Investment in Argentina
## Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 1</td>
<td>Argentina - Country Outline</td>
<td>4</td>
</tr>
<tr>
<td>Chapter 2</td>
<td>Opportunities for International Investors</td>
<td>9</td>
</tr>
<tr>
<td>Chapter 3</td>
<td>Exporting to/from Argentina</td>
<td>20</td>
</tr>
<tr>
<td>Chapter 4</td>
<td>Business Entities</td>
<td>22</td>
</tr>
<tr>
<td>Chapter 5</td>
<td>The Argentine Tax System</td>
<td>29</td>
</tr>
<tr>
<td>Chapter 6</td>
<td>Business Taxation</td>
<td>32</td>
</tr>
<tr>
<td>Chapter 7</td>
<td>Taxation of Foreign Beneficiaries</td>
<td>52</td>
</tr>
<tr>
<td>Chapter 8</td>
<td>Protection of Commercial and Industrial Rights</td>
<td>55</td>
</tr>
<tr>
<td>Chapter 9</td>
<td>Labor Legislation</td>
<td>58</td>
</tr>
<tr>
<td>Chapter 10</td>
<td>Acquisition of Property/Other Tenure Forms</td>
<td>67</td>
</tr>
<tr>
<td>Chapter 11</td>
<td>Competitiveness Agreement Law</td>
<td>68</td>
</tr>
</tbody>
</table>
Preface

*Investment in Argentina* is one of the booklets published by KPMG to provide information for those considering investments or doing business abroad.

Moreover, because of frequent changes of regulations in Argentina, we recommend that legal, accountancy, or other professional advice be obtained before deciding to invest in the country.

Investment in Argentina was prepared by SIBILLE, member of KPMG International in Argentina, and is one of a series of guides that KPMG is publishing on investing in different countries.

This is the eleventh edition of this booklet and includes all major changes of regulations occurred to this date.

This edition is based on information available up to August 2010.

August 2010
Chapter 1
Argentina - Country Outline

Geography and Climate

Argentina (officially: República Argentina) is a large country of about 2.8 million square kilometers (1.1 million square miles). It borders Chile, Bolivia, Paraguay, Brazil and Uruguay.

In the west, the country is limited by the Andes Mountains, which in their northern part attain considerable altitudes. The central and eastern parts of the country are flat and fertile, but almost half of the country has rainfalls of less than 500 mm per year and a good deal of this area is desert-like.

The climate is mainly moderate to dry, the northern tip of Argentina being subtropical and the southern part, arctic. The climate in Buenos Aires is pleasant, with many days of sunshine; the summer months (December through February) are at times hot and humid. Very few important people stay in town during January and February, as such, business visitors from abroad should plan their visits outside this period.

History and government

During the time of the Spanish colony, Argentina had very little development. Only the northern part was developed as a supply base for Potosí, an important mining town in current Bolivia. Buenos Aires was mainly founded to stop as far as possible the smuggling of goods through the Río de la Plata, as Spain had decided that all commercial relations of the South American colonies should be channeled through Central America and Callao, the port of Lima. For this reason, the development of what is now Argentina started very late, only two centuries ago. The first census was conducted in 1869 and at that time only 1,629,000 inhabitants were counted. However, this number did not include any Indians (these were not taken into account). But even after correcting this omission, there were certainly less than 2 million inhabitants in Argentina at that time; in other words, just 130 years ago Argentina was virtually empty of inhabitants. From 1890 to 1915 Argentina showed an amazing development and millions of immigrants were drawn in from Europe.

The Argentine constitution was shaped on that of the USA, but not always in Argentine history have its stipulations been respected. Since 1983, the democratic government has been reestablished and the general feeling is that this time democracy will stay for good.

Population and language

The population of Argentina may be estimated at about 36.2 million inhabitants (as per the 2001 census), mostly of European origin. Most of the inhabitants live in cities, the countryside being very sparsely populated. Fifteen million people live in the city of Buenos Aires and its environs, where also more than half of the industrial production of the country is concentrated. The growth rate of the population is 1.26 % p.a.
The most important towns are:

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buenos Aires</td>
<td>16.5 m</td>
</tr>
<tr>
<td>Rosario</td>
<td>1.0 m</td>
</tr>
<tr>
<td>Córdoba</td>
<td>1.0 m</td>
</tr>
<tr>
<td>Mendoza</td>
<td>0.7 m</td>
</tr>
</tbody>
</table>

Spanish is the official language of Argentina. The cultural links with Spain are still very significant, but an important indigenous culture has developed and also the influence of other Latin American cultures is noticeable. However, the rather European character of Buenos Aires always surprises visitor from abroad.

Education is compulsory between the ages of 5 and 14. There are secondary schools all around Buenos Aires and in most of the important towns. There are numerous private schools in addition to those operated by the government. Also, some of these schools are registered in examination programs, which qualify for application to certain foreign universities, mainly in the U.S. Many new universities have been created over the last decades. There are now over seventy universities, including governmental, private and provincial universities.

Currency

As from January 1, 1992 until recently, a new currency has been introduced, the Peso, the exchange rate being very close to 1 Peso ($) = 1 US Dollar. This new monetary unit is the result of the fourth monetary reform since 1970. As a consequence of the horrendous inflation prevailing in recent decades, 13 zeros have been chopped off the currency since January 1970.

In response to political and economic uncertainties in Argentina, on January 7, 2002, the Argentine government announced an official abandonment of the “peg” and a devaluation of the Peso. The rate is currently hovering around 3:1 with the US dollar.

Visa requirements

Visitors from the most developed countries do not need a temporary visa for Argentina (if they stay for periods shorter than 90 days). Permanent visas have become more difficult to attain and should be applied for at the country of residence of the immigrant. There is absolutely no pressure on immigrants to become Argentine citizens once settled in Argentina, and there are therefore many people who keep their original citizenship after living many decades in Argentina. Any person born in Argentina, except in the case of the children of diplomats, becomes automatically an Argentine citizen.
Work permits

Immigration laws provide that foreigners may enter and stay in the Argentine Republic as follows:

- Permanent residents may perform all kinds of remunerated or profitable activities, as employees or self-employed persons.
- Temporary residents may also perform such activities during their authorized stay in Argentina.
- Transitory residents, tourists and students are not allowed to carry out any remunerated or profitable activity unless expressly authorized to do so by the immigration authorities.

Employers who violate the above rules are subject to penalties, but employees are always entitled to receive compensation for their services and protection from Argentine labor laws. Further, employers are legally obliged to comply with social security regulations and must make social security payments, except for foreign professional, scientific or technical research personnel hired for a maximum of two years. These expatriates can request an exemption.

To obtain temporary or permanent resident status, foreigners must file documentation with the immigration authorities, including their birth and marriage certificates. Also, certificates of good conduct (certificates stating that they do not have a criminal record) within Argentina and in their country of origin are required. They should also pass a health examination by doctors of the Immigration Office.

Foreign exchange regulations

There used to be no restrictions on the purchase and sale of foreign exchange, foreign currencies being traded freely by exchange houses and banks. Recently, restrictions were imposed and periodically the government has implemented “trading holidays” to restrict the flow of funds from the financial system. Therefore, a visitor should preferably travel with US Dollars in Argentina, as these attain the best exchange rate and are normally also directly accepted in payment.

Cost of living

Argentina has been, generally speaking, an expensive country. Only food, public transportation and taxicabs are comparatively cheap. Due to the recent devaluation, prices have decreased dramatically compared to foreign currencies; however, this situation may not continue as such due to inflationary pressures.

Housing

Housing in Buenos Aires is rather expensive for expatriates, as they will normally wish to live in fashionable areas where they can find foreign schools in the neighborhood. However, if an expatriate is prepared to buy a house or a flat, he/she may still be able to find a home at a price level that is below that of many other big cities. We do not refer to housing elsewhere in Argentina because it is impossible to make a general statement about it, as conditions vary
greatly according to the area in question and most expatriates settle anyway in the Buenos Aires area.

**Transportation and communications**

Although public transportation is available in most large urban areas, an automobile is essential in many areas. Car rentals are available throughout the country. Because of the distances involved, business persons frequently travel between Argentine cities by air. Austral and Aerolíneas Argentinas and other less important airlines mainly provide air transportation. In Buenos Aires, commuter trains connect most major suburban areas, and buses connect Buenos Aires with major Argentine cities.

**Medical services**

Argentina has extensive public and private medical facilities. Employees of companies and members of their immediate families are entitled to medical attention under the country’s social security system, which provides medical services directly through associated hospitals. Many middle-and high-income people pay a monthly fee to a private medical association, which entitles them to free medical attention in private hospitals.

**Public holidays**

There are 13 public holidays in Argentina, one of which, Holy Thursday, is optional for business activities. The dates in italics vary from year to year.

<table>
<thead>
<tr>
<th>Holiday</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Year’s Day (a)</td>
<td>1 January</td>
</tr>
<tr>
<td>Malvinas Islands Day (b)</td>
<td>(2 April)</td>
</tr>
<tr>
<td>Remembrance for Truth and Justice</td>
<td>24 March</td>
</tr>
<tr>
<td>Holy Thursday</td>
<td>28 March</td>
</tr>
<tr>
<td>Good Friday</td>
<td>29 March</td>
</tr>
<tr>
<td>Labor Day</td>
<td>1 May</td>
</tr>
<tr>
<td>Anniversary of the May 1810 Revolution</td>
<td>25 May</td>
</tr>
<tr>
<td>Flag Day</td>
<td>(20 June) (c)</td>
</tr>
<tr>
<td>Independence Day</td>
<td>9 July</td>
</tr>
<tr>
<td>Anniversary of the death of General José de San Martín</td>
<td>(17 August)</td>
</tr>
<tr>
<td>Columbus Day</td>
<td>(12 October) (b)</td>
</tr>
<tr>
<td>Immaculate Conception</td>
<td>8 December</td>
</tr>
<tr>
<td>Christmas Day (a)</td>
<td>25 December</td>
</tr>
</tbody>
</table>

(a) Banks and most offices are open half days December 24 and 31.

(b) Pursuant to Law No. 23,555, when these public holidays fall on Tuesday or Wednesday, they are moved to the previous Monday, and when they fall on Thursday or Friday, they are moved to the following Monday. Law No. 25,370 (Published Dec. 21) established that this public holiday (Malvinas) will be definitely moved to April 2nd.

(c) Pursuant to Law No. 24,445, these holidays are celebrated on the third Monday of the corresponding month.
Leisure and tourism

Buenos Aires offers entertainment possibilities that satisfy all tastes. Theaters, cinemas and discotheques abound, as well as art and science museums. The Colón Theater ranks among the best opera houses in the world.

Restaurants offering international cuisine (French, Italian, Chinese and so forth) compete in excellence with those offering local cuisine. Argentine restaurants are especially famous for their beef.

National and international sporting tournaments are held in the many clubs and stadiums.

Argentina’s wide range of climates and scenery makes the country attractive for tourism. Varied landscapes include wide and beautiful beaches, the highest mountains in the Western Hemisphere, soft green hills in the Central Provinces, a wonderful lake region and paradises for skiing in the south and west. Argentina also has an extensive network of national environmental safeguarded parks throughout the country.
Chapter 2
Opportunities for International Investors

Attitudes towards foreign investment

Argentina welcomes foreign investment, the basic attitude towards foreign capital is very positive; all previously existing requirements concerning prior government approval of foreign investments have been eliminated. Argentina has traditionally been very hospitable to foreigners as the Argentine government understands the importance of attracting foreign investments.

Domestic capital resources are not sufficient for the expected economic development; the government therefore encourages the inflow of foreign investments while supporting domestic capital investment to promote inward development.

As regards goods, permission is not required to import them, the import tariff structure has been simplified and tariffs have been reduced. In general, all restrictions and procedures that in the past slowed down the entry of capital and technology from abroad have been abolished.

Furthermore, due to the economic crisis that has recently taken place in the country, certain regulations have been introduced by the Argentine Central Bank. These regulations have imposed rules to better control the cash flow in and out the country.

Restrictions on international investments

All restrictions on foreign investments have been lifted and foreign investment does not require any prior approval from the Argentine authorities although some of them remain in sensitive areas such as defense, telecommunications, and oil and gas. Profits may be freely transferred. In order to do this, audited financial statements for publication must be prepared.

Promotion and protection agreements for international investors

Argentina has signed a number of international bilateral agreements with capital exporting countries (USA, Italy, UK, Germany, and France), by which foreign investments from these countries are granted a favorable treatment. Argentina has also adhered to the Multilateral Investment Guarantee Agency (MIGA) agreement, by which investments in Argentina have become eligible for insurance by this agency against political risks. MIGA is a member of the World Bank Group.

Argentina entered into fifty “bilateral treaties” in order to protect foreign investments and avoid double taxation. Argentina has not adhered to any “multilateral agreement” to promote investments.
State assistance and grants

Special incentives for certain activities and tax reimbursements on exports, among others, are granted under identical conditions to nationals and foreigners.

Foreign investors are not required to obtain government permission to invest in Argentina. Foreign investors may wholly own a local company, and investment in corporate shares listed on the stock exchange requires no government approval.

Argentina generally does not impose exchange controls or restrictions on the flow of capital or profit distributions abroad.

At present, some companies still enjoy tax privileges attained in the past, but gradually these are running out and it is not to be expected that new tax facilities or privileges will be granted.

Other official incentives may be available at the provincial (state) level, in some cases, but each would have to be negotiated. Some exceptions are referred to under the following paragraph.

Mining

Law 24196, promulgated in 1993, establishes special incentives for the mining activity. It expressly excludes:

a) Oil and natural gas.

b) Industrial process of manufacturing of cement, from calcination process onwards.

c) Industrial process of manufacturing of ceramic.

d) Sand and rolling stone used in industrial construction.

However, it includes a number of connected activities, such as crushing, cutting, palletizing, etc. if carried out by the mining company. The benefits are guaranteed for 30 years and mainly relate to income tax and tax on assets.

Activities such as prospecting, exploration, special studies of mineralogy, metallurgy, feasibility and pilot plant studies may be set 100% against taxable profits and may additionally be depreciated for tax purposes. Investments in infrastructure and in machinery, equipment and vehicles may be depreciated on an accelerated basis for tax purposes. These benefits are subject to a number of conditions.

There is a system that allows the financing of Value Added Tax payable on the imports of depreciable movable assets and the investment in infrastructure for the mining industry. Also, there are some exemptions on the payment of custom duties on assets for this industry.

In recent years, mining activities in Argentina have gained momentum and reportedly there are 67 projects under way. Some of these are very significant (Bajo de la Alumbrera, Salar del Hombre Muerto, El Pachón, Cerro Vanguardia, Potasio Rio Colorado, Agua Rica), the total investment foreseen ranging from $2 to $3 billion.
Other important projects are Andacollo, San Jorge, Pirquitas, Veladera and Lama.

**Mining rights**

Once the holder of an exploration permit has found minerals, a written request (declaration of discovery) must be filed with the pertinent authority (provincial or federal as the case may be). The authorities must grant an exploitation concession, giving the holder a perpetual property right on the mine, subject to the payment of an annual fee and the carrying out of a minimum investment. An owner who is in compliance of these conditions may freely exploit or dispose of the mine. In most cases, royalties levied by the provinces should not exceed 3% the value of the extracted minerals at the mine.

**Tax system**

Taxes are levied at three levels: national, provincial and municipal. National taxes, especially value-added-tax (VAT), which are collected by the federal government and distributed to the provinces, yield most of the revenue.

The provinces levy taxes primarily on gross business receipts (turnover tax) and on real estate and, jointly with municipalities, they levy charges for services.

For many years Argentina taxed on a territorial basis. All Argentine-source income was subject to Argentine income tax, whereas foreign-source income, such as the profits of a foreign branch of an Argentine company, was not. A tax reform, effective as from 1998, established that residents (whether individuals, corporations or any other type of entity) are taxed on worldwide income. Non-residents continue to be taxed only on Argentine-source income.

A tax credit is allowed for similar taxes paid abroad, up to the amount of the Argentine tax on the foreign-source income. All profits of local companies are taxable, including any kind of capital gain such as those from sales of depreciable assets, shares and real property.

An Argentine company is allowed to deduct from gross revenue the expenses incurred in producing taxable income, including a percentage of royalties, technical assistance fees with some restrictions and interest payable to beneficiaries abroad, regardless of whether these are economically related to the paying entity. Some restrictions apply to transfer prices, the thin capitalization rule, deductibility of interest, depending on whether they are paid before the annual tax return is filed, etc.

