World Factbook.
- <sup>6</sup>United Nations Development Program.
- <sup>7</sup>Ministry of the Treasury.
- <sup>8</sup>Information from INDEC.
- <sup>9</sup>BCRA.
- <sup>10</sup>Ministry of Modernization
- <sup>11</sup>Argentina's National News Agency TELAM.



## ***But,***

- Accumulated Inflation rates for 2016: 41% (top-ten in the world) according to private studies<sup>9</sup>.
- Within the international context, commodity prices do not reflect well for Argentina to recover a path to growth. A phenomenon we have seen in the reduction of 2014, 2015 and 2016 GDP growth.
- In 2016, Argentina had a fiscal deficit of 6.3 billion USD.
- Subsidies in 2016 represented 16.3% of national spending<sup>7</sup>.
- Devaluation of 59,4% in 2016<sup>9</sup>.
- The financial services sector is likely to improve in 2017 as a result of the Tax Amnesty Law, which has increased deposits by nearly USD 7.2 billion in Argentine bank accounts as of November 21, 2016. This repatriation of cash has resulted in reactivated financial flows and enables the possibility of new applications of funds that the Central Bank can regulate. The Central Bank's emphasis on reducing inflation and making cash available is also a positive sign for the financial services sector.
- Over the last few years, Argentina has imported energy and utilities (mainly gas). Hydraulic power generates 30% of the electricity consumed domestically, while nuclear energy produces 7%. However, current legislation seeks to promote the use of renewable energies with a view to fostering sustainable development; because of the drop in international oil prices further investment in Vaca Muerta shale formation, one of the largest shale basins outside North America, has been postponed.
- Since 2011, investment in construction and investment in durable equipment has remained relatively stable. According to the World Economic Forum, Argentina ranks 102nd (out of a total of 139 countries) in general infrastructure quality. In 2013, 8.2m citizens lacked access to water and 21 million to sewers, out of a total population of 41.5m.
- Less growth in Brazil could affect Argentina's position as a main commercial partner.
- Selling investments was perhaps a big problem of the private equity business in Argentina. There were obvious restrictions during the Kirchner era, but today the situation seems to be changing with the Macri Administration, as Companies are able to monetize their investments.

# *Form of foreign investment / Structuring the Deal*





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

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

**Formation procedure**

- Foreign companies that intend to become shareholders of an Argentine Subsidiary or to operate in Argentina through a Branch must previously register as foreign shareholders or branches, as the case may be, with the Public Registry of Commerce (Inspección General de Justicia, IGJ, in the City of Buenos Aires).
- In all cases, foreign companies operating in Argentina must name individuals who will be legally responsible for them, and separate accounting records must be kept for the company’s operations in Argentina.
- The main types of investment vehicles used by non-residents and foreign companies are a branch; a corporation (Sociedad Anónima); and a limited liability company (Sociedad de Responsabilidad Limitada).

**Restrictions on foreign investment**

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

**Regulatory environment**

**General commercial laws and regulations**

Area	Regulations
Foreign investment	Law No. 21382/ 1993 on Foreign Investment and Regulatory Decree No.1853/ 1993.
Labor Law	Labor Contract Law No. 20744, Labor Law No. 25877, Law No. 24241 (Integrated Retirement and Pension Benefit System), Law No. 24557 (Work Risks) and Collective Bargaining Agreements
Commercial Companies	Commercial Companies Law No.19550, Insolvency Proceedings and Bankruptcy Law No.24522
Immigration Policy	Law No. 25871
Trade	Code of Commerce, Law No.2637
Capital Markets	Law No. 26831



# *Regulations on International Trade & Customs*

## *Introduction*

The exchange control system has been regulated since 2001 by the Central Bank of Argentina (BCRA). From October 2011 to December 2015, the foreign exchange market was also regulated by the Federal Administration of Public Revenue (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).

After more than one year of the new Administration, many of the mechanisms that had been established to obtain validation of transactions prior to access to the MULC have been eliminated or moderated.

## **Financial debts**

The obligation to bring and trade funds for foreign financial debts into the MULC has been annulled, regardless of whether principal and interest are paid through access to the MULC or not.

Access to the MULC is allowed to settle principal services on financial debts held abroad, whether the respective funds have been brought into Argentina or not, by submitting the Foreign Exchange Purchase Agreement, which must be accompanied by a sworn statement that the resident has complied with the Survey of issuances of debt securities and external liabilities of the financial sector and the non-financial private sector (Survey pursuant to BCRA Communication “A” 3602) and with the Survey of direct investments (Survey pursuant to BCRA “A” 4237), where applicable.

