



# Doing business in Argentina





# Contents

PAGE	CHAPTER
<b>01</b>	<b>Background</b>
01	Argentina at a glance
<b>02</b>	<b>Business Environment</b>
02	Currency controls and export tariffs
03	The New Argentine Civil and Commercial Code
03	Types of business entities
<b>05</b>	<b>Taxation</b>
05	Business taxation
07	Personal taxation
<b>08</b>	<b>Employment regulation and social security</b>
09	Social security contributions

The information contained in the publication is provided for general purposes only and does not constitute professional accounting, tax, business or legal advice. It may not be applicable to specific circumstances. Laws and regulations change rapidly, so information contained herein may not be complete or up-to-date. Please contact your professional adviser before taking any action based on this information. Published in July 2016.

# 01

## Background



### Argentina at a glance

#### Government and administration

Under the Argentine Constitution of 1853, the country is a constitutional federal republic (República Argentina), comprising 24 provinces including the City of Buenos Aires (the federal capital), all of which are autonomous and governed by a directly elected governor. Each province has its own constitution, and elects its own governor, legislator and judges to the federal courts. The legislature comprises the National Congress (Senate) and the House of Representatives. The judiciary comprises the Supreme Court and federal courts.

#### Official language

Spanish

#### GDP

US\$ 594.25 billion (Instituto Nacional de Estadística y Censos, INDEC)

#### GDP per capita

US\$ 13,778

#### Time zone

UTC -3

#### Currency

Argentine peso (ARS)

#### US\$/ARS exchange rate

US\$1 / 13–16 ARS

#### Inflation rate

43.65% (May 2016)

#### Unemployment rate

7.18%

#### Population

43,131,966 (INDEC, July 2015)

#### Location and geography

Spanning an area of 2,780,400 km<sup>2</sup>, Argentina is located in the south of Latin America, bordered by Bolivia, Brazil, Chile, Paraguay and Uruguay. The inclusion of the South Atlantic Ocean and the Antarctic Sector islands (over which Argentina is currently claiming sovereignty) would increase the country's total area to 3,761,274 km<sup>2</sup>.

#### Natural resources

As well as the fertile agricultural land of the Pampa Húmeda (extending to some 170 million hectares), Argentina's natural resources include the forests of north-eastern Argentina and western Patagonia, and the mineral deposits of the Andes, including gold, silver, zinc, copper, oil, magnate lithium, uranium and sulphur. The country holds major reserves of oil, natural gas and shale gas.



# 02

## Business Environment



### Introduction

Argentina has the third-largest economy in Latin America (after Brazil and Mexico), estimated by the Instituto Nacional de Estadística y Censos (INDEC) to be US\$ 594.25 billion.

While the country's economy remains rooted in agriculture, mandatory education up to the age of 18 means the country offers a highly skilled population, with a literacy rate of 98%. The country has advanced nuclear and satellite industries. Argentina is the fourth-largest oil producer in Latin America (after Brazil, Venezuela and Colombia).

Since 1995, Argentina has been a member of the Mercado Común del Sur (Mercosur Trade Pact or MERCOSUR), a customs union including Brazil, Paraguay, Uruguay and, from 2012, Venezuela. With a total population of almost 278 million, the GDP of the MERCOSUR customs union is estimated at US\$5,138 billion. Chile, Colombia, Ecuador and Peru are associate members of MERCOSUR, with Bolivia in the process of becoming a full member.

While MERCOSUR does constitute a free trade zone between these countries, certain exemptions (including in the sugar industry and automobile sectors), external tariffs on many products, and the absence of any free movement of capital, services and labour mean it cannot yet be described as a 'common market'.

Argentina continues to make efforts to reduce its fiscal deficit (through reductions in benefits and subsidies, together with tax and other reforms), with the new administration under President Mauricio Macri committed to reducing the country's current 43.65% inflation rate to single figures within the next four years.

Argentina has bi-lateral investment treaties in place with most leading economies, and is a member of the Multilateral Investment Guarantee Agency (MIGA), the Overseas Private Investment Committee (OPIC), and the International Center for Settlement of Investment Disputes (ICSID).

### Currency controls and export tariffs

Stringent currency control and exchange rate policies introduced in 2011 in an attempt to prevent capital flight have, in early 2016, been withdrawn, with the lifting of all currency controls and an exchange rate policy that provides for the intervention of the Argentine Central Bank (Banco Central de la República Argentina) in the event of major fluctuations. Enterprises and individuals have complete autonomy in conducting transactions in foreign currencies. Foreign currency arising from export activities must be brought into the country within 180 days of collection abroad. Loan facilities originating abroad must be fully documented under contract, and cannot be cancelled before 120 days have expired following signature.

Argentina has, historically, maintained import duties on a range of products, averaging 16.5–23%. Recent increases in agricultural commodity prices had resulted in the previous government imposing export duties on a range of products, ranging, for example, from 5% up to 30% on the export of soya beans, one of the country's major agricultural commodities. The recently elected government of President Mauricio Macri has made clear its commitment to reducing these, as soon as public finances allow.

Argentina has two customs zones:

- a) The Common Customs Zone, comprising the Argentine mainland, within which all current customs, tariff and non-tariff regulations are enforced; and
- b) the Special Customs Zone, delineated by the Isla Grande de Tierra del Fuego.

All import duties on consumer products outside of MERCOSUR cannot exceed 75% of duties for the same products within the Common Customs Zone. The Special Customs Zone enjoys exemption from various federal taxes, with a specific tax regime between the Special and Common Zones.

# 02

## Business Environment

*(continued)*

### The New Argentine Civil and Commercial Code

The former Argentine Civil Code (1871) and Commercial Code (1862) were replaced with a new Civil and Commercial Code (Código Civil y Comercial de la Nación, 2015) with effect from 1 August 2015, introducing major regulatory changes governing real estate, intellectual property, trusts, insurance and arbitration.

The New Civil and Commercial Code introduced amendments to the Commercial Companies Law No. 19,550, which became the General Companies Law. One major change introduced under the new General Companies Law was the introduction of the single-shareholder company (see below).

Other changes established under the Civil and Commercial Code include:

- The regulation of Associative Contracts, governing:
  - the conduct of an ad-hoc business;
  - groups collaborating on a specific project;
  - Transitory Union of Enterprises (UTE) (see below); and
  - a cooperative partnership.
- Irregular partnerships: arrangements which differ from standard legal requirements but are legally binding on partners and third parties knowingly entering into such partnership.

### Types of business entities

Foreign investors in Argentina enjoy the same legal status as Argentine nationals. Any investor wishing to establish a legal entity is required to register with the Registro Público de Comercio. The organisation responsible for managing the registration and regulation of any legal entity is the Inspección General de Justicia (IGJ).

Entities issuing shares or engaging in other public offerings are governed by the by the Comisión Nacional de Valores (CNV) rather than the IGJ. Financial entities are regulated by the Banco Central de la República Argentina (BCRA), insurance companies by the Superintendencia de Seguros de la Nación (SSN), and