Income tax at a 35% rate on amounts paid to non-residents (e.g. interest, technical assistance fees, royalties, etc.) is applied to deemed net Argentine source income. The deemed net Argentine source amount may vary depending on the nature of the payment.

In addition to income tax, the federal government imposes value-added tax, excise taxes, tax on assets, tax on presumed minimum income, tax on interests and custom duties, and a tax on financial transactions.
Other benefits

Trained labor force

The Argentine labor force is about 45.9% of the total population. According to official data, the unemployment level—taking into account those beneficiaries of welfare programs—is about 8% during the third quarter of the year 2005. Argentina offers a well-trained labor force and especially an important pool of well-motivated and reliable people for managerial positions.

Availability of Finance

The deep economic crisis undergone by Argentina, which worsened by the end of 2001, had an impact not only on the financial system but also on the behavior of economic agents. Indeed, the fall in the demand, the tax pressure, the need of the financial system to raise lending and the uncertainty as to macroeconomic changes gave rise to an “adaptable” behavior of traditional borrowers.

In this way, many companies and individuals got used to the fact that private financing is unavailable. During 2002 and part of 2003, the high interest rates, short financing terms and uncertainty as to the possibility of agreeing future renegotiations or as to the changes in interest rates resulted in a marked aversion to borrowing in the financial system. This decrease in the demand of credit, as well as the poorer borrowing conditions, are due to various reasons, according to the sector at issue.

Consequently, the reactivation of credit has been slow and currently, loans to the private sector account for 12% of GDP, well below the 23.3% reached in December 2000.

At present, loans to the private sector grew at an annual rate of 35%, led by commercial lending (especially in the primary and manufacturing sectors) and consumer financing.

Raw Materials

The country has traditionally had a self-contained economy. Raw materials are available within the country in an adequate supply to meet domestic needs and have a surplus to export.

Argentina has largely unknown mineral resources and, of course, a very important and efficient agricultural industry. Industries based on raw materials derived from these sources would seem to be well positioned in Argentina.

The Argentine economy

The 1990’s

The convertibility Law, approved in 1991, pegged the Argentine currency to the U.S. dollar at a fixed rate (i.e.: 1 US$ = 1 AR$).

The convertibility regime was a stabilization device to deal with the hyperinflation that existed at the beginning of the 1990s, and this was very successful. It was also part of a larger Convertibility Plan, which included a broader agenda of market-oriented structural
reforms designed to promote efficiency and productivity in the economy. Under the Convertibility Plan, Argentina witnessed a marked improvement in its economic performance, particularly during the early years. Inflation, which was raging at a monthly rate of 27 percent in early 1991, declined to single digits in 1993 and remained low. Growth was solid through early 1998, except for a brief setback associated with the Mexican crisis, and averaged nearly 6 percent during 1991-98. Attracted by more investment-friendly climate, there were large capital inflows in the form of portfolio and direct investments.

Argentina’s performance deteriorated from the second half of 1998 owing to adverse external shocks, including a reversal in capital flows to emerging markets following the Russian default in August 1998; weakening of demand in major trading partners, notably in Brazil; a fall in oil and other commodity prices; general strengthening of the U.S. dollar against the euro; and the 70 percent devaluation of the Brazilian real against the U.S. dollar in early 1999. Real GDP fell by over 3 percent in the second half of 1998.

There was a mild pickup in economic activity in the second half of 1999, spurred by increased government spending in the run-up to the October presidential elections, but this was not sustained and GDP declined by 3½ percent for 1999 as a whole. The economy never recovered through the end of the convertibility regime.

The economic slowdown, coupled with the election-driven surge in public spending, in 1999 had important implications for fiscal solvency. Argentina’s consolidated fiscal balance had been in deficit throughout the 1990s except in 1993, but the magnitude was not large. Consolidated public sector debt, however, increased more rapidly because of the periodic recognition of off-budget liabilities, of past pension benefits, as a consequence of the transition to a new capitalization-based pension plan scheme.

**The 2000’s**

Argentina’s problems intensified in 2000, when growing solvency concerns over the cumulative increase in public debt were exacerbated by the continued appreciation of the U.S. dollar and a further drying up of capital flows to emerging market economies. These developments would normally require a smaller current account deficit and a depreciation of the real exchange rate, but the convertibility regime placed severe limitations on the ability of Argentina to achieve this adjustment in a manner that could avoid recession. Market confidence did not recover as expected and market access was effectively lost later in the year, leading Argentina to seek an increased IMF support.

At the end of December 2001, following the resignation of President Fernando De La Rua, the country partially defaulted on its international obligations. In early January 2002, Argentina formally abandoned the convertibility regime and replaced it with a flexible exchange rate system.

After reaching a pick of almost 1 US$ = 4 AR$ in June 2002, the exchange rate has stabilized in levels ranged between AR$ 2,80 and AR$ 3,1 per 1,0 US$. Average exchange rate was 1 US$ = 3,30 AR$ for year 2002, 1 US$ = 2,92 AR$ for year 2005 and 1 US$ = 3,12 AR$ for year 2007.

**Recent economic indicators**

**Activity**

Sectors related to tradable goods led the initial GDP recovery after the crisis. Consumption has been the leading force of the economy accounting for more than 68% of activity growth. Manufacturing has been high but rates of growth, low (1.6% in July 2008). Although investment had recovered strongly since the last quarter 2002, its growth rate has decreased from 22.7% in 2006 to 13.6% in 2007.
Inflation

According to INDEC, the rate of inflation of the CPI was 12.3%, 9.8% and 8.5% in 2005, 2006 and 2007 respectively. In 2008, the official organism registered a rate of 9.2% (July). According to the last BCRA R.E.M Survey, the expected CPI annual variation is 9.4% for 2008, and 10.2% for 2009.

Fiscal Sector

Public spending measured in real terms had been significantly lower in 2002-2005 than in previous years. But in 2004 it started to climb again. Tax collection keeps on growing strongly, and reached new peaks in 2007 and 2008. However, the surplus is threatened by an increasing public expenditure.

Foreign Trade

The depreciation of the peso led to a significant surplus in Argentina’s foreign trade, mainly as a result of import substitution. However, imports have grown faster than exports taking the surplus to US$ 11 billion in 2007. The evolution of the surplus in the Argentina’s foreign trade as a percentage of the GDP, registered 6.4% in 2005, 5.8% in 2006 and 4.2% in 2007. Finally, in Q1 2008, that value reached 5.3%.

Labor and social indicators

Between the second quarter of 2002 and the second quarter of 2005, almost 2.5 million people joined the labor market (public and private jobs). The unemployment rate fell from 10.1% in 2005 to 7.5% in 2007. In Q1 2008, the rate has been 8.4%.

Economic, fiscal and monetary policies

During the last years of the 80’s, the Argentine economy had a low or null growth and high levels of inflation.

Until the end of the eighties, Argentina had shown a disappointing economic performance, falling farther and farther behind, not only in comparison with the most developed countries, but also with respect to countries which, in the past, used to show a similar stage of development. This has occurred in spite of the high cultural level of its population and the considerable natural resources of this country.

This dismal economic performance did come to a climax, culminating in a hyperinflation process. The wholesale price index grew in excess of 220% per month and of more than 5,000% for the twelve-month periods ended both in July and December 1989. In other words, prices soared more than 200 times in that period.

A great number of different theories have been advanced in Argentina about the reasons for this unsatisfactory development, normally reflecting the political position of the commentator. Certainly, also as a consequence of the anguish and frustration produced by the hyperinflation, a consensus has developed in Argentina that the government has had a considerable responsibility for this state of affairs, either by trying to control the economy by prescribing prices, salaries, interest rates, exchange rates, etc., thus discouraging new investments, or by managing inefficiently a significant part of the Argentine economy that used to be owned by the state.
From 1989 through 2001, the government had carried out a remarkable program consisting of a combination of fiscal discipline, sound monetary and financial policies, rescheduling of the foreign debt and structural changes in areas such as trade liberalization, privatization and deregulation, which have strengthened the Argentine economy.

Inflation and interest rates have fallen dramatically. Annual inflation measured in consumer prices fell from 84% in 1991 to -1.8% in 1999. In 1991, the Argentine government launched a plan intended to control inflation and restructure the economy by the issuance of Law No. 23928 and Regulatory Decree No. 529/91 (jointly known as “Convertibility Law”). Based on the Convertibility Law, the exchange rate was fixed at AR$ 1 = US$ 1 and the BCRA was compelled to maintain gold reserves and minimum foreign currency equivalent to the monetary base. After the adoption of the Convertibility Law, together with a process of privatization and deregulation of public services, there was a period of price control, monetization and economic growth up to 1997.

Another important area of reform is the pension fund system: optional private pension funds were introduced, where contributors become stakeholders in an investment fund managed by private operators. While over time this will become an important factor for increasing the saving rate of Argentina and is expected to offer recipients reasonable retirement benefits, this change of course does not by itself solve the problem of the pensioned people and of people approaching their retirement age. However, important improvements have been introduced, by increasing the retirement age and by capping the pension benefits. Nevertheless, this is a politically sensitive area the government finds most difficult to control. At present, a very significant portion of the national budget is being spent on benefits for the aged. As things are, it will probably take a decade before the combined effects of people opting for the private scheme, the higher retirement ages and the natural attrition of the number of present pensioners will lighten this burden on the national budget.

In Q4 1998, as a consequence of external factors such as the financial crises of other developing economies, which had a deep effect on capital outflows, and as a result of internal political and economic factors, the Argentine economy went into recession and the GDP fell by 3% in 1999, 0.8% in 2000 and around 4.5% in 2001.

In 2001, the government took some measures seeking to reactivate the economy, control the tax regime and reschedule maturities on the public debt. However, by December 2001 recession and unemployment still continued, added to the lack of external credit and the run on banks. Within this context, for the purpose of preventing the collapse of the financial system, the last measures taken by the government in 2001 were intended to limit bank withdrawals and restore exchange control. By the beginning of 2002, the government took the following action, among others:

- Confirmation of the default on a portion of the Argentine external debt;
- Amendment to the Convertibility Law, which implied the end of the exchange rate fixed at AR$1 = US$ 1, with the resulting devaluation of the peso (on January 7, 2002, the peso became unpegged from the dollar. The exchange rate was 3.37:1, in 2002; 2.94:1, in 2003, 2.98:1, in 2004 and 3.00:1 as of November 30, 2005);
• Conversion of debts denominated in foreign currency, governed by Argentine law, with local financial institutions, into debts denominated in pesos at the exchange rate of AR$1 = US$ 1;

• Conversion of bank deposits denominated in dollars into bank deposits denominated in pesos at an exchange rate of AR$1,40 = US$ 1;

• Rescheduling of bank deposits and enforcement of the restrictions on withdrawals of funds from financial institutions and on transfers abroad during the worse period of the crisis (then, these measures were replaced by more flexible ones);

• Enactment of amendments to the law of bankruptcy for the protection of debtors;

• Amendment to the BCRA Charter to enable this institution to issue currency in excess of the amount of reserves, provide short-term advances to the Argentine government and give financial aid to financial institutions to address liquidity shortages and insolvency;

In 2002, by means of decrees, BCRA communications and/or laws enacted by the Legislative Power, the government took a number of measures intended to address the effects of the partial revocation of the Convertibility Law, recover access to financing, reduce government spending, restore liquidity in the financial system, reduce unemployment and, in general, reactivate the economy.

The initial measures adopted by the new government taking over in May 2003 were aimed at the maintenance of a stable and competitive exchange rate, within a controlled float framework, the prudent management of fiscal accounts and of the monetary base, in line with the growth in the economy, and the redefinition of strategies for trade and access to foreign capital, privileging long-term inflows intended for production.

GDP in Argentina grew by 8.8% in 2003 and 9.0% in 2004, after a decrease of 4.4% in 2001 and 10.9% in 2002. The rise in GDP for the twelve-month period ended June 30, 2005 was 10.1%.

On September 10, 2003, the Argentine government and the IMF signed a letter of intent whereby an agreement was reached to refinance debt maturities for the next three years with lending organizations in the amount of US$ 21,610 million (out of which US$ 12,500 million corresponded to payments to the IMF).

In August 2004, the IMF announced the interruption of the third review of the agreement and postponed payments to Argentina in the amount of US$ 728 million, in order to evaluate whether the Argentine government was carrying out the structural reforms pending in relation to public service agreements and the renegotiation of the sovereign debt. At the same time, the Argentine government announced the interruption of negotiations with the IMF up to December 31, 2004 in order to focus on the restructuring of the sovereign debt in default. In addition, it communicated that during that period it would go on paying its liabilities to the IMF. On September 17, 2004, the IMF granted a one-year grace period to Argentina for the repayment of principal in the approximate amount of US$ 1,000 million, the maturity of which was initially scheduled for the period from September 20, 2004 to January 17, 2005.
On November 1, 2004, the Argentine government submitted to the SEC (and then to the securities and exchange commissions of Italy, Germany and Luxembourg) the detail of the new public debt securities to be issued to regularize the current default. The amount was US$ 81,800 million comprised of US$ 79,900 million as principal and US$ 2,100 million as unpaid and overdue interest accrued up to December 31, 2001.

The new securities would be issued in dollars, euros, yens and pesos adjusted by CER indexation rate and would be subject to the following jurisdictions for legal purposes: New York and Argentina for bonds in dollars, England for bonds in Euros, Japan for bonds in yens and Argentina for bonds in pesos adjusted by CER indexation rate and quasi-par bonds.

After a process of negotiation with creditors, on December 9, 2004 Decree No. 1735/04 was issued which approved the restructuring of the debt under the terms and conditions established in the prospectus supplement attached to the decree and the terms and conditions of new securities to be delivered in exchange for securities that may be subject to the exchange process.

On February 10, 2005 Law No. 26017 was enacted which set forth that the Executive could not reopen the exchange process established by Decree No. 1735/04 in relation to national government bonds eligible for the exchange process set forth by Decree No. 1735/04 which had not been subject to the exchange according to the provisions of the decree. This Law also prevented the national government from making any type of court, out-of-court or private settlement with respect to these bonds.

On February 25, 2005 the public debt exchange process ended and on March 3 the government gave the official results of the exchange process. Acceptance reached 76.07%, equivalent to US$ 62,248 million, and the total public debt of US$ 191,254 million was reduced to US$ 125,283 million after a reduction of 65.6% in the debt to be restructured.

In order to achieve sustainable development, the ongoing increase in the investment in machinery, equipment and technology, as well as the education of staff are required to have an innovative production process and permanent income in terms of production.

**Government debt**

As of March 2008, the official Argentine debt was approximately US$ 145 billion, or over 53% of the GDP. Country risk factor hovers near 675 as of July, 2008.

**Gross domestic product (GDP)**

U$S 264 billion (2001)
U$S 102 billion (2002)
U$S 130 billion (2003)
U$S 151 billion (2004)
U$S 182 billion (2005)
Local banking system and sources of finance for commerce and industry

Control and supervision of the banking and financial system is performed principally by the Central Bank of the Argentine Republic (BCRA), which is a government agency.

The BCRA is the exclusive currency issuer. It also has a significant participation in the foreign currency market through the purchase and sale of foreign currency. In times of government control over the exchange market (currently in force again), the BCRA almost monopolized the market. The BCRA also issues, trades and pays government bonds and notes.

The BCRA controls and supervises banks and other financial entities primarily through the following methods:

- Setting rules regarding, among other things, credit risk, debt-to-equity ratios, liquidity and minimum capital;
- determining the minimum cash reserves to be maintained by banks;
- issuing detailed rules concerning periodic reports (daily, weekly, monthly, quarterly and annually) to be filed with BCRA;
- establishing detailed accounting and auditing standards;
- Performing audits; and
- Authorizing the establishment of entities and branches.

As of May 2008, the total assets of about 90 banks in the Argentine banking system amounted to approximately $326 billion. The government sector owns about 40% of that total, private Argentine banks and foreign banks own 60%. The market is highly concentrated: 17 banks, each with assets exceeding US$1000 million, represent over 80% of the financial system total assets.

Major commercial banks generally provide the type of services rendered by international banks throughout the world.

Due to recent regulations, the BCRA will have to act as a controller for certain payments abroad. New communications are issued daily, and as such rules are currently changing rapidly.

Stock exchanges

Until early 1991, the volume traded on the stock market was insignificant -less than US$10 million daily- and capitalization was under US$5 billion.