Also, the minimum term of permanence in Argentina of the funds received under new financial debts is no longer required, and the reserve requirement, that is, the obligation to make a nominative non-transferable and non-interest bearing deposit of 30% of the amount of the transaction in United States dollars over a term of 365 calendar days has been reduced to 0%.

## **Direct investment system**

Direct investments must be registered with the Superintendency of Commercial Companies (Inspección General de Justicia) or Registry of Commerce, depending on the jurisdiction.

From another perspective, nonresidents who wish to access the MULC for the repatriation of direct investments that they have made will not be required to provide evidence of the entry of those funds.

## **Payment of dividends**

Although permitted by current regulations, dividend payments were not authorized, or were at least delayed by the authorities until 2015 in the exercise of the control they performed to avoid outflows of funds in foreign currency and the reduction of BCRA reserves.

At present, all documentary and informal requirements for access to the MULC to make payments of dividends have been eliminated. The only requirement is the submission of a Foreign Exchange Purchase Agreement, accompanied by a sworn statement that the resident has complied with the Survey of Foreign Liabilities and Issue of Debt Securities of the financial sector and the non-financial private sector (Survey pursuant to BCRA Communication “A” 3602) and with the Survey of direct investments (Survey pursuant to BCRA Communication “A” 4237), where applicable.

## **Imports of goods**

As regards payments for the import of goods, all documentary requirements in force for access to the MULC to make payments abroad for debts for the import of goods demand payments and advance payments have been eliminated. The only requirement to make these payments will be to submit the Foreign Exchange Purchase Agreement with a sworn statement of compliance, as well as the Survey of Foreign Liabilities and Issue of Debt Securities of the financial sector and the non-financial private sector (Survey pursuant to BCRA Communication “A” 3602) and with the Survey of direct investments (Survey pursuant to BCRA Communication “A” 4237), where applicable. Furthermore, the special regulations regarding advance payments for goods, under which there is no time frame to demonstrate clearance of goods through Customs, have been repealed. In the same way, the System for Tracing Payments of Imports (SEPAIMPO) by which the financial institutions monitored the payments associated with a registration of import clearances, as well as the advance payments of imports, has been repealed.

The Early Sworn Statements for Imports (DJAI) were replaced by the Integral Monitoring System for Imports (SIMI). Thus, for all import destinations for consumption, importers have to register the related information through this system. This information will be made available to the agencies adhering or having adhered to the Single International Trade Window (Ventanilla Única de Comercio Exterior, VUCE), and will be valid for 180 calendar days counted as from the date of approval of the import declaration.

The SIMI must also be used for processing import licenses. The Ministry of Production as a result has established that the goods included in all tariff positions of the Mercosur Common Nomenclature (MCN) with import destination for consumption obtain Automatic Import Licensing (LA), except for the tariff positions expressly determined, which will require Non-Automatic Import Licensing (LNA).

Import licensing is valid for 180 calendar days counted as from the date of approval on the SIMI.

It is important to note that the LNA listing may change according to each sector's needs and other variables.

## **Imports of services**

As regards payments for services received from abroad, all documentary requirements in force for access to the MULC to make payments abroad have also been eliminated. The only requirement is the submission of the Foreign Exchange Purchase Agreement and a sworn statement of compliance with the Survey of issuances of debt securities and external liabilities of the financial sector and the non-financial private sector (Survey pursuant to BCRA Communication “A” 3602) and with the Survey of direct investments (Survey pursuant to BCRA “A” 4237), where applicable.

The requirement to obtain prior authorization from the Central Bank in the case of payments in excess of USD 100,000 has also been repealed.

## **Early reporting systems**

As mentioned above, the DJAI has been replaced by the SIMI. The early reporting systems Early Sworn Statement for Services (Declaración Jurada Anticipada de Servicios, DJAS) and Early Reporting of Payments Abroad (Declaración Anticipada de Pagos al Exterior, DAPE) have been repealed.

Note that the DJAI allowed the agencies involved to exert control over imports of goods, the DJAS did the same with regard to certain items of importation of services, and the DAPE gathered information on the payments abroad made by residents of Argentina for certain transactions, such as payments of financial debts abroad for purchases of goods not brought into the country and sold to other countries; rental of machinery, tools and other movable property; interest payments abroad on debts; profits and dividends paid abroad; and courier service operations, among others.