Following the enforcement of the convertibility law in April 1991, the volume of business reached an average of US$60 million a day in the second half of 1991 and about US$90

The main stock exchange is the Buenos Aires Stock Exchange. There are also smaller exchanges throughout Argentina. In early 1997 about 100 companies were listed on the Buenos Aires Stock Exchange. This number has been falling for several years (there were about 600 companies in the 1960s) because the market did not fulfill the role of providing capital to companies. The general public preferred to invest their savings in bank deposits, or foreign currency.

Shares are purchased and sold on the Buenos Aires Stock Exchange through brokers, some of whom are related to national or international banks. The system is controlled by the Comisión Nacional de Valores (National Securities Commission), which has functions similar to those of the Securities and Exchange Commission (SEC) in the United States. Listed companies must file their financial statements and board of directors’ reports quarterly with the exchange as well as annual audited financial statements.

The over-the-counter market, also regulated by the National Securities Commission, is growing. The shares traded in this market are those of the companies listed on the Buenos Aires Stock Exchange.

A trend towards using more sophisticated financial instruments is reflected in the growth of the negotiable instruments and options market. Both are traded on the Buenos Aires Stock Exchange.

Foreign-owned companies may be listed on the stock exchange. To list its shares on the stock exchange, a company must comply with certain detailed requirements.

Commodities exchanges

Cash and term transactions, primarily in agricultural and cattle-raising products (such as grains, oil-seeds and meat), are carried out in the commodities market. Two of the leading markets in Buenos Aires are the Mercado de Hacienda de Liniers (Liniers Livestock Market) and the Mercado de Cereales de Buenos Aires (Buenos Aires Grain Market).

Exchange controls

Since 2002, Argentina has imposed certain restriction involving the flow of funds outside of Argentina.

Business regulatory requirements

Only in some special cases, such as mass media, banking, airlines, etc. do specific regulations exist with respect to foreign investments, which however have been diluted in recent times to such an extent that foreign investments are practically on the same footing as local investments in these areas.
Chapter 3
Exporting to/from Argentina

Import regulations

As a consequence of changes beginning in late 80’s, Argentina has eliminated most non-tariff barriers to imports. Argentine Customs has incorporated the Harmonized Commodity Description and Coding System (HS) for classifying goods and assigning tariffs. Basic rates are calculated on the CIF (cost, insurance, and freight) value of imports. Examples of tariff rates according to different kinds of goods are:

- 0 to 8 percent on agricultural products;
- 0 to 5 percent on certain specific goods not produced in Argentina;
- 0 to 18 percent on raw materials, primary products, and intermediate industrial materials;
- 14 percent on capital goods, informatics, and telecommunications products;
- 10 to 24 percent on consumer products; and
- 24 percent on finished goods.

Nevertheless, higher tariff rates are applied to certain kind of goods, as an example: tariff rate applied on automobile imports is 35%. Due to recently introduced measures, drawbacks will be reduced by 8 points, and there will also be a reduction to the maximum import duty from 35% to 27%.

For inter-MERCOSUR trade special regulations apply. The applicable rate is in most cases 0%. For a product to qualify, it must have a certificate of origin from a Mercosur country showing that a sufficient percentage of the process of completion of the product occurred in that country.

Imports are also subject to a statistical service levy, which varies from 0% to 3%, according to the type of import.

Past restrictions on the financial terms of imports, stating a minimum credit term, have been abolished; accordingly, financial conditions may be freely negotiated between the supplier and the Argentine importer.

Export regulations

Export Subsidies

Export makes a valuable contribution to the economy and is actively encouraged. The major export subsidies, consisting of a scheme to refund indirect taxes on exports, vary from 4% on primary products to 5.4% on sundry products and 10% on capital goods. These subsidies do not apply to inter-MERCOSUR trade.

The government has recently removed export subsidies and has applied an export tax to certain exports of primary products and capital goods.
Common market of the Southern Cone (Mercosur)

On March 26, 1991, Argentina, Brazil, Paraguay and Uruguay signed a treaty stating a gradual lowering of import duties on the trade among the 4 countries. The full implementation of this treaty has started as of January 1, 1995. While there have been discussions and at times unilateral measures by the member countries, the MERCOSUR has already greatly promoted trade among the member countries. This trade agreement has in the meantime become so important to the participants, that it can be expected that any future difficulties will be overcome by negotiations between the parties. An agreement has also been reached with respect to a common import duty for imports from third countries, which cover up to now about 85% of the trade. For the remaining imports, i.e. those of products related to information technology and products connected with telecommunications, the common import duty has been implemented gradually. There is also a list of exceptions covering about 230 positions, which should have disappeared by 1999.

Since June 2006, Venezuela has been incorporated as a full member. Chile, Bolivia, Colombia, Ecuador and Bolivia have also signed a treaty with the MERCOSUR by which they have attained an associate status.

There are important distinctions between the objectives of MERCOSUR and those of the North American Free Trade Agreement (NAFTA), signed by the United States, Canada and Mexico. NAFTA will create a free-trade zone, but will not provide for a common foreign tariff. The basic motivation compelling NAFTA member countries was to remove protectionism barriers among them, not to align the member countries’ policies.

The MERCOSUR model shows greater similarity with the European Community, in both its motivation and the degree of integration it intends to attain.

Considering the broad scope of the South American integration project, the time frame for implementation is quite tight, although up to now the rate of progress has been good. MERCOSUR is expected to be extremely important in the development of foreign trade, especially with Brazil. Any investment project should consider the potential effect of MERCOSUR.

Regional and international trade associations

Argentina is a member of the Latin American Integration Association (LAIA), which was organized to promote the economic and social development of the region. Other members of the LAIA are Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. The LAIA carries out its purpose through an economic reference area with a regional tariff preference, regional agreements and agreements between particular member countries. To date, however, LAIA has not had much influence on the region's economic development.

Argentina is a member of the General Agreement on Tariffs and Trade (GATT) and the organization of American States (OAS).
Chapter 4
Business Entities

Types of business organizations

Foreign investors in Argentina commonly use the following types of commercial entities:

   a) Sociedad Anónima (Corporation).
   b) Sociedad de Responsabilidad Limitada (limited liability company).
   c) Sucursal de sociedad extranjera (branch office of a foreign company).

There are other types of legal entities, which are normally not suitable for the needs of a foreign investor.

Sociedad Anónima

This is by far the most common legal construction used by foreign investors. To set up a Sociedad Anónima or S.A., the following minimum requirements must be met:

   - The incorporation must be done through a public notary’s deed.
   - There must be at least two shareholders with a maximum capital holding rate of 95/5%.
     This is an essential requirement for corporations in Argentina and should one shareholder disclose the fact of his owning 100% of the capital, this company would enter into a dissolution status.
   - The Public Registry of Commerce of Buenos Aires City (Inspección General de Justicia - I.G.J.) objects to any shareholder’s interest exceeding 95% of the capital stock.
   - Foreign companies are entitled to participate as a shareholder of a local company. They must be previously registered before the Public Registry of Commerce of Buenos Aires City) under Section 123 of Law 19,550 –Corporations’ Law–.
   - The shareholders’ liability is limited to the subscribed capital.
   - The articles of incorporation must be submitted for approval to the Public Registry of Commerce of Buenos Aires City and published in the Boletín Oficial (Official Gazette).
   - The purpose for which the Sociedad Anónima is created should be clearly defined in the by-laws and must be unique.
   - The minimum capital is of $ 12,000 and must be totally subscribed and 25% paid-in at the time of foundation (100% in case of capital contribution in kind). The balance must be paid in within two years. Nevertheless, the Public Registry of Commerce of Buenos Aires City is entitled to request a higher capital if it considers that it is not adequate for the company’s purpose.
• Shares must be registered non-endorsable; they may be ordinary or preferred; ordinary shares may be divided in several classes, with different voting rights. The preferred shares may have preferences of various kinds, concerning dividends, refunds, convertibility, etc.

• The company is administrated by a board of directors. There must be at least 1 principal director and 1 alternate director. Companies with a registered capital of AR$ 10,000,000 must appoint 3 principal directors and 1 principal Síndico (syndic) (in certain cases 3 syndics must be appointed). The appointment of a syndic can be avoided in the case of the smaller companies by appointing alternate directors. The syndic is a kind of statutory auditor acting on behalf of the shareholders and established by the Argentine law. The directors may be Argentine or non Argentine residents, but the majority must reside in Argentina. In either case, they must fix a domicile in Argentina for the purpose of corporations’ law.

• Directors shall set up a minimum guarantee for the performance of their duties of AR$10,000, which may not be directly contributed to the company but held in custody. This guarantee shall be set up so that the local company be registered.

• The board of directors must hold meetings at least once quarterly. The by-laws must state whether directors will be compensated. If so, the amount of the compensation must be set annually by the shareholders. Compensation or reimbursement for activities other than those pertaining to the directors’ office, such as salaries, fees, traveling expenses or allowances for their roles as delegates of the board, whether in cash or in kind, or any sort of benefits, including entertainment expenses, must be authorized by the shareholders.

• The Sociedad Anónima is the only type of local legal entity that may be listed on the stock exchange. It has a legal identity separate from that of their shareholder and continues in existence despite the death or disability of their shareholders. In that situation, shares must be transferred to a new shareholder. Otherwise, the local company will enter into dissolution status.

• The Sociedad Anónima must file on a yearly basis audited financial statements before the Public Registry of Commerce of Buenos Aires City.

• The registration procedure of a Sociedad Anónima normally takes between one and two months.

**Foreign companies as shareholders**

Argentine legislation on the creation of companies requires foreign companies that would become shareholders of a local company to be previously registered under Section 123 of Law 19,550 before the Public Registry of Commerce of Buenos Aires City and comply with the requirements established by the controlling authorities.

Among other requirements, the Company should comply with the following: (a) it shall neither be an “off shore” company nor derive from an off shore jurisdiction, (b) it shall evidence that it develops an economically effective business outside Argentina, (c) it shall evidence that it is not subject to restrictions on its property and/or business, (d) that the development of all its activities or main business is neither prohibited nor restricted in the place of incorporation or registration, (e) disclose the name of the shareholders’, (f) file a copy of the articles of incorporation and other documents.
Companies created in jurisdictions that are considered “tax heavens” or “non cooperative countries and territories” in the fight against money laundering and transnational organized crime will be analyzed under a restrictive criteria.

The Public Registry of Commerce of Buenos Aires City will reject the registration of those companies that do not comply with the mentioned requirements. If the foreign company requesting the registration is a "vehicle entity" or an investment vehicle (General Resolution I.G.J. N° 22/2004) it will be necessary to give conclusive evidence of this issue and the controlling company - having direct or indirect control - will have to comply with the requirements established by the controlling authorities.

**Annual Requirements**

**Registration Fees**

The Public Registry of Commerce of Buenos Aires City requires the payment of an annual registration fee, which will depend on the amount of the corporation’s capital stock, ranging from $100 to $2,500.

The registration fee is payable regardless of whether the corporation has engaged in any business activity.

**Tax Filing**

Corporations must file annual tax returns for income tax in the fifth month following their fiscal year-end. The date depends on their taxpayer number.

**Audit Requirements**

An independent auditor applying auditing standards similar to those in the United States must audit the annual financial statements of corporations.

**Annual Shareholders’ Meetings**

Shareholders’ meetings may be ordinary or extraordinary. Ordinary meetings must be summoned within four months of year-end. The following activities must be carried out at ordinary shareholders’ meetings: (a) Approval of the company’s financial statements; (b) The election of directors and syndics, the definition of their responsibilities and approval of their compensation; and (c) Increase in capital up to five times the current amount, if such increase is allowed under the bylaws. All other matters must be approved at extraordinary meetings.

Shareholders representing a majority of voting shares must be present at ordinary meetings. A quorum of 60% of voting shares must attend the extraordinary meetings.

Decisions are made by a majority of votes present (50% + 1).

**Legal Reserve**

Corporations, as well as limited liability companies, must allocate not less than 5 % of their annual profits to a legal reserve, until the reserve equals 20% of the registered capital and capital adjustment. This reserve may not be distributed to partners or shareholders during the existence of the company.
Syndic

Shareholders monitor transactions of management through a syndic (statutory auditor) appointed by the shareholders at the ordinary meeting. The position is personal, he/she must be a lawyer or an accountant and the syndic’s duties may not be delegated. If the syndic’s remuneration is not established in the bylaws, it must be determined by the shareholders.

Sociedad de Responsabilidad Limitada

This legal entity is very similar to a Sociedad Anónima

To set up a limited liability company, the following minimum requirements must be met:

- The incorporation may be performed by public or private instrument.
- There must be at least two partners and up to 50.
- Foreign companies are entitled to participate as partners of a local company. They must be previously registered before the Public Registry of Commerce of Buenos Aires City under Section 123 of Law 19,550 –Corporations’ Law–.
- The partners’ liability is limited to the subscribed capital. These types of companies are treated as a corporation for tax purposes.
- The articles of incorporation must be submitted for approval to the Public Registry of Commerce of Buenos Aires City and published in the Boletín Oficial (Official Gazette).
- There is no minimum capital; only 25% of the capital must be paid in at the time of foundation. Nevertheless, the Public Registry of Commerce of Buenos Aires City is entitled to request a higher capital if it considers that it is not adequate for the company’s purpose.
- The company is run by the gerentes (managers), who can be partners themselves.
- The foundation of a Sociedad de Responsabilidad Limitada normally takes about one to two months.

Sucursal de Empresa Extranjera (Branch)

Another type of legal entity sometimes utilized by foreign investors is that of a sucursal (branch). In that case, the branch is simply a part of the foreign company and does not require a local board and syndics. Nevertheless, a legal representative must be appointed and registered within the Public Registry of Commerce of Buenos Aires City.

The legal requirements to be complied with in setting up a branch are:

- To comply with the following: (a) it shall neither be an “off shore” company nor derive from an off shore jurisdiction, (b) it shall evidence that it develops an economically
effective business outside Argentina, (c) it shall evidence that it is not subject to restrictions on its property and/or business, (d) that the development of all its activities or main business is neither prohibited nor restricted in the place of incorporation or registration, (e) disclose the name of the shareholders’, (f) file a copy of the articles of incorporation and other documents.

- Companies created in jurisdictions that are considered “tax heavens” or “non cooperative countries and territories” in the fight against money laundering and transnational organized crime will be analyzed under a restrictive criteria.

- The Public Registry of Commerce of Buenos Aires City will reject the registration of those companies that do not comply with the mentioned requirement. If the foreign company requesting the registration is a “vehicle entity” or an investment vehicle (General Resolution N° 22/2004) it will be necessary to give conclusive evidence of this issue and the controlling company - having direct or indirect control - will have to comply with the requirements established by the controlling authorities.

- To file their legalized and translated articles of incorporation and other documents with the Public Registry of Commerce of Buenos Aires City under Section 118 of Law 19,550 –Companies’ Law–.

- Accounting requirements for branches of foreign companies are similar to those for a corporation (Sociedad Anónima) formed in Argentina and also they are taxed as an Argentine Sociedad Anónima.

The registration procedure lasts between 1 - 2 months.

**Advantages and disadvantages of main types**

Generally speaking, the advantages of a foreign branch, with respect to a corporation, are the greater simplicity of getting it established in Argentina and the fact that local board and shareholders’ meetings are avoided.

Disadvantages are the inability of a branch to attract the participation of local capital and the fully legal responsibility of the main office.

**Accounting and auditing requirements**

All financial statements of business organizations in Argentina must be audited. The auditing standards established by Technical Resolution No. 7 of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE) are applied.

The accounting profession in Argentina started a convergence process of the Argentine accounting standards (Generally Accepted Accounting Principles in force in the Republic of Argentina - Argentine GAAP) and the International Financial Reporting Standards (IFRS). Accordingly, a number of Technical Resolutions (TR) were issued as follows: TR No. 16 “Conceptual Framework of Argentine GAAP”, TR No. 17 “Argentine GAAP: Development of General Scope Issues”, TR No.18 “Argentine GAAP: Development of Some Specific Scope Issues”, TR No.19 “Changes to Technical Resolutions Nos. 4, 5, 6, 8, 9, 11 and 14”, TR No. 20 “Derivatives and Hedge Transactions”, TR No. 21 “Equity Value – Consolidation of
Financial Statements – Related Party Information to be disclosed.” Such Technical Resolutions have different effective dates as from the fiscal years beginning on July 1, 2002.

However, these standards include certain differences with the IFRS. In addition, the accounting standards require the approval of the Professional Council of each jurisdiction, which is able to introduce changes to the FACPCE’s original wording.

At present, there is a division between the FACPCE and the Professional Council of Economic Sciences of the City of Buenos Aires (CPCECABA) -the most important jurisdiction of the country- which generated different standards between the City of Buenos Aires and the rest of the country.

The National Securities Commission (Argentine SEC) adopted the CPCECABA version, though subject to some modifications.

The inflation accounting, required by law since 1984, was eliminated as from September 1, 1995 due to the low inflation rates.

Subsequent to the Argentine peso devaluation occurred on January 6, 2002, inflation reappeared, and consequently, the accounting information should be restated to reflect the effects of inflation as of that date.

The controlling entities considered that there has been monetary stability from September 1, 1995 to December 31, 2001. However, the referred entities did not agree on the date as from which information should be restated to reflect the effects of inflation.

As from March 1, 2003, the inflation accounting is suspended by Decree 664/02, as a result of the decrease in inflation rates.

The accounting profession does not agree to the technical grounds of such decree. Consequently, to comply with the accounting principles, the company should disclose restated information subsequent to February 28, 2003. For practical purposes, this additional requirement will not give rise to significant changes, taking into account the low inflation rates.

Other types of business organizations

Joint Ventures

Argentine legislation allows the establishment of temporary unions of enterprises, which are equivalent to joint ventures. Argentine companies, branches of foreign companies and individuals residing in Argentina, may form a temporary union of enterprises (“UTE”). Its purpose must be to perform work or render services within or outside Argentina. A temporary union of enterprises is neither a company nor a partnership, and it is not considered a legal entity.

The companies or individuals establishing the UTE are responsible for the actions performed. A contract must be signed and filed before the Public Registry of Commerce of Buenos Aires City. The contract must contain a number of specific clauses and must also provide for the appointment of a legal representative in charge of management.
Sole Proprietorships

In a sole proprietorship (empresa unipersonal), an individual directly owns the business assets and remains personally liable for its debts. Generally, few formalities need to be satisfied to operate a sole proprietorship.

Partnerships

A partnership is an association of two or more individuals formed to operate a business as co-owners for profit. The rights and duties of partners are generally determined by agreement among the partners, and they are often set out in a written partnership agreement.

Unlike a corporation, a partnership is generally not considered a separate legal entity for all purposes. Depending on the partnership agreement, its existence might terminate on the death or departure of any of its partners or on the occurrence of certain stated events. For tax purposes, partnerships are conduit entities not subject to taxation at the entity level, except with respect to limited partners’ interests in limited partnerships.

General Partnerships

In a general partnership (sociedad colectiva), the most common form of partnership, all the partners are jointly and severally liable for partnership debts. Unless otherwise stated in the partnership agreement, general partners share equally in profits and losses, participate in management, have the right to refuse new partners and may enter into contracts binding the partnership.

Limited Partnerships

A limited partnership (sociedad en comandita) includes one or more general partners, each of whom is personally liable for partnership debts, and one or more limited partners. The liability of limited partners is limited to the extent of their capital contributions.

Mergers and Reorganizations

 Argentine law allows mergers and reorganizations, including spin-offs. Specific provisions of the Corporate Law and Tax Laws govern such transactions. The decision to celebrate a reorganization must be made at a special shareholders’/partners’ meeting, and the resolutions adopted must be announced publicly in the Official Gazzette, newspapers and filed before the Public Registry of Commerce of Buenos Aires City.

The surviving company, but not the merged company, may carry its predecessor tax losses forward. For tax purposes, under certain conditions assets and liabilities of the merged corporations maintain the same values in the surviving corporation. For financial reporting purposes, they may be restated. If they comply with the requirements established by the tax authorities, mergers and spin-offs generally do not constitute taxable events for shareholders.
Chapter 5
The Argentine Tax System

Principal taxes


The provincial and municipal jurisdictions levy turnover tax, real estate tax, stamp tax, tax on vehicles and tax on public advertisement, among others.

Sources of tax law

The legislative branch of government (Congress), which consists of the House of Representatives and the Senate, enacts Federal tax legislation. Legislation is generally proposed by the President of Argentina based on studies conducted by the Ministry of Economy.

Decrees and regulations issued by the government facilitate the proper interpretation and application of the law. Moreover, tax authorities continuously issue rules that establish practical application procedures or provide information on official interpretations of tax legislation. Answers to consultations to the tax authorities also provide a guideline for interpretation, bind exclusively to the answer firm. In addition, decisions by Argentine courts result in case law, which provide additional guidance and clarification to taxpayers.

Provincial and local tax laws are enacted by the legislatures of each province or local government and therefore vary among jurisdictions. Most provinces and local governments issue regulations to assist in the interpretation of their tax laws.

Tax administration

Filing Procedures and Tax Payments

The Argentine tax system is based on the principle of self-assessment. The federal tax laws require taxpayers to file annual or monthly returns to report their taxable income, determine their tax liability, deduct any taxes withheld or paid in advance, and pay any balance due.

Corporations are required to make 10 monthly advance payments of their annual income tax and 11 monthly advances of their minimum presumed income tax liability. The advance payments are calculated based on a percentage of the previous year's income tax or minimum presumed income tax obligation. An optional system to make estimated payments is available. The corporate tax return must be filed within five months after the end of the company's fiscal year.

The tax year for individuals is the calendar year. Individuals whose sole income is in the form of employee compensation are not required to file an individual income tax return for the
year. Instead, their employers are required to withhold income tax monthly, and this tax is considered final.

Individuals with significant amounts of non-wage income, such as income from self-employment, are required to make 5 advance payments towards their final tax liability. These payments are calculated as a percentage of the prior year’s income tax and are made bimonthly from June to February. Resident individuals with non-wage income must file an annual income tax return within four months after the end of the calendar year.

Foreign taxpayers not established in Argentina are not required to file a tax return if their income tax liability is fully satisfied by withholding taxes on income from Argentine sources.

**Audits, Assessments and Appeals**

The Tax Bureau (Administración Federal de Ingresos Públicos or AFIP or DGI) reviews tax returns to confirm their accuracy and completeness. Tax officials usually visit the premises of taxpayers to examine books and documents to determine if the taxable bases are correct. However, they make routine visits to monitor compliance with value-added tax obligations.

The appeal procedure for assessments received as a result of a tax audit is divided into two phases: administrative and legal. The administrative phase begins when the taxpayer replies to the notice of assessment (vista). If the taxpayer contests the assessment, but the tax authorities maintain their position by issuing a resolution (determination), the file is forwarded to the tax collector who issues a tax bill (boleta de deuda), unless the taxpayer files an appeal with the same tax authorities or before a special tax court.

If the tax authorities' position is confirmed when the administrative phase ends, the tax bill is collectable, and the taxpayer must pay the amount assessed. To contest the unfavorable decision from the tax authorities or the special tax court, the taxpayer may begin the legal phase, after paying the amount assessed, by filing an appeal with a federal district court or the Federal Court of Appeals.

**Calculation of Tax**

Tax laws establish very detailed rules on how the tax should be calculated.

In general, the calculation is based on known facts, such as those reflected in the books kept by the taxpayer or in the documentation kept on file.

Only in cases when no detailed information has been provided by the taxpayer or no proper books of account are being kept, or the information or records prove to be incorrect or incomplete, may the tax authorities turn to legal assumptions to establish the tax obligation of the taxpayer in question.

**Penalties**

The tax authorities for late filing of returns, omitted taxable income and fraud may impose various penalties. A penalty ranging from 50% to 100% of the underpayment of tax is imposed for failure to file tax returns and for filing inaccurate returns. The penalty for fraud is 2 to 10 times the evaded amount.

There are prison penalties for those who commit fraud. This embraces directors, managers, syndics, members of the statutory audit committee, administrators, agents, and representatives of entities involved in the commission of the fraud.

There is a penalty interest of 2 % per month for late payments of taxes.
The Federal Government has promoted a law that establishes a regulation how fiscal credits, deductions or other transactions, may be paid. It requires any transaction greater than $1,000 to be paid by bank check, wire transfer, or other specific checks created by this occasion.

Also the government has decided to create a special legal forum for tax frauds, in order to reduce the tasks of the actual Federal courts, and to improve tax collection.

**Confidentiality**

Data and information given to the tax authorities must be kept secret. The AFIP may, however, share information with ANA (Customs), the Comisión Nacional de Valores (Argentine equivalent of the SEC) and the Argentine Central Bank. Also, a judge may request the AFIP to disclose information to a court. The AFIP has, however, on one occasion, published the amount of tax on private property paid by individual taxpayers and it has sometimes published the names of taxpayers that, according to the records of the DGI, have missed a tax deadline.

**Statute of Limitations**

The statutory period for assessment is normally five years. There are, however, circumstances that might be examined in each case. It is important to note that Law 26.476 (2009 Tax amnesty) states that the statute of limitation period has been suspended for one year.

For social security taxes, the statute of limitations extends to ten years.
Chapter 6  
Business taxation

Corporate income tax (impuesto a las ganancias)

Resident Corporations
Corporate income is subject to taxation only at a corporate level, because dividends from resident corporations are non-computable income for Argentine residents.

Tax Rates
Corporations, including subsidiaries of foreign companies, are taxed at a flat 35% rate.

Territoriality
For resident corporations, worldwide income is taxable, including the income of foreign branches and subsidiaries. Income of foreign subsidiaries is taxable only to the extent of dividends actually paid, unless the subsidiary is organized in a tax haven country, in which case the Argentine company is taxed on their allocable share of the subsidiary’s income regardless of whether a dividend is paid (CFC rules further explained below). Corporations formed under Argentine law, as well as commercial, industrial, agricultural, mining, and other types of permanent establishments of foreign entities are considered to be residents. They must keep separate books and records for a permanent establishment in Argentina.

Gross Income
Gross income generally includes all income collected by or due to the company.

Business Income
Business income includes income from the sale of goods, depreciable assets, shares or real estate; income from dividends other than from resident corporations; interest; royalties and fees; and foreign-exchange gains.

The only type of business income for which the law specifically defines “gross income” is gross income derived from the sale of inventories; it is defined as net sales less the cost of acquisition or production. Other gross income may be determined by any appropriate, technically sound and consistently applied accounting procedure.

Capital Gains
Corporations’ capital gains are not subject to a specific tax. They are included in the scope of income tax and, consequently, are subject to a 35% rate, the same as ordinary income.

Net Operating Losses
Net operating losses may not be carried back, but they may be carried forward for a maximum of five years.
Specific Losses

Tax losses arising from the sale of stock or other securities in Argentine companies can only be offset with income arising from similar transactions. Losses from activities producing foreign-source income may be offset only against foreign-source income. There is a further separate basket limitation for foreign-source capital losses from the disposal of shares or other participations even in investment funds or similar entities. Losses incurred in derivative transactions (excluding hedge transactions) may only be set off against income from derivative transactions.

Valuation of Assets

Tax regulations generally provide for valuation of assets in such a way that current values are usually reached.

Inventory

Specific methods of inventory valuation must be used, depending on the nature of the inventory.

Merchandise held for resale and raw materials must be valued at the price of the latest purchase made during the last two months before the end of the year. If no purchase was made during that period, the last prior purchase must be considered.

For manufactured products, companies that can determine their production costs are allowed to use it for tax purposes. Indirect costs must be included. If a company cannot determine its production cost, it must value its inventories at their sales price less the direct selling expenses incurred and net profit margin realized in the last two months before the end of the year. If no sale was made in that period, the last prior sale must be considered.

Fixed Assets

Fixed assets are valued at cost less accumulated depreciation - calculated according to law - and adjusted for the effects of inflation up to March 1992.

Deductions

Business Expenses

Corporations may deduct from gross income all ordinary and necessary expenses incurred to obtain, maintain and preserve taxable income. If an entity’s income is partially taxable and partially non-taxable, its expenses must be allocated on a proportionate basis to taxable income.

Depreciation and Amortization

Depreciation of buildings used to generate taxable income may be deducted at a 2% annual rate on the cost of the buildings. Such depreciation expense must be indexed to account for inflation occurring between the month of acquisition or construction and the end of the tax year but not beyond March 1992. Other depreciation rates may be used if they are technically supported.

Annual depreciation of all other depreciable assets used to generate taxable income is determined by dividing the acquisition cost of the asset by its estimated years of useful life, and then indexing the result to account for inflation in the same manner as for buildings and improvements. The tax law does not provide standard depreciation rates.

Other depreciation methods, such as those based on units of production or time of use, may be used if they are technically justified.

Amortization of goodwill, trademarks and similar intangible assets is not deductible.
At the taxpayer’s option, organization costs may be deducted either in the year in which they are incurred or capitalized, and then amortized over a period not exceeding five years.

**Reserves**

Write-offs and provisions for bad debts, in justifiable amounts and in accordance with prevailing practices, are deductible. However, the criteria for the deductibility of bad debts are somewhat restrictive.

**Other Deductions**

The general rule for deduction of expenses is that they must be related to business and deemed necessary to earn income.

Interest expense on loans, plus related exchange loss, may be taken as a deduction. In addition, expenses incurred in obtaining, renewing and settling loans are deductible. For loans granted by a foreign home office or an affiliate, arm’s length terms and conditions are required. Also, there are thin capitalization rules to be considered.

When interest is paid on debts (including negotiable obligations) with companies in the country (except for financial entities), 35% must be withheld and will be considered a tax credit for the beneficiary.

Taxes, other than income tax, are generally deductible. The minimum presumed income tax is a tax paid in substitute of the general income tax, and is creditable against the income tax liability for a period of ten years.

Extraordinary losses resulting from casualties (such as a fire or storm), theft or force majeure involving assets that generate taxable income, are deductible to the extent they are not covered by insurance or otherwise indemnified.

Losses that arise from crimes committed by employees against business property that contributes to the generation of taxable income are deductible to the extent they are not covered by insurance or otherwise indemnified. Such losses must be proven to the satisfaction of the tax authorities.

Fees paid to resident directors are deductible up to a maximum of 25% of book profits or an amount established by law, whichever is higher. Fees to non-resident directors are deductible up to 12.5% of book profit if all profits are distributed as dividend. If no dividend is distributed, the maximum is 2.5%. If a dividend is distributed between these two limits, the maximum deduction must be calculated, proportionally, according to the lower limit.

Representation expenses are deductible up to a maximum of 1.5% of the salaries paid during the calendar year.

There are limits imposed by law for the deduction of depreciation and other expenses related to automobiles.

Expense deductibility as a result of payment (instead of accrual) is established for Argentine source expenses paid to a foreign related party or a party located in a jurisdiction with low or null taxation.

Payments for technical assistance from abroad are deductible up to 3% of sales on which the fees are based or 5% of the investment made as a result of the assistance.

Expenses incurred or contributions made to personnel for purposes of sanitation, education and cultural improvement are deductible. In general, all payments made by an employer for the benefit of employees and their dependents, such as annual bonuses paid to employees prior to the filing of the employer’s annual tax return, are deductible.
Amounts reserved for retirement plans established by the corporation for its employees are deductible if payment to employees is not subject to conditions, such as reaching a certain age or not being dismissed. Contributions to certain retirement plans managed by authorized entities are also deductible, up to fixed amounts established by the tax law.

Research and development expenses may be deducted as they are incurred, or they may be capitalized and subsequently amortized over a period not exceeding five years at the taxpayer’s option.

**Bad Debts**

A deduction for bad debts generally is allowable when the debts are determined to be uncollectible based on an uncollectibility formula. Some of the factors in the uncollectibility formula established by law include bankruptcy, disappearance, legal actions, and prescription.

The actual or apparent suspension of payments is eliminated as an element with respect to the uncollectibility formula used for determining bad debt deductions.

In addition, in relation to receivables that are “not material” in accordance with the guidelines of the Argentine tax authorities (AFIP), given the wide range of activities that may appear, the AFIP is to determine, based on activity type, the maximum amount of overdue receivables that are not material that can be deducted as bad debts without the need for implementing mandatory collection efforts.

In the case of secured receivables, they may be deducted with regard to the amount secured, only if the related judicial sale has been ordered.

Law No. 25.731 (published in the Boletin Oficial, 7 April 2003) suspended the elimination of the “drawback” or export refund exemption that is established under the Income Tax Law The 2003 Budget proposed eliminating drawbacks on exports.

**Thin capitalization rules**

Local companies –except financial institutions- might apply these rules to financial transactions with related parties. Interest other than on loans subject to the 35% withholding tax rate will not be deductible when the debt/equity ratio exceeds 2/1. Interest that is not deductible as a result of the application of this rule is recharacterized as a dividend and treated accordingly.