## **Exports of goods**

The obligation to bring and trade foreign currency into the Argentine market coming from the collection of exports of goods, advances and pre-export financing still applies, as well as the follow-up that financial institutions are required to do on the Collection of Exports Follow-up System (Sistema de Seguimiento de Cobros de Exportaciones, SECOEXPO).

In relation to the required timeframe for bringing into Argentina the collection received for the exports of goods, the Trade Secretariat established that exporters are to bring foreign currency into the Argentine financial system within 3,650 calendar days (10 years) after fulfillment of the shipping permit.

The differential time frame of 30 days previously applicable to these transactions between related entities has been eliminated.





### **Export of services**

The obligation to bring funds into Argentina in foreign currency received by residents for the export of services no longer applies, whether for subsequent settlement or for crediting the funds (denominated in foreign currency) to local accounts. They have to comply with the obligation to bring and trade foreign currency in the Argentine foreign exchange market only if they form part of the FOB and/or CIF values of the exported goods, in which case they shall be governed by the regulations applicable to the collection for the exports of goods.

### **Formation of external assets**

Having eliminated the impossibility to access the foreign exchange market for the formation of external assets, at present, there is no limit on the amount for residents to access the MULC to purchase banknotes in foreign currency and/or traveler checks, as well as to make direct and portfolio investments abroad.

In the case of portfolio investments abroad, the transfer must be made to an account held by the customer that conducts an exchange transaction, opened with an institution that has not been incorporated in non-cooperative countries or territories for fiscal transparency purposes.

### **Travel and tourism**

Requirements for the purchase of foreign currency for these items have since December 17, 2015 been repealed.

# Tax system

## Significant developments

### Tax Amnesty and Moratorium Program

On July 22, 2016, an extensive tax amnesty and moratorium program was established in Argentina through Law 27260

#### Tax Amnesty

An exceptional tax amnesty was passed by the Argentine Congress allowing taxpayers to include their undeclared assets in exchange of a cash tax payment to the government or a subscription of sovereign bonds or by making certain investments without tax cost.

Taxpayers were able to adhere to this regime through the period August 2016 to March 2017.

Assets reported were subject to tax rates ranging from 0% to 15%, depending on the amount, type of asset, and month of reporting. Taxpayers were exempted from paying this tax through the subscription of certain ad hoc Argentine sovereign bonds and local mutual funds that focus on development projects, such as renewable energies and infrastructure.

### Tax Moratorium

The law also included an exceptional and extensive tax amnesty program on federal taxes, including social security and withholding taxes (WHTs), and custom duties due by May 31, 2016.

Taxpayers who adhered to the moratorium were allowed to settle their outstanding tax liabilities with up to 60 monthly installments at preferential interest rates; additionally, they benefited from the forgiveness of fines, penalties and a reduction of percentages of interest for late payment interest due.



### Other significant amendments introduced by Law 27,260

The above referenced Law 27260 also introduced certain relevant amendments to the income tax, minimum notional income tax and wealth tax laws.

- ***Income Tax: Repeal of WHT on dividend distributions***

The 10% WHT on dividend distributions made by local entities to individuals, undivided estates, and foreign entities was repealed as of July 2016.

- ***Minimum Notional Income Tax***

According to Law 27260, minimum notional income tax will be repealed as of 2019.

- ***Wealth Tax***

The wealth tax rate applicable to participations in domestic entities held by individuals, undivided estates and foreign entities was reduced from 0.50% to 0.25% as of fiscal year 2016 including a full relief from this tax for companies and individuals for years 2016, 2017 and 2018 provided certain requirements are met.

- ***Tax promotional regime for energy generation through renewable sources***

Through the enactment of Law 26190, as amended by Law 27191, and Regulatory Decree 562/2009 and 531/2016, the Argentine government launched and updated promotional measures for the energy sector with the aim of encouraging the use of renewable energy sources for the production of electricity.

According to this regime, certain tax benefits are granted upon request by filing the projects with the relevant authorities, provided they begin prior to December 31st, 2017. Benefits include accelerated depreciation of project assets for income tax purposes, a five-year extension on the loss carryforward, early recovery of value-added tax (VAT) paid on the acquisition of new assets or infrastructure work and a tax credit certificate to be applied against federal taxes.

Also, from a provincial tax perspective, Law 26190 invites all Argentine provinces to adhere to the regime enacting local regulations with tax benefits aimed at promoting and encouraging the production of electric energy through renewable sources.