**Inflation adjustment**

Argentine tax legislation contains rules contemplating an adjustment for inflation. However and although these rules have not been repealed, their application has been suspended, and no inflation adjustments for tax purposes have been permitted since April 1, 1992.

**Foreign Tax Credit**

Resident corporations may credit foreign income taxes against their Argentine tax liability, up to the amount of the increase in the tax liability that results from including foreign-source income in the taxable base. This credit includes foreign withholding taxes where the Argentine entity is considered the payer, even if the foreign payer of the income item is a third party. The foreign tax credit cannot be carried back, but may be carried forward for a period of up to five years.
Treatment of Groups of Companies

Group Returns

Consolidated filing is not permitted. Each entity, even if belonging to the same owner or affiliated group, must file a separate tax return.

Foreign Source Dividends - CFC Rules

If an Argentine company owns shares in a tax haven corporation, it must currently recognize its pro rata share of income of those tax haven companies or affiliates, even if the profits of those companies had not been remitted to them, if at least 50% of the total income from such entity is considered passive.

Passive income includes income stemming from property rental; loans; disposal of shares, quotas or participation units (including pro rata shares of mutual funds or of other types of entities that perform a similar function); financial instruments placed in banking or financial institutions, in public offerings, and in instruments and/or derivative contracts that do not constitute a spread of risk; and royalties and dividends. Previously taxed earnings of such entities will not be taxed a second time upon actual distribution of earnings.

Transparency rules also apply if an Argentine company holds an interest ownership in a foreign partnership or a foreign branch.

Distributions upon Liquidation

In general, a corporation distributing property at the time of complete liquidation must recognize the gain or loss that would have resulted from selling such property at fair market value. In most cases, any gain earned from liquidation by the shareholder will not be taxable.

Dividends, Interest and Royalties Paid to Foreign Affiliates

Dividends are non-taxable if the amount distributed does not exceed the taxable income. The excess will be subject to a withholding of 35% as unique and final payment (equalization tax).

Interest is a deductible expense, and is subject to withholding tax when paid to foreign beneficiaries at the rate of 15.05% or 35%.

Royalties are deductible and subject to a withholding tax. The withholding depends on the nature of the service and compliance with the local law regulating transfers of technology. The rates are 21%, 28% and 31.5%. The 28% rate applies to most cases. The deductibility of royalties is limited to 80% of gross payment when made to non-resident entities.

Reorganization of Corporations

Tax losses and exemptions can be transferred from the former to the surviving company.

However, it is required that the owner/s of the former companies must have held at least 80% of the share capital, during a period not shorter than two years prior to the date of the reorganization.

This requirement shall not be in force when the former company or companies offer shares in equity markets for the same period.

It is still obligatory for the owner/s of the former company and during two years after the date of reorganization to keep at least 80% of the share capital existing at that date or the calling out in equity markets for the same period.
Tax incentives

Incentives are available for mining, research and development, the software industry, investment in capital assets and infrastructure works, biofuel industry, modern biotechnology and bioethanol industry.

Mining promotion

Several tax incentives are granted to resident individuals and legal entities organized or established in Argentina. In order to be eligible it is also necessary to develop mining activities in Argentina, or to create an establishment in Argentina for that purpose, and register with the competent agency.

Persons or entities rendering mining services as well as public organizations engaged in mining activities are exclusively eligible for benefits concerning import duties exemptions on capital assets and equipment.

The incentives are granted for the prospecting, exploration, development, preparation, extraction and certain processing of minerals subject to the Mining Code.

In order to be eligible, the project must be located in the territory of the provinces that participate in the incentive scheme.

Hydrocarbons, industrial production of cement, the industrial production of ceramic (cerámica), the extraction of sand and quarrying are not eligible.

Tax benefits. Eligible projects receive, among others, the following benefits:

(a) Fiscal stability

Except for VAT and social contributions, the total tax burden may not be increased during 30 years from the filing of feasibility studies. This benefit covers taxation at federal, provincial and municipal levels (i.e. concerning provinces and municipalities that participate in the scheme);

(b) Special rules regarding deductibility and depreciation;

(c) Royalties

Royalties charged by provinces are limited to 3% of the value of the mineral extracted and transported before any transformation process (the boca mina value).

The administration and control of the scheme is the responsibility of the Mining Secretariat (MS). In order to obtain the benefits, it is necessary to register with the MS. This authority must issue a certificate stating the taxes and charges (whether national, provincial or municipal) applicable to the project on the date of its filing and send a copy thereof to the tax authorities.

Personnel training-related expense credit

There is a tax credit granted on qualifying gifts or expenses incurred by any corporate or individual entrepreneur destined for the support of training institutions. For large companies, the tax credit may not exceed 0.8% of the annual payroll (8% for micro, small and medium-sized companies). The tax credit is granted, upon request, by the appointed government agency and it may be used to pay any federal tax (e.g. IAG, VAT). The expenses or gifts originating in the tax credit are not deductible from IAG. The tax credit may be assigned only once per year. The property acquired with the expenses attached to the tax credit is subject to certain limitations (e.g. with respect to its transfer).
**Tax credit on research and development projects**

A tax credit is granted on qualifying expenses incurred by corporate or individual entrepreneurs on research and development projects. The tax credit is granted, upon request, by the competent agency i.e. Agency of Science and Technology Promotion (Agencia Nacional de Promoción Científica y Tecnológica) and it may be offset against the income tax due up to a certain limit established by the decree. The credit may not exceed 50% of the total amount of the submitted project.

**Investment in capital assets and infrastructure projects**

The regime grants fiscal benefits for investment in new movable depreciable capital assets that are used for industrial activities, excluding those relating to cars and infrastructure projects, excluding civil projects, which comply with the relevant requirements and are eligible under the activities defined by the relevant regulations, i.e. manufacturing.

Eligible persons must be registered with the relevant registries and create new jobs according to labour law governing the applicable activities.

**Tax benefits.** The fiscal benefits available under the regime primarily consist of either:

1. The option to obtain an anticipated refund of the input VAT attributable to either the capital assets or the infrastructure project included in the investment project; or

2. The application of an accelerated depreciation system in respect of the relevant assets, subject to conditions.

The benefits under (1) and (2) are only available together in respect of investment projects which are intended exclusively for the export market. The benefits are not available if input VAT has been financed by way of the VAT financing regime under Law 24,402.

**Software industry regime**

The law aims to provide tax benefits to certain activities undertaken in the software industry, including the creation, design, development, production and implementation of software systems and operating instructions.

Taxpayers must register with the Secretary of Industry, Commerce and of the Small and Median Enterprise (Secretaría de Industria, Comercio y de la Pequeña y Mediana Empresa) to participate under the tax regime for the software industry.

**Tax Benefits**

Under the law, the tax benefits include:

- **Tax stability**
  
  In other words, taxpayers (both corporations and individuals) under the new tax regime will not be subject to increases in the rate of all national tax for a 10-year period after the effective date of the law.

- **Bonus tax credit**
  
  Under the law, taxpayers are allowed an additional tax credit in an amount that equals up to 70% of employers’ contributions effectively paid to the social security systems, generally based on the total payroll of the company. The bonus tax credit can be used to offset certain national taxes except for the income tax. Taxpayers cannot use the bonus tax credit to satisfy pending tax debts from periods before registration under the special tax regime.
• **60% Exclusion in Amount of Income Tax Payable**

Qualifying taxpayers can benefit from a 60% exclusion in the amount of income tax (Impuesto a las ganancias) payable.


**Biofuel industry**

The law defines biofuel as bioethane, biodiesel and biogas produced with raw material from agriculture, agro-industrial and organic waste, that comply with the quality standards established by the enforcement authority.

*Tax benefits.* The tax benefits available under this regime are the following:

- an accelerated depreciation of equipment and investments for income tax purposes;

- an anticipated reimbursement of VAT on purchases of fixed assets and investments in infrastructure;

- an exemption for such assets of the minimum deemed income tax; and

- an exemption for bioethanol and biodiesel of the hydro infrastructure fee, the tax on fuel liquids and natural gas and the tax on the transfer of gas oil.

The tax benefits mentioned above shall be in force for 15 years and may be extended for another 15 years by executive power.

**Modern biotechnology**

The law defines “modern biotechnology” as the technology application based on rational knowledge and scientific principles derived from biology, biochemistry, microbiology, bioinformatics, molecular biology and genetic engineering, which uses live organisms or part of them, for the production of goods and services or the substantial improvement of productive processes or products.

The preferential regime is available to resident individuals and legal entities incorporated in Argentina, which present a project on research and development based on the application of modern biotechnology and also to individuals and legal entities which file or execute application projects of modern biotechnology, for the production of goods and/or services. Eligible persons must be registered with the relevant registries.

The tax benefits available under this regime, which shall be in force for 15 years, are the following:

- an accelerated depreciation for income tax purposes of fixed assets, equipments and parts thereof;

- an exemption from the minimum deemed income tax for such assets;

- an anticipated reimbursement of VAT on purchases of such assets. This credit will be use against other national taxes; and

- a credit certificate in respect of 50% of the social security contributions paid. These certificates can be used to credit against national taxes, e.g. VAT, income tax, income tax advance payments.
Resident individuals and legal entities incorporated in Argentina, which present a project in research and development based on the application of modern biotechnology will also have the benefit of a credit certificate in respect of 50% of the expenditures on research and development with qualified institutions (as defined in the Law).

**Non-resident Companies**

Foreign corporations are taxed on only Argentine-source income. They are generally taxed through withholding taxes, which apply at different rates depending on the nature and origin of the income.

*Income from Imports*

Income earned by a foreign corporation on imports into Argentina is not taxable, provided title to goods passes overseas and, consequently, the local buyer clears goods through Argentine customs.

*Portfolio Income*

Dividends paid by resident corporations (corporations, limited liability companies or branches), that do not exceed taxable income, are not subject to withholding tax. A 35% withholding tax applies on profit distributions that exceed taxable accumulated profits.

Proceeds from the sale of shares of local corporations and public bonds are not taxable for nonresidents (except off-shore).

**Partnerships, limited liability companies and Joint Ventures**

To compute the income of individuals who are partners in a general partnership allowed under Argentine law taxable income is first computed for the partnership as a whole and is then generally allocated to the partners in accordance with their capital or profit-sharing agreement. Each partner is subject to income tax on his or her allocated taxable income.

Limited liability companies are taxed in the same manner as corporations.

For joint ventures, taxable income is allocated among the ventures, whether companies or individuals. Each joint venture member is then subject to income tax on the allocated taxable income under the rules appropriate for the type of member (company or individual).

Tax losses are also allocated to partners and joint venture members.

**Taxation of Individuals (Residents and Non-residents)**

*Territoriality*

Individuals residing in Argentina are subject to tax on income arising from both Argentine and foreign sources. Nonresidents are taxed only on Argentine-source income.

*Residence*

Individuals who reside permanently (having obtained permanent residency visa or having remained in Argentina for 12 months) in Argentina are considered residents. The permanent residence of an individual is determined by reference to such matters as location of home, location of spouse and dependents, personal property, economic interests and social ties. Individuals working in Argentina under duly accredited working contracts for periods of five years or less are not considered residents, but non-residents in Argentina on a permanent
basis. As such, these individuals may be taxed as a resident on their Argentine source income, but are not subject to tax on their worldwide income.

Non-residents working six months or less are subject to a 24.5% withholding tax on compensation for services rendered.

**Taxation of Residents**

**Income Subject to Tax**

For purposes of income tax, there are four categories of income in Argentina:

a) income from real estate,

b) income from capital investments,

c) business income and

d) compensation for services rendered.

**Capital Gains**

The taxability of income derived from the divestiture of stock by natural persons has been a controversial issue in light of various regulations enacted since 2000.

Based on the Argentine’s government legal counsel’s opinion and other administrative case law, it would be reasonable to conclude that the sale of stocks by persons who do not qualify as frequently share selling parties is not included in the scope of income tax.

Also, in case the individuals are frequently share selling parties the income is exempted if it is derived from operations of buy-sell, exchange, or disposition of shares that are publicly traded. Individuals and estates may only utilize losses stemming from the alienation of shares against similar gains. This type of income is considered “second category” income. There is a transfer tax on the sale of real estate, which is applicable at a 1.5% rate on the sales price.

**Deductions in Computing Taxable Income**

Expenses incurred to obtain or preserve revenues may be deducted. In addition, certain deductions may be claimed against compensation for services rendered.

**Allowances**

Personal allowances are available to an individual in calculating taxable income. The following are the deductions for the fiscal year 2003 and next

<table>
<thead>
<tr>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nontaxable income:</td>
</tr>
<tr>
<td>Spouse:</td>
</tr>
<tr>
<td>Each dependent child:</td>
</tr>
<tr>
<td>Each other dependent:</td>
</tr>
</tbody>
</table>

A special deduction from compensation for services rendered is available. The amount that may be deducted for the year 2010 onwards is $ 9,000, increased to $ 43,200 for employees. Medical insurance payments are deductible up to 5% of the determined taxable
A deduction for medical and sanitary services not subject to reimbursement is also available up to certain limits. Mortgage interest deduction is allowed. For interest on loans taken 01/01/2001 onward the deduction is up to $ 20,000.

**Rates**

The rates applied to taxable income range from 9% to 35% as follows:

<table>
<thead>
<tr>
<th>Accumulated net taxable income</th>
<th>Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher than $</td>
<td>Up to $</td>
</tr>
<tr>
<td>0</td>
<td>10,000</td>
</tr>
<tr>
<td>10,000</td>
<td>20,000</td>
</tr>
<tr>
<td>20,000</td>
<td>30,000</td>
</tr>
<tr>
<td>30,000</td>
<td>60,000</td>
</tr>
<tr>
<td>60,000</td>
<td>90,000</td>
</tr>
<tr>
<td>90,000</td>
<td>120,000</td>
</tr>
<tr>
<td>120,000 Onwards</td>
<td>28,500</td>
</tr>
</tbody>
</table>

**Foreign Tax Credit**

A tax credit is allowed for similar taxes paid abroad, up to the increase in Argentine tax due to the foreign-source income. There is no carryback available, but a carryforward of five years is available for non-utilized foreign taxes.

**Treatment of Losses**

Tax losses may not be carried back, but they may be carried forward for a maximum of five years. Tax losses resulting from foreign sources can be offset only with foreign-source income.

**Expatriates and Non-residents**

All individuals with income earned in Argentina, whether they are residents or nonresidents, are subject to taxation. Persons residing for up to six months in a calendar year are not allowed to enjoy the benefits of the standard deductions and exemptions provided to resident filers, and instead are subject to withholding taxes and are permitted to deduct 30% of their compensation to reflect the expenses incurred in earning such income. The remaining 70% is taxed at a flat rate of 35%, giving an effective tax rate of 24.5%.

**Tax on Personal Assets**

This tax is imposed upon all assets owned at the end of the calendar year. Individuals domiciled in Argentina are taxed on assets located in Argentina and abroad exceeding AR$305,000. Individuals domiciled outside Argentina, including non-residents in Argentina on a permanent basis, are taxed only on assets located in Argentina; e.g. expatriates residing in Argentina on work assignments for a period that does not exceed five years are considered to be domiciled abroad. Thus, they are taxed only on their personal assets located in Argentina.
The tax rate is 0.5% for the excess over AR$305,000, increasing to 1.25% for the amount exceeding AR$5,000,000. A tax credit is allowed for similar taxes paid abroad, limited to the Argentine tax on assets located abroad.

Deposits in Argentine institutions are exempted from the tax base.

In addition, the personal asset tax exemption now applies with respect to:

- Securities, bonds, and other negotiable instruments issued by the National, Provincial and Municipal Governments and the City of Buenos Aires, irrespective of the date of acquisition
- Certificates of deposits previously subject to the freeze on bank accounts and currently rescheduled and replaced by “CEDROS” bonds

The tax to be levied on shares or interests in the capital stock of companies incorporated under Law 19550 and most local trusts, which are held by individuals and/or undivided estates located in the country or abroad, should be calculated and paid by the referred companies. The applicable rate is 0.50% on the equity of the local company.

**Withholding Taxes**

Foreign individuals and foreign companies that do not have a permanent establishment in Argentina are subject to withholding tax on income received from Argentine sources. A 35% withholding tax is applied to presumed net income, which is a fixed percentage of the gross amount received. The percentage varies depending on the type of income, and therefore the effective withholding rates vary. See the discussion below regarding taxation of foreign beneficiaries.

**Transfer Pricing**

*Overview of Transfer Pricing Regime*

The 1998 income tax reform introduced transfer pricing regulations in Argentina that are broadly comparable with OECD Guidelines.

There is however, no hierarchy for the application of the OECD accepted methods. The selection of the appropriate transfer pricing method in Argentina depends primarily on the availability of information and the number and magnitude of the adjustments necessary to achieve comparability.

The Income Tax Law incorporated the following methods to evaluate controlled transactions of any type, including transactions of both tangible and intangible property, services, and financial transactions:

- Comparable uncontrolled price,
- Resale price,
- Cost plus,
- Profit split, and
- Transactional net margin.

**Taxpayer Considerations:**
To collect taxpayer’s information relevant to transfer pricing, Argentina’s Federal Administration of Public Revenue ("AFIP") requires the semiannual submission of a supplemental transfer pricing return, disclosing the amounts related to the categories of intercompany transactions including:

- Tangible goods
- Royalties,
- Loans,
- Insurance,
- Advertising,
- Freight,
- Services, and
- Other transactions

In conjunction with the preparation of income tax returns, taxpayers are required to file a supplemental annual transfer pricing return giving the above mentioned details for the whole fiscal year related party transactions and indicating the transfer pricing method applied to test the arm’s-length nature of the transactions reported.

The regulations also state that it is mandatory to file, together with the last mentioned annual return, a transfer pricing study containing, at least, the following points:

a. The taxpayer’s activities and functions.

b. The risks assumed and the assets used by the taxpayer in such activities and functions.

c. A detail of the elements, documentation, circumstances and facts to which a price has been assigned for the purpose of transfer pricing analysis.

d. A detail and the amounts of the transactions that fall within the scope of the transfer pricing analysis.

e. Identification of the foreign taxpayers with whom the transactions stated in the tax returns had been conducted.

f. Method used in support of the transfer pricing, with a description of the reasons and grounds to considering it to be the best method for the transaction involved.

g. Identification of each comparable selected to justify the transfer pricing applied.

h. Identification of the sources of information from which the comparables were selected.

i. A detail of the comparable selected and subsequently discarded with an indication of the reasons.
j. A detail, the amounts and method applied to make the necessary adjustments to the selected comparables.

k. Determination of the median and the inter-quartile range.

l. Transcription of the Income Statement of the comparable companies corresponding to the fiscal years necessary for the comparability analysis, with an indication of the sources of such information.

m. Description of the corporate activity and the characteristics of the business carried out by the comparable companies.

n. Conclusions obtained.

Potential Penalties

In case of non compliance with the formal obligation of filing the returns, the transfer pricing study and the statutory financial statement at due date, taxpayers are penalized with a fine of AR$ 10,000 (approximately U$S 2,500) for local owned entities and with a fine of AR$ 20,000 (approximately U$S 5,000) for foreign owned entities.

- For not complying at due date to present the unrelated parties tangible goods imports and exports return taxpayers are subject to a fine of AR$ 1,500 (approximately U$S 375) for local owned entities and a fine of AR$ 9,000 (approximately U$S 2,250) for foreign owned entities.

- Argentine tax authority special request to provide information to audit international transactions is subject to a fine of between AR$ 150 (approximately U$S 38) through AR$ 45,000 (approximately U$S 11,250).

- Not complying with the tax authority request to file international transactions returns is subject to a fine between AR$ 150 (approximately U$S 38) and AR$ 45,000 (approximately U$S 11,250) (in addition to the above mention penalties).

- Finally, standard penalties for underpayment of income tax range from 1 to 4 times the tax adjustment.

On October 21, 2003, Law 25784 was published in the Argentine Official Gazette, adding four paragraphs to deal with the specific case of exports to related parties of grains, oil seed, other soil products, hydrocarbons and hydrocarbon by-products, and, overall, goods with quotations in transparent markets, in which there is an international intermediary that is not the actual recipient of the goods. The amendment establishes that in order to choose the "best method" to determine income of Argentine source derived from the export, the quoted value of the good in the transparent market on the date of the shipment is to be applied, irrespective of the price agreed upon with the international intermediary.

However, in the event that the price agreed upon with the international intermediary were higher than the quoted price in force on the date of the shipment, the price to be applied to the valuation of the transaction is the higher price.

The amendment described above may not have to be observed if the local taxpayer can prove that the international intermediary complies, concurrently, with the following requirements:

- The intermediary should have substantive commercial presence in the jurisdiction of residence, set up a commercial establishment for business administration purposes and comply with the legal requirements for constitution, registration, and filing of statutory
financial statements. Its assets, risks and functions assumed by the intermediary must be in accordance with the total volume of its transactions;

- The intermediary’s activities must not consist on obtaining passive income, nor in the intermediation on the trading of goods from or to Argentina or with related parties; and
- International trade with related parties must not exceed 30% of the total annual volume of transactions agreed upon by the intermediary.

The application of this method might, in turn, extend to any other type of exports of goods in those cases in which the nature and characteristics of international transactions allow it. This extension in the application of the method will only apply when the tax authorities have expressly proved that these transactions between related parties were carried out through an international intermediary who did not turn out to be the final destination of the goods and that it did not meet the above requirements.

**Advance Pricing Agreements**

Argentina does not specifically provide for Advance Pricing Agreements and owing to its limited tax treaty network, Bilateral Advance Pricing Agreements are not entered into.

**Indirect Taxes**

**Value-added Tax**

**Scope**

The value-added tax (VAT, or IVA in Spanish) is a general tax on consumption within the Argentine territory. It is levied on the delivery of goods, the granting of loans, or the rendering of services by any person or legal entity conducting an economic activity, and on the importation of goods and services.

Services rendered and loans granted from abroad for which utilization is made in Argentina by Argentine VAT payers in the country shall be taxable. The payment thereof will be used as a VAT credit.

Under the VAT system, tax is levied at each stage of the manufacturing and distribution process on a non-cumulative basis. The accumulation of tax is avoided through the deduction of VAT invoiced to the entity. The entity pays VAT on the total amount invoiced by it in each monthly tax period, but it is entitled to recover the input VAT that was invoiced to the entity during the same period. If, in any tax period, the credit for input VAT is higher than the amount of VAT due on output, the entity is not entitled to a refund (unless the refund is related to exports see below); rather, the excess is credited against future VAT liabilities.

Exports of goods and services are included in the scope of VAT, but they are taxed at a zero rate. This means VAT is not levied on the output, but VAT paid on inputs may be recovered through tax refunds, which should be requested by the taxpayer.

Transactions in real estate are outside the scope of VAT, except for the leasing of commercial buildings exceeding the amount of $1,500, which is taxable. On the other hand, certain transactions are exempt, such as sales of shares and securities. Entities performing these activities may not recover input VAT.

Since June 5th 2001, amounts paid on the purchase, import, or rent (including leasing contracts) of automobiles can be claimed as tax credit only if the cost of acquisition, import or market price is equal or less than $20,000 (VAT net). If the value exceeds that limit, the tax credit can be only claimed up to this limit. When the automobiles have for the buyer the character of inventory or a key operational fixed asset (such as cars) this limitation will not be applicable. The restriction to compute the tax credit related to maintenance, repair and use of automobiles, which can be deductible with no limit, has also been lifted.
**Tax Basis**

The basis for VAT assessment is the net price of the goods or services, or the interest on loans, including the following items:

- Readjustments, interest and financing charges on deferred payments of services or sales of goods, including interest penalties, accruing during the corresponding monthly period; and
- CIF (cost, insurance and freight) value of imports or customs value plus customs duties.

**Rates**

The general rate is 21%. A higher rate of 27% is applied to electricity, natural gas and water supplied to business activities. The rate of 10.5% is applied in some activities; for example, in the construction industry with respect only to the construction of dwellings (houses).

A special rate of 10.5% applies on interest and commissions paid on loans granted by local financial entities. The same rate applies with respect to banks located in countries whose Central Banks or equivalent organizations have adopted the international standards of banking control established by the Bank Committee of Basle. The borrowers must be registered taxpayers.

Magazines, newspapers and other frequent publications are also taxable at the rate of 10.5%.

Capital goods, whether imported and manufactured, are subject to a regime that applies a VAT rate of 10.5%. A list of customs code numbers for goods that will be considered under this regime is available. The taxpayer's credits originated as a consequence of these transactions can be reimbursed under certain limits.

**Documentation**

If the buyer is a VAT-registered taxpayer, the invoice must show separately the price of the sale or service and the amount of VAT. Such an invoice delivered to the buyer allows the buyer to determine and compute the corresponding VAT credit.

If the buyer is a non-registered taxpayer, the invoice must include an additional VAT calculated on a presumed mark-up of 50%. This document does not give to the buyer the right to a VAT credit. Only some taxpayers with revenues below certain limits and activities have the option of maintaining the non-registered status.

If the buyer is a final consumer or is exempt from VAT, the invoice must not show the VAT separately. The seller must therefore include the VAT into its sales price. As a consequence, only 82.64% of the total billing is revenue for the seller, because 17.36% (21% of 82.64%) is a fiscal liability.

**Administration**

Declaration and payment of VAT is made monthly, based on a system designed by the tax authorities.

**Transfer of VAT credits**

Under the provisions of article 24 of the VAT Law, VAT credits originated from direct payments can be transferred to other taxpayers, according to the provisions of article 36 of Law 11.683 (Ley de Procedimiento Tributario, LPT).
Other Federal Taxes

Minimum Presumed Income Tax

This tax is imposed upon the value of assets located in Argentina and abroad belonging to, among others, companies domiciled in Argentina, foundations and civil associations domiciled in Argentina, sole trader businesses located in the country, trusts and permanent establishments of non-residents in Argentina. Liabilities cannot be deducted.

The applicable rate is 1%. If the aggregate value of the assets in the country do not exceed $200,000 are exempted from the Minimum Presumed Income tax.

Some assets are tax-exempt, e.g. shares and other participations in the capital of other entities subject to taxation, assets of mining companies, exempt entities recognized by AFIP or entities that have become exempt by national laws. The acquisitions of new goods subject to depreciation –except for automobiles- as well as the investment in construction of new buildings or refurbishing (for the first two years) are excluded from this tax.

The income tax determined for the same fiscal year may be considered as a payment on account of this tax to the extent that the income tax obligation does not exceed the amount of the presumed minimum income tax. Otherwise the excess of income tax does not constitute a tax credit.

The excess in any given year of the presumed minimum income tax over the income tax liability can be carried forward over ten years to offset income taxes.

Wealth tax

The wealth tax (Bienes Personales) technically is a tax on the net wealth of individuals; however, an assumed taxpayer was created when the shareholder of a local entity which is organized under the Law N° 19.550 (including head offices of branches) and most local trusts, is a foreign entity.

At present, domestic companies must pay the tax in substitution of their shareholders (or head offices in the case of a branch). The substituted tax is 0.5% of the equity of the local entity on annual basis. The local companies responsible for paying the tax will be entitled to request the reimbursement to their foreign shareholders.

Tax on Financial Transactions

Competitivity Law No. 25,413 (Official Bulletin March 26, 2001) has created a tax on credits and debits in bank checking accounts opened in financial institutions, with the exception of those expressly excluded, as well as the following services:

a) The transactions carried out by financial institutions, in which a bank checking account is not used, no matter how they are called, the mechanisms used to carry them out and their legal instrumentation.

b) All the movements or delivery of owned or third-party funds –even in cash- that any person –including financial institutions- may make on his own account or for the account and/or on behalf of other parties, no matter the mechanisms used to carry them out, how they are called and their legal instrumentation. This apart includes the
movements to accredit funds to commercial businesses members of the charge or credit card systems, except the movements or the delivery of funds made as a result of the payroll deposit service for employees.

The taxable event will take place:

a) debits and credits to accounts: at the time of making the debit or credit to the respective account.

b) others: at the moment of making the payments, credits or making the funds available. In the case of drafts and transfers, when they are issued.

The general tax rate is 0.6% (six per thousand) for credits and 0.6% (six per thousand) for debits, except in transactions involving collection management, rendering of collections and payments to commercial businesses member of the credit and/or charge card system —when the revenues from the collection operation, collection and payments are not credited to accounts open in the name of the beneficiaries of the securities or documents and issuers of the management, collection or payment order— as applicable, in which case the tax rate to be levied will be 1.2% (twelve per thousand).

The holders of bank accounts levied with the general rate of 6‰ can compute as a tax credit 34% of the amounts calculated and received by the related collecting agent as a result of the amounts credited in such accounts.

Additionally, taxpayers subject to the general rate of 12‰ can compute as a tax credit 17% of the amounts paid on their own or, as the case may be, calculated and received by the related collecting agent in the light of the referred taxable events.

Such amount will be credited as a prepayment indistinctly against income tax and/or minimum presumed income tax.

**Excise Tax**

Excise tax is applied by the federal government on the sale, transfer or importation of specific products, based in general on the invoice value. The principal items subject to this tax are tobacco and tobacco products, alcoholic beverages, soft drink concentrates and soft drinks, diesel engines and cars, cellular phone services, electronic products and insurance premiums. This tax does not apply to exported items.

Excise tax rates range depending on the item.

**Estate and Gift Taxes**

Gratuitous transfers of property on death and inter vivos transfers are not subject to any special tax, and they are considered exempt for income tax purposes.

**Export Taxes**

Since March 2002, the Argentine government has resolved to impose duties on the exportation of all types of goods. The applicable rates vary depending on the type of goods from 5% to 45% depending on the type of product.

**Local and Provincial Taxes**

**Turnover Tax**

Local governments impose tax on the turnover (gross revenues) of businesses. Tax rates vary depending on the type of activity and jurisdiction. Farming and cattle raising, mining and
other primary activities are taxed at 1%; industrial activities, 1.5%; commerce and services in general, 3%; and financial and intermediary activities, 5.5%. The rates are applied to the total amount of gross receipts accrued in the calendar year.

To avoid multiple taxation, a multilateral treaty exists for distributing the taxable base among the different fiscal jurisdictions.

Exports of goods are also exempt.

**Stamp Tax**
Stamp tax is levied on the formal execution of public or private instruments. It is payable in the jurisdiction in which the economic transaction is instrumented but it may also be applicable in the one it has effects.

Documents subject to this tax include, among others, all types of contracts, notarial deeds, receipted invoices confirmed by a debtor, promissory notes and negotiable instruments. In general, the taxable basis is the economic value of the agreement.

The generally applicable rate is 1%, although it can vary depending on the type of deed and on the legislation of the jurisdiction imposing this tax. An exception to the rate is, among others, real estate sales, on which the rate can be 2.5%

Law 2997 of the City of Buenos Aires, published January 9, 2009, provided for the generalization of stamp tax (up to December 13, 2008, it was only applied to deed transfers for real property and certain real property lease contracts.)

**Real Estate Taxes**
Local governments assess the value of local real estate and levy a progressive real estate tax on the assessed values. The progressive rates run from 0.2% to 1.5%. Based on those valuations, the municipality applies rates of 0.55% for lighting, sweeping and cleaning services and 0.02% for pavement and sidewalk maintenance.

**Estate and Gift Taxes**

On September 23, 2009, Law 14044 was enacted in the Province of Buenos Aires, whereby a tax on the transfer of assets for no valuable consideration was created in that jurisdiction. This tax levies all increases in wealth for no valuable consideration, such as:

- Inheritances;
- Legacies and devises;
- Gifts;
- *Inter vivos* gifts; and
- any other event resulting in an increase in wealth for no valuable consideration.

It is worth noting that this tax is levied on assets located in the province (even when the owner is not domiciled in that jurisdiction) and/or transferred to individuals or legal entities domiciled in the province.

In addition, the transfer of assets for no valuable consideration is exempt when the aggregate value is equivalent to or lower than three million pesos ($3,000,000). When the value of assets is in excess of the referred amount, all the assets transferred for no valuable consideration will be levied with tax.

This tax shall be paid at a rate ranging from 5% to 10.5%, depending upon the taxable base and the relationship with the decedent or the donor.
The tax will is effective as from January 1, 2010.

**Tax incentives**

**Call centers**

Several provinces offer tax benefits to “call centers” established in said jurisdictions. Benefits depend on the jurisdiction involved. Usually, it exempts call centers from payment of the turnover tax, the stamp tax and real state taxes for periods ranging between 5 and 10 years.

Said benefits are in force in the following provinces: Córdoba, Mendoza, Chaco and San Luis.

**Technological District (Buenos Aires)**

The District shall function as a center of technology promotion and development, innovation and knowledge that gathers IT and Communication companies, software and highly qualified professionals.