## ***Taxes on corporate income***

### **Tax on Profits**

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.

The same rate applies on net taxable profits from Argentine sources and from activities performed abroad by subsidiaries..

### **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.

According to Law 27260, enacted in July 2016, this tax will be repealed as of 2019.

### **Corporate residence**

Corporate residence is determined on the basis of centers of activity and is unaffected by the 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.

Certain goods are taxed at a reduced rate of 10.5% and some services taxed at 27%. 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, and 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

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

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

According to recent jurisprudence from the Supreme Court, branches of foreign entities may claim an exemption from this tax.

### Excise taxes

A wide variety of items, such as automotive and diesel motors, tobacco, alcoholic beverages (including wine, champagne and beer), insurance, cellular and satellite telephone services; recreational or sport boats, aircrafts; luxury goods and other goods and services, among others, 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 funds or the funds of a third party are subject to a tax rate of 1.2%.

### 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 level of import duties currently ranges between 0% and 35%, except in cases where specific minimum duty is applied or which involve merchandise with a specific treatment. In general, merchandise originating from LAIA and MERCOSUR countries is entitled to preferential duty treatment. The levels of export duties range from 0% to 45%, although nearly all products have an export duty of between 5% to 10%.

As of January, 2016 the export of agriculture products (except for soybean), as well as most industrial products, are exempt from export duties.

### Social Security Taxes

Law No. 24241 (Argentine Integrated Pension System Law) establishes the territoriality principle, under which all persons providing remunerated services on an employment basis within the national territory on a permanent or temporary basis are covered by the Argentine Social Security System.

Local employers must on a monthly basis deposit the employer social security contributions jointly with the employee withholdings to the National Social Security Regime and the National Health Care Scheme.

The employer social tax is payable on the total monthly compensation and is not subject to any cap amount.

The total employer contribution is 27% for companies whose main activity consists of rendering services or commerce, provided their annual sales exceed AR\$ 45,000,000 and 23% for all other companies.

The employee social security withholdings that include pension fund, social health and social services are levied on the monthly compensation up to a monthly compensation cap of AR\$ 72,289.62 except for June and December where the cap is increased by 50% due to the 13th salary. This salary cap is adjusted in March and September of each year.

The total employee social tax rate is 17% which consists of contributions of 11% to the pension fund, 3% to social health and 3% to social services.

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

## **\$ Income determination**

### **Inventory valuation**

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

### **Capital gains**

Capital gains and losses attract normal profit tax treatment, except 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.

### **Transfer pricing rules**

The transfer pricing regulations governing intercompany transactions, which were introduced into income tax law by Law 25063 as amended by Laws No. 25239 and 25784, 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 proven that useful life is less than 50 years.

Depreciation of automobiles with an original cost in excess of AR\$20,000 is not deductible. Related expenses (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 transfer pricing rules and was extended to transactions with companies located in low or no tax jurisdictions. The tax authorities will determine income by applying one of six methodologies: comparable uncontrolled price, resale price, added cost, profit distribution, residual 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).



### ***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, an adjustment for inflation for tax purposes is not yet in force. A fierce debate regarding the reinforcement of this is ongoing, with no final decision in view. Recent jurisprudence has accepted that in certain situations the application of an adjustment for inflation should be considered on a case by case basis.
5. Thin capitalization: except for financial institutions governed by Law No. 21526, 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. 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 1641/2004.

### **Forestry**

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

### **Software**

Laws No. 25922 and 26692 establish a System of Promotion Benefits for the Software Industry that will be in force throughout the Argentine territory. Local legal entities whose main activity in the country (and on their own account) is the creation, design, development, production and implementation of software systems. The software self-development activity is excluded from this system.

The system grants benefits for tax and social security purposes which can be claimed if specific requirements are met: this has been extended until 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 that can be claimed if specific requirements are met.

### **Small and Medium-sized Enterprises (Law 27264)**

Law 27264 (passed in August 2016) established a special tax regime for small and medium-sized enterprises (SMEs) and for infrastructure investments conducted by SMEs. The most relevant benefits include the following:

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

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

### **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 export activity.

### **Withholding taxes**

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 by the company. It should also be noted that, as of July 2016, the 10% withholding tax on dividends that was in force, was repealed.