The aim of the Technological District is to place Buenos Aires as the Latin American city of technology.

Companies that set up in the District shall enjoy the following benefits and exemptions:

- turnover tax exemption and Lighting, Sweeping and Cleaning (ABL, in Spanish) exemption for 10 years, and stamp tax too.

- Companies will be able to defer taxes in order to be invested in works and will have tax incentives for construction works for a 10-year period.

This was inspired by model 22@ from Barcelona and Caohejing Hi-Tech Park (CHJ) from Shangai, where more than 1200 high tech companies are set up.

**Tax Treaties**

Argentina has valid double taxation treaties with the following countries: Australia, United Kingdom, Denmark, Germany, Belgium, France, Italy, Sweden, Switzerland, Spain, Canada, Chile, Bolivia, Brazil, Finland, Norway, and the Netherlands. In addition thereto, a number of treaties concerning the exemption of income from international transport are in force.

It is worth mentioning that on January 3, 2007, it was published in the Official Bulletin the Law Nº 26,185 which ratified the treaty with the Russian Federation that had been signed in October 2001. This treaty will become effective once the Governments have mutually notified the respective internal procedures required for its application.
Chapter 7
Taxation of Foreign Beneficiaries

Taxation of branches of foreign companies

Foreign companies that have set up a branch office in Argentina are taxed in exactly the same way as local companies. Accordingly, for corporate income tax purposes, the applicable flat rate is 35% on taxable income; the distribution of profit is not taxed, as long as the amount of dividend does not exceed the taxable income.

Taxation of companies without Argentine branch

Foreign companies attaining profits of Argentine source, without having set up a branch office in Argentina, are subject to a withholding tax that in many cases is based on an assumed net profit percentage on the gross amount paid. Listed below are the main cases of assumed net profit percentages, as well as the resulting effective tax rate on the gross amount and the same rate, should the tax be taken for the account of the Argentine payer. The existing double taxation treaties may stipulate lower percentages, which will apply in the case of payments to recipients in the pertinent countries.

<table>
<thead>
<tr>
<th>Type of payment</th>
<th>Assumed net profit %</th>
<th>Effective tax rate on gross amount %</th>
<th>Same rate in case of grossing up-%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest (if not exempt)</td>
<td>43</td>
<td>15.05 or 17.716</td>
<td>17.716</td>
</tr>
<tr>
<td></td>
<td>100</td>
<td>35 (3)</td>
<td>53.8462</td>
</tr>
<tr>
<td>Fees on technical assistance</td>
<td>60</td>
<td>21</td>
<td>26.582</td>
</tr>
<tr>
<td>Royalty payments</td>
<td>80</td>
<td>28</td>
<td>38.889</td>
</tr>
<tr>
<td>Royalty payments (if not complying with Transfer of Technology Law)</td>
<td>90</td>
<td>31.5</td>
<td>45.129</td>
</tr>
<tr>
<td>Copyrights (if registered locally)</td>
<td>35</td>
<td>12.25</td>
<td>13.960</td>
</tr>
<tr>
<td>Leasing of goods</td>
<td>40</td>
<td>14</td>
<td>16.28</td>
</tr>
<tr>
<td>Leasing of real estate (1)</td>
<td>60</td>
<td>21</td>
<td>26.582</td>
</tr>
<tr>
<td>Sale of assets located in Argentina (1)(2)</td>
<td>50</td>
<td>17.5</td>
<td>21.212</td>
</tr>
<tr>
<td>Insurance</td>
<td>90</td>
<td>31.5</td>
<td>45.129</td>
</tr>
<tr>
<td>Re-insurance</td>
<td>10</td>
<td>3.5</td>
<td>3.627</td>
</tr>
<tr>
<td>Exploitation of images and sounds</td>
<td>50</td>
<td>17.5</td>
<td>21.212</td>
</tr>
<tr>
<td>Benefits, in general, paid to foreign residents</td>
<td>90</td>
<td>31.5</td>
<td>45.129</td>
</tr>
</tbody>
</table>

(1) The beneficiary may choose to pay 35% on actual net profit, the computation of which is in that case subject to approval by the DGI.

(2) The profit on the sale of shares and bonds is tax-exempt.

(3) Loans granted by banks located in a country that is either a) not considered a low-tax jurisdiction, or b) having subscribed a treaty providing the exchange of information with Argentina, has no local restrictions regarding said exchange between revenue...
services: 15.05%. If the borrower is a local financial institution the rate is always 15.05%. In the case of imports of depreciable movable equipment, except vehicles, the rate is always 15.05%. All other loans 35%.

Artists, technicians, professionals, sports persons and the like, working for less than 6 months a year in Argentina, are assumed to earn a net taxable profit of 70% on the gross amounts collected (effective tax rate 24.5%). Non-resident artists engaged by the Argentine government or by tax exempt entities for less than 2 months a year are taxed on 35% of their receipts (effective tax rate 12.25%).

### Maximum withholding tax rates under double taxation treaties

<table>
<thead>
<tr>
<th>Country</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>(h)</td>
<td>(a)</td>
<td>(b)</td>
</tr>
<tr>
<td>Australia</td>
<td>10(f)</td>
<td>12</td>
<td>10(e)</td>
</tr>
<tr>
<td>Austria</td>
<td>15</td>
<td>12.5</td>
<td>15</td>
</tr>
<tr>
<td>Belgium</td>
<td>10(f)</td>
<td>12</td>
<td>10(c)</td>
</tr>
<tr>
<td>Bolivia</td>
<td>(g)</td>
<td>(g)</td>
<td>(g)</td>
</tr>
<tr>
<td>Brazil</td>
<td>(g)</td>
<td>(g)</td>
<td>(g)</td>
</tr>
<tr>
<td>Canada</td>
<td>10(f)</td>
<td>12.5</td>
<td>10(c)</td>
</tr>
<tr>
<td>Chile</td>
<td>(g)</td>
<td>(g)</td>
<td>(g)</td>
</tr>
<tr>
<td>Denmark</td>
<td>10(f)</td>
<td>12</td>
<td>10(c)</td>
</tr>
<tr>
<td>Finland</td>
<td>10(f)</td>
<td>15</td>
<td>10(c)</td>
</tr>
<tr>
<td>France</td>
<td>15</td>
<td>20</td>
<td>18</td>
</tr>
<tr>
<td>Germany</td>
<td>15</td>
<td>10 or 15</td>
<td>15</td>
</tr>
<tr>
<td>Italy</td>
<td>15</td>
<td>20</td>
<td>18(d)</td>
</tr>
<tr>
<td>Netherlands</td>
<td>10(f)</td>
<td>12</td>
<td>10(c)</td>
</tr>
<tr>
<td>Norway</td>
<td>10(f)</td>
<td>12.5</td>
<td>10(c)</td>
</tr>
<tr>
<td>Russia</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Spain</td>
<td>10(f)</td>
<td>12.5</td>
<td>10(c)</td>
</tr>
<tr>
<td>Sweden</td>
<td>10(f)</td>
<td>12.5</td>
<td>15</td>
</tr>
<tr>
<td>Switzerland</td>
<td>10(f)</td>
<td>12</td>
<td>10(c)</td>
</tr>
<tr>
<td>U.K.</td>
<td>10(f)</td>
<td>12</td>
<td>10(c)</td>
</tr>
</tbody>
</table>
(a) Interest paid to non residents or foreign loans granted by banks located in a country that is either a) not considered a low-tax jurisdiction, or b) having subscribed a treaty providing the exchange of information with Argentina, has no local restrictions regarding said exchange between revenue - is subject to a final withholding tax of 15.05% of the gross payment. Interest on foreign loans to finance imports of depreciable movable equipment, except for vehicles, is subject to a withholding tax of 15.05%. All other loans are subject to 35%. Some tax treaties also provide certain exemptions, which may include interest paid to or by governments.

(b) The rate shown is the effective rate for patent royalties. Film royalties are taxed at an effective rate of 17.5%, all other copyright royalties are taxed at 12.25%. The effective rate for technical assistance, engineering and consulting fees is 21% if technology is not available locally, and 26.40% for other license fees. Otherwise, the rate is 31.50%.

(c) This rate applies to patent, trademark and similar royalties. The rate is 3% for the use of news. It is 5% for copyright royalties (excluding film royalties). Otherwise, the rate is 15%.

(d) Copyright royalties are taxed at 10%.

(e) Copyright of literary or artistic works, use of industrial or scientific equipment, or supply of scientific, technical, or industrial knowledge are taxed at 10%, otherwise, the withholding is reduced to 15%.

(f) If the receiving company owns 25% or greater of the distributing company; otherwise the rate is 15%

(g) Taxable only in contracting state making the payment, i.e. income becomes tax exempt in Argentina.

(h) Dividends are not taxable in Argentina except for the amount of such that exceeds accumulated taxable income

(i) It has entered into force in January 2001 via a non-traditional mechanism.

In addition, certain treaties offer tax-sparing provisions that can reduce the tax in the receiving country.

(j) The Argentine embassy denounced the Austrian Argentine tax treaty on June 27, 2008. Therefore, its provisions ceased as from the tax year commencing on January 1st, 2009.
Chapter 8
Protection of Commercial and Industrial Rights

Nature of commercial and industrial rights

Under this heading we shall discuss:

- Patents (Law 24,481)
- Trade Marks (Law 22,362) and
- Commercial Names and Designations

Patents

Patents have been an issue of discussion in Argentina over the last few years. Industrial property rights have been reasonably protected for many years but pharmaceutical and other industrial products have not. This situation allows local manufacturers in certain industries to copy formulas or industrial processes without paying for the copyright.

Law 24,481 was passed in 1995 to remedy this situation but it has not satisfied the interests of foreign owners of patents. This is particularly sensitive in the case of pharmaceutical products.

Medicines can be patented in Argentina as from the year 2000. In the meantime, as Argentina has recently ratified the amendments to the GATT (Uruguay round) which contain rather precise stipulations concerning patent rights, the old law on patents (No. 111) must, to quite some extent, be deemed modified by the GATT.

Trade Marks

Trade marks utilized for the identification of products or services are protected by the provisions of Law 22,362. They may consist of words, designs, emblems, initials, seals, images, etc.

Names and Designations

Names

Names (trade names) under which a commercial activity or a non-profit activity is carried out, are also protected in Argentina by Law 22,362 referred to above. The right for protection is in this case acquired by the mere unopposed use of a certain name.
Registration of rights

Patents must be registered in a special register. If the patent office accepts the registration, it decides at the same time the period during which the patent shall be valid, from a period of 20 years.

Foreign patents, if registered in Argentina within 12 months of the original registration in the country of origin, protect the rights of the owners. The maximum period of protection being in this case of 10 years or up to the time the patent expires in the country of origin, should this occur earlier.

Trademarks registered in Argentina are protected for 10 years and may be re-registered indefinitely. Trademarks registered abroad are also protected in Argentina if re-registered there within 6 months of their original registration.

Argentine taxation of patents

The income from Argentine patents is subject to income tax (corporate or individual); the depreciation of the cost of the patent, calculated on a straight-line basis, is a tax-deductible expense.

Royalties paid to foreign owners of patent rights are subject to the rules concerning withholding tax on benefits paid to non-residents (see chapter VII).

Note: The amount of royalties deductible for income tax purposes is 80% of the royalty payment.

Transfer of technology law (22,426)

Law 22,426 applies to the transfer of technology, such as engineering, advisory and technical services.

Contracts covered by the provisions of the law under consideration must be filed with the authorities, for informative purposes, but their validity of the transfer of technology is not subject to prior government approval.

Should the local party to a contract concerning the transfer of technology fail to file same with the authorities (INPI), any payments made will be considered net Argentine profit and subject to a tax withholding of 31.50%. Payments made with respect to duly filed contracts attract a withholding tax of 28% if the authorities consider the technology locally available (they systematically do so in case royalties have been established). For payments not considered as relating to locally available technology (this is assumed in all cases where a lump sum payment is determined), the withholding rate is 21%. The provisions of taxation treaties may modify these general rules, where these exist.

Requirements for Transfer of Technology Agreements

The National Institution of Industrial Property (Instituto Nacional de Propiedad Industrial or INPI) issued a new resolution that establishes new requirements for the registration of agreements involving transfer of technology. Resolution P-328/2005 was published in the Official Gazzette on October 19, 2005 and is effective after that date.

It is important to know that Law 22,426 (Ley de Transferencia de Tecnologia) defines a technology transfer agreement as a contract between a foreign resident and a resident in Argentina, by means of which the foreign resident transfers technology to the Argentine resident.
The mentioned law established that to be deductible from the tax base, technology transfer expenses must be reported to and approved by the INPI.

Technical assistance, engineering and/or consulting services, for the purpose of the tax laws, shall be: any services provided in the form of contract for work or contract for services, to the extent such services imply the existence of technical knowledge applied to the production activity of the local contractor and the transfer of such knowledge to the local contractor or its personnel.

Under the new resolution, the following shall not be considered as technology transfers:

- Purchasing goods.
- Consulting services that do not incorporate directly technical knowledge applied to the productive activity of the beneficiary.
- Software or software updating licenses.
- Repairs, supervision of repairs, and overhaul of plant and equipment if it does not include personnel training.
- Any activity that relates to the regular functioning of the business of the local party.
A general Labor Contract Law, complemented by additional laws and statutes related to specific activities, regulates employment conditions throughout the country and collective bargaining agreements.

The Labor Contract Law does not apply to agrarian laborers, household and Government employees, whose work conditions are covered by separate statutes.

**Workforce**

Argentina has a skilled labor force.

Currently, Argentina has an unemployment rate of 8.4 % (First quarter of 2008)\(^1\).

Methods of recruiting employees vary depending on the qualifications required, from hiring directly at the employer’s facilities to using specialized private employment agencies. Agencies are used especially in recruiting for managerial and technical positions. Many are located in the Capital Federal and its surroundings, where the labor force is highly concentrated.

Labor contracts are not required in writing, and in practice they are usually not used.

**Executive Compensation**

Executives receive various fringe benefits in addition to salaries. Foreign companies usually provide such benefits in accordance with the parent company’s policies. The most common benefits are employer-provided automobiles and bonuses.

Surveys show that salaries for managerial positions range from $ 67,000 to $ 270,000 a year, depending on the size of the company and the industry. The average is about $ 85,000.

If the employer agrees to pay all income tax and social security contributions on salaries, executive compensation may constitute a significant cost to the employer. For instance, a salary equivalent to $ 85,000 may result in a total executive compensation cost to the employer of approximately $ 135,000 if the employer undertakes income tax and social security. This kind of agreement is common for expatriates, but not for local employees.

**Wages**

Wages for industrial and office workers are not the same in all regions of the country. Minimum salaries for employees included in the Collective Bargaining Agreement are

\(^1\) INDEC.
generally established by the Collective Bargaining Agreement itself, but supply and demand usually have great influence on determining salaries of the best qualified workers.

Further, during the last years, labor unions have bargained new salary ranges.

**Notice**

Employer must give notice to the employee no later than 15 days, in case the employee is working under probationary period; one month, when the employee has worked for the employer for a period that does not exceed 5 years; and two months for employees with more years of service.

The employee shall give notice of his intention to terminate the employment contract 15 days in advance.

During the term of termination, the employee shall be entitled to enjoy a two hours’ leave during working hours and may accumulate said hours in one or more full working days.

Should employer or employee fail to give proper notice of termination, the party at fault shall pay the other party compensation in lieu of notice equal to the salary that the employee would receive during that term.

Notice must be served in writing and is effective as from the day following service of notice.

If termination of the labor contract took place without prior notice and the day termination occurred is other than the last day of the month, compensation in lieu of notice owed to the employee shall be made up of an amount equal to salary for the remaining days up to the end of the month.

**Severance Pay**

If an employee or worker is dismissed, without having committed an act of gross misconduct or a criminal offense, severance pay is due, equivalent to one month’s salary for each year of service or period higher than 3 months. For such purposes, the calculation base is the best monthly, normal and customary salary received during the last year or during the time of service, if this period was shorter.

In conformity with the law in force, that basis shall not exceed the equivalent to 3 times the average salary established by the respective Collective Bargaining Agreement.

The minimum severance payment is equivalent to 1 month’s salary currently received by the employee.

As for the already mentioned limit - 3 times the average salary established by the respective Collective Bargaining Agreement - it must be noted that the Supreme Court of Justice has deemed that this limitation shall not be applicable to those cases in which the limit set forth by the Collective Bargaining Agreement is less than 33% of the best monthly, normal and customary salary. In this case the calculation base of the compensation for year of service shall be 67% of the salary paid.

Further, it must be noted that in the case of dismissals without cause, the proceeding provided for by the labor authority (Ministry of Labor) must be conducted prior to the notice of termination.
**Labor Union Organization**

Most industrial and office workers are unionized. However, the political influence of unions decreased during the 1990’s and has increased in recent years.

**Payroll taxes**

The main social security contributions are listed below. Other minor payments apply in certain circumstances, mainly according to collective bargaining agreements and provincial taxes.

In the case of expatriate technicians not residing in the country for more than 2 years, exemption from this contribution may be requested, if the expatriate enters the country with a temporary visa not exceeding two years.

**Pension fund**

Since January 2008, the employees of most industrial and commercial enterprises make contributions to the pension fund equivalent to 14% of all their earnings in cash or in kind (such as schooling or housing) received as salaries, wages, commissions or profit sharing up to the limit established (since November, 2008: AR $ 7,800). Employees may choose to contribute a large part of this percentage to private pension funds.

Employers contribute 11.67% of their employees’ compensation without any limit.

Service and commercial companies invoicing more than $ 48,000,000 a year contribute 14.33% of their employees’ salaries without any limit.

**Family Allowances**

Employers contribute 4.44% (5.56% in case of commercial or service activities invoicing more than $ 48,000,000 a year) of all compensation to a family allowance fund.

Employers may deduct family allowances paid to employees from contributions payable, except for those employers included in the Single System of Family Allowances (SUAF).

To this respect, it must be noted that as from November 2005 any person, whether an individual or an entity, from the private sector registered as employers shall be directly included in the SUAF. By virtue thereof, family allowances shall paid directly by the National Administration of Social Security (ANSES).

The allowances consist of gradual amounts depending on the employees’ salaries, usually very small, paid for each child, for marriage and for the birth or adoption of a child.

However, there is no family allowance for employees whose salaries exceed $ 4,800 since September, 2008 (except for maternity and disabled children).

The allowances are adjusted periodically.
Unemployment Fund

Employers are required to contribute 0.89% of all compensation to an unemployment fund. For service and commercial companies invoicing more than $48,000,000 a year the contribution amounts to 1.11% of their employees’ remuneration.

Medical Care Contributions

Employees contribute 3% of their earnings or the monthly limit of AR $7,800 (since November, 2008), for medical care. The amounts paid are allocated to various organizations that provide medical assistance. The employer also contributes 6% of employee earnings without limit since November, 2008\(^1\). The Government, through a public fund named ANSSal, takes a percentage from the medical care contributions and withholdings. That percentage varies from 10% to 20% depending on the medical assistance category and the monthly salary.

Labor risk insurance

Since July 1996, a new Labor Risk Law has been in force.

The Labor Risk Law prescribes a mandatory insurance policy be taken with an authorized Labor Risk Insurance Company. The policy must cover salaries, the cost of medical care, professional rehabilitation, prostheses and orthopedic elements, burial assistance and indemnities for partial or total disability and death as a consequence of industrial accidents and medical conditions as a result of work.

Companies can directly afford (without taking out an insurance policy) the costs of these services and/or indemnities, provided that they periodically give evidence of their financial stability. It must be highlighted that in general, companies take out insurance through Insurance Companies.

In principle, pursuant to what the Labor Risk Law explicitly provides for, in the case of taking out an insurance policy, employers are exempt from any civil liability for their employees and the heirs thereof.

Contribution to Labor Risk Insurance Companies is composed of a fixed amount supported by the employee and a variable percentage calculated on the amount of the salary applied as calculation basis for the employee withholdings to Medical Care.

The insurance premium is calculated taking into consideration a percentage of the employees’ remuneration and varies according to the company’s activity, the amount of employees and the compliance with security standards.

The range varies from 0.50% to 5% of the taxable salary of each employee.

Summary of Employer and Employee Contributions

---

\(^1\) However, after a recent change in the related legislation, the clarification on behalf of the tax authorities related to the application of the monthly limit of AR $7,800 for the calculation of the Medical Care Contribution (6%) is still pending.
The following table summarizes the main contributions.

<table>
<thead>
<tr>
<th></th>
<th>Employer (I)</th>
<th>Employer (II)</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Pension fund</td>
<td>10.17 (1)</td>
<td>12.71 (1)</td>
<td>11.00 (3)</td>
</tr>
<tr>
<td>Pensioners’ Healthcare Fund</td>
<td>1.50 (1)</td>
<td>1.62 (1)</td>
<td>3.00 (3)</td>
</tr>
<tr>
<td>Family allowance fund</td>
<td>4.44 (1)</td>
<td>5.56 (1)</td>
<td>-</td>
</tr>
<tr>
<td>Unemployment fund</td>
<td>0.89 (1)</td>
<td>1.11 (1)</td>
<td>-</td>
</tr>
<tr>
<td>Medical care</td>
<td>6.00 (2)</td>
<td>6.00 (2)</td>
<td>3.00 (3)</td>
</tr>
<tr>
<td></td>
<td>23.00</td>
<td>27.00</td>
<td>17.00</td>
</tr>
</tbody>
</table>

Ref.: (I). Employers for all activities, except for commercial and service invoicing more than $48,000,000 a year
(II) Commercial and services activities invoicing more than $48,000,000 a year

(1) These percentages apply to the total remuneration without any limit
(2) In principle, these percentages apply to the total remuneration without any limit since November, 2008
(3) These percentages apply to the total remuneration or to the monthly limit of AR $7,800 (taxable salary, called Mopre) whichever is lower. Since November, 2008 this limit includes all the above mention items.

From such employer contribution, a percentage can be computed, which varies depending on the geographical area where the employees are located, as a VAT credit. For example, in the so called “Greater Buenos Aires” (which includes the city of Buenos Aires and some surrounding cities), the percentage computable as a VAT credit is 0% on the same tax base used for the contributions’ calculation, whereas in Ushuaia it is 8.65% and 1.90% in Greater Córdoba.

**Reduction to employers’ contributions due to net increase in the payroll**

Law No. 25.877 establishes that the Companies which hires up to 80 employees, with an annual invoicing which does not exceed the amount set by the current regulation (for example: ARG $88,800,000 when dealing with a commercial activity and ARG $22,400,000 when the activity is service) and which generates a net increase in the number of employees contracted, will therefore benefit from a reduction in social security contributions per employee incorporated to the payroll for a period of 12 months.
The benefit consists of a partial reduction from contributions to the social security system equivalent to one third of the applicable rates. If the worker is a beneficiary of the Program for Unemployed Heads of Family [“Plan Jefas y Jefes de Hogar”] implemented by the national government all over the country, the partial reduction in the contributions will amount to half of them.

New companies set up as from June 2004 will benefit from a reduction in contributions with respect to the total permanent staff as long as it does not go over the number of 80 employees.

The present incentive will be in force until December 31, 2008.

**Self-Employed Individuals**

Workers who do not have an employer are required to make a contribution to a specific pension fund. The assessment of the amount payable will depend on the activity and category established according to the laws in force. This category is established based on the monthly taxable reference income.

To this respect, it must be noted that in the case of Directors of Corporations or Representatives of Foreign Companies, the contribution to National System of Self-Employed Individuals (Régimen Nacional de Trabajadores Autónomos) ranges from $256 to $563,20, depending on the annual gross revenues.

Both Directors of Corporations and Legal Representatives must contribute to the Social Security System as self-employed individuals even if carrying out activities under a labor relationship. Contributions to the Social Security System as employees are not mandatory for them.

**Scope of Benefits**

Except for the case of certain multinational and top local companies, it is not customary in Argentina for companies to provide additional pension benefits to employees over and above the official pension.

Medical care benefits cover most of employees’ needs satisfactorily. In contrast, pension payments at retirement are very small, which has contributed to the increasing development of private pension plans.

Some measures have been taken in order to attenuate the effect of pension payments at retirement. Persons older than 65 years are entitled to a guaranteed monthly payment of $690.

**Social Security Agreements**

Argentina has entered agreements for reciprocity in social security with Mercosur countries (Brazil, Paraguay and Uruguay), Chile, Greece, Italy, Peru, Colombia, Portugal and Spain.

Whether the provisions of said agreements should apply, they must be analyzed in each case, since many of the abovementioned agreements were signed prior to the amendments made to the pension system in force in each country.
Other employee benefits

Argentine labor laws are distinguished by the protection that they provide to employees. Regulations cover labor contracts, forms of wage and salary payments, women and minors in employment, and various other matters. Some of the main regulations are detailed below.

Bonuses

Compulsory bonuses are paid on June 30 and December 31 each year. They amount to one-half of the highest monthly remuneration paid to the employee during the semi-annual period.

Vacation paid

Providing an annual paid vacation is compulsory. The vacation period ranges from 14 to 35 consecutive days, depending on the number of years of service. To be entitled to a full vacation period, an employee must have worked at least half of the working days in the calendar year. Employees hired during the second half of the calendar year are entitled to one day of vacation for every 20 days of effective work.

Vacations must be taken and cannot be exchanged for cash payments, for which employees can be penalized.

Illness

Payments of remuneration must be continued in case of illness or accident (not labor) for 3-6 months, according to whether the employee has been up to 5 years or more in the service of the company. These periods are doubled if the employee supports a family.

Life Insurance

It is mandatory for employers to contract coverage of $6,750 per employee.

Unemployment

Industrial and office workers are included in a government system of compensation for unemployment. Under certain conditions, they are entitled to receive monthly payments for a period from 2 to 12 months, on the basis of variable percentages of the highest monthly salary earned in the 6-month period prior to unemployment. Such payments derive from a fund constituted with a portion of social security contributions.

Unemployed persons are also entitled to receive medical care for three months.

Overtime

A 48-hour working week is the norm, with a limit of 9 hours per day (6 hours per day for hazardous occupations). Office working hours are usually less. Twelve hours must elapse between consecutive working days. Night work is limited to a seven-hour shift.
Overtime work is permitted with certain restrictions. Overtime on weekdays and Saturday mornings is paid at time-and-a-half. Double time is paid for Saturday afternoons, Sundays and holidays.

Overtime is typically limited to personnel subject to collective bargaining agreements. It is mandatory for salaried workers.

Decree # 484/2000 established a limit of 200 hours overtime per year and 30 hours overtime per month.

**Minimum Wage**

A single general minimum wage is established for all industrial and office laborers. It amounts to approximately $ 1,200 as from August and $ 1,240 as from December 2008 and $ 6 and $ 6.20 for monthly and hourly salaries, respectively. Actual salaries, however, are higher.

Collective labor agreements establish more realistic minimum salary tables, which are generally used.

**Labor contracts**

Labor law allows non-written contracts for an indefinite term of time (traditional contracts).

In accordance with Argentine laws, employment contracts are for unspecified terms to promote the permanence principle.

This principle ceases to be applicable if: a) the term of the contract has been set in writing and b) the activity justifies the exception.

Employment contracts for unspecified terms are understood to have been entered into on a trial basis for the first three months.

During the probationary period either party can terminate the relationship without specifying the cause but by giving notice. This termination will not give right to payment of indemnity.

Other types of contracts are part-time contracts (working hours are less than two thirds of the normal working day) and seasonal contracts (when the relationship between the parties generated by the normal course of business or exploitation is limited to certain months of the year, subject to repetition in each business cycle as a result of the nature of the activity).

Other contracting modalities accepted by Argentine labor legislation, which are exceptions to the general unspecified term principle, include fixed term contracts and temporary employment contract.

As these are exceptions to the general principle, their applicability must be analyzed taking into account the provisions of the Employment Contract Law on a case-by-case basis.

**a) Fixed term contracts**

These contracts require that the term be stated explicitly and in writing. In addition, there should be justified reasons to choose this contracting modality based on the type of business or activity.

The contract is in effect until the end of the term agreed, which must not exceed five years.

Use of successive contracts exceeding the above terms turns them into contracts for unspecified term.
The parties must give notice of termination; otherwise, the contract will become an unspecified-term contract.

If the contract is fulfilled and notice is given, and the duration of the contract is less than one year, severance pay will not be required. However, if the contract term exceeds one year, the worker is entitled to claim severance pay equivalent to half the amount established for ordinary termination by the employer without just cause contemplated in the general regime.

Dismissal without just cause before the end of the contract term entitles the worker to claim damages in addition to the indemnity due to contract termination.

b) Temporary staff contract

The Employment Contract Law establishes that this modality is adopted in connection with extraordinary services or extraordinary and temporary needs of a company, without a specified termination date.

If the purpose of the contract is to supply extraordinary market demand, the duration of the cause giving rise to the contract cannot exceed six months a year and up to one year every three years. The cause giving rise to the contract must be accurately stated.

If the contract is terminated for the same reason for which it was entered into (conclusion of works or task assigned or cessation of the cause giving rise to the contract), no indemnity will be paid. Otherwise, the regulations established by the general regime will be applicable.

c) Others

The law currently in force provides for the possibility of recruiting personnel through internship systems for a definite period. The main object of this system is the training of the intern. The amount paid as internship pay is not subject to social security contributions. Regulation of said system as to the enforcement authority, terms and legal requirements is not uniform; therefore, each case should be analyzed separately before implementing the system.

Special requirements for foreign nationals

In principle, there would be no restrictions on employment of foreign nationals, nor are quotas established.

In general, no particular employee functions are required to be performed solely by Argentines. However, the reasons for hiring an expatriate in lieu of a local employee must be given by the local employer in a presentation to the Immigration authority at the time the expatriate files an application for a temporary visa.

The requirement is compliance with immigration law.

Expatriates may qualify for an exemption from pension fund contributions or for the benefits of a social security agreement.

They can also receive various fringe benefits in addition to salaries, which are usually collected in their home country. Foreign companies usually provide such benefits in accordance with the parent company’s policies. Employers use to grant employer-provided automobiles, housing and bonuses.
For each case, the social security, labor and tax treatment to be given to the abovementioned benefits must be analyzed taking into consideration the current laws in force, since under certain circumstances, the whole package of benefits is taxable in our country.
Real estate is normally held in Argentina in the form of freehold property; long-term leaseholds are not at all common.

The only restriction on the ownership of real estate by foreign owners is with respect to land in the immediate neighborhood of the Argentine borders, where such ownership is subject to prior government approval, which may be withheld.

The funds remitted from abroad for the purchase of real property by a foreign resident shall be exempted from the regulations on restricted deposits established by the Argentine Central Bank (BCRA). For such purpose, on the foreign exchange settlement date, the title deed must be signed in favor of the non-resident.

The title to real estate is proven by cadastral registration; to acquire real estate, the transfer of property must be executed before a Notary Public, who proceeds to register the title with the cadastral register. Prior to the transfer, the Notary Public will have requested the pertinent information about who is registered as owner and the status of property taxes, municipal taxes, water dues, as well as any mortgages, restrictions, etc. recorded, from the cadastral office; the issuance of this information blocks the property in question for a short period of time from being transferred to somebody else, giving the Notary Public time to register the new owner.

All taxes on the property must be fully paid up at the time of transfer; otherwise, the Notary Public withholds the necessary funds to cancel all debts on the property.

The cost of property transfers varies from province to province, as the taxes as well as the regulations on the fees of the Notary Public are of a provincial nature. For property in the City of Buenos Aires, which for all practical purposes may be considered another province, the total purchase expenses may be estimated at 5 - 6% of the purchase price. For the Province of Buenos Aires the percentage may be estimated at 7 - 8%.

The disposal of real estate, if owned by a company, is subject to the normal income tax on profit. The proceeds of the sale of real estate by Argentine residents being private persons are not subject to income tax on profit, but to a flat sales tax of 1.5% on the sales price.
Chapter 11
Competitivity agreement law

In an effort to make certain economic sectors more competitive, the Government has introduced this law. Companies that fulfill certain requirements that vary from sector to sector, but are in general to keep the same level of economic activity for a certain period of time and to keep the same level of employees for the same period.

Companies that fulfill these requirements have to file a special form and may be granted some benefits such as: exemption from minimum presumed income tax, tax on interest paid and financial cost of the company’s indebtedness. Additionally, tax payers who can obtain the benefits of this law will be able to use the social security taxes as a credit against their VAT liability; however such benefit was suspended until 2003.

Due to the economic crisis, the benefits have been limited. Therefore, social security taxes can not be used to offset VAT liabilities.

For further information:

KPMG
Bouchard 710, Piso 1º
C1106ABL Buenos Aires – Argentina
Telephone: 54 (11) 4316-5700
Telefax: 54 (11) 4316-5800