Furthermore, in the case of non-residents, 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 WHT rates as follows:

Recipient	Interest (%) (1)	Royalties (%) (1, 2)
Resident corporations	6/28 (3)	6 (4)
Resident individuals	6/28 (3)	6 (4)
<b>Non-resident corporations and individuals <sup>(1), (2)</sup></b>		
Non-treaty	15.05/35	21/28
<b>Treaty:</b>		
Australia	12	10/15
Belgium	0/12 (5)	3/5/10/15
Bolivia	15.05/35	21/28
Brazil	15.05/35	21/28
Canada	12.5	3/5/10/15
Chile (9)	4/12/15	3/10/15
Denmark	12 (5)	3/5/10/15
Finland	15	3/5/10/15
France	15.05/20 (6)	18
Germany	10/15 (7)	15
Italy	15.05/20 (5)	10/18
Mexico (11)	12	10/15
Netherlands	12	3/5/10/15
Norway	12.5 (8)	3/5/10/15
Russia	15	15
Spain	12	3/5/10/15
Sweden	12.5	3/5/10/15
Switzerland	12	3/5/10/15
United Arab Emirates (12)	12	10
United Kingdom	12 (5)	3/5/10/15

## Notes

1. Withholding from payments of interest and royalties to non-residents is based on a flat rate of 35% applied to an assumed percentage gross profit margin. This margin is not contestable, but the resultant rate may be limited by 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 (i) if the debtor is a local bank; (ii) if the creditor is a foreign financial institution located in a country not considered as a low or no tax jurisdiction, or in countries that have signed an agreement with Argentina for exchange of information and have no bank secrecy laws, which are under the supervision of the respective central bank; (iii) if the interest is paid on a loan dedicated to the purchase of tangible assets other than cars; (iv) if the interest is paid on debt certificates (private bonds) issued by local companies and registered in certain countries that have signed an agreement with Argentina for the protection of investments; and (v) on interest paid on time deposits with local banks. 'Royalties' covers a variety of concepts. The rates given in this column relate specifically to services derived from agreements ruled by the Foreign Technology Law, as follows:

- Technical assistance, technology, and engineering not obtained in Argentina: 21% (35% on assumed profit of 60%).
- Cessation of rights or licenses for invention patents exploitation and technical assistance obtained 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 such, 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.

Payment	WHT (%)
Freight and passenger bookings (other than those covered by special treaties), news and feature services, insurance underwriting	3.50
Containers	7.00
Copyright	12.25
Rental of movable assets	14.00
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 (10)	17.50
Rental of real estate (10)	21.00
Any other Argentine-source income (unless the non-resident is or was temporarily a resident)	31.50

3. 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.



## ***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.

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 a 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. The treaty entered into force as of 1 January 2017.
10. Deduction of actual costs and expenses may be optionally exercised.
11. The treaty was signed in November 2015, but is still pending ratification by both countries.
12. The treaty was signed in December 2016, but is still pending ratification by both countries.



# Reference information

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

- Ministerio de Hacienda: [www.minhacienda.gob.ar](http://www.minhacienda.gob.ar)
- Ministerio de Finanzas: [www.minfinanzas.gob.ar](http://www.minfinanzas.gob.ar)
- Instituto Nacional de Estadística y Censos: [www.indec.gob.ar](http://www.indec.gob.ar)

## Local government agencies

- Ministerio de Trabajo, Empleo y Seguridad Social: [www.argentina.gob.ar/trabajo](http://www.argentina.gob.ar/trabajo)
- Ministerio de Ambiente y Desarrollo Sustentable: [www.ambiente.gob.ar](http://www.ambiente.gob.ar)
- Administración Federal de Ingresos Públicos: [www.afip.gob.ar](http://www.afip.gob.ar)
- Administración Nacional de la Seguridad Social: [www.anses.gob.ar](http://www.anses.gob.ar)
- Ministerio de Relaciones Exteriores y Culto: [www.cancilleria.gob.ar](http://www.cancilleria.gob.ar)
- Ministerio del Interior, Obras Públicas y Vivienda: [www.mininterior.gov.ar](http://www.mininterior.gov.ar)
- Ministerio de Turismo: [www.turismo.gob.ar](http://www.turismo.gob.ar)

## Practical Tips for Business Visitors

- Requirements for visitors' visas
- International time zone
- Argentine time zone is GMT -0400

### • **Banks and exchange houses:**

Monday to Friday, from 10am to 3pm

### • **Business offices:**

Generally from 9am to 6pm

### • **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. 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 MasterCard. 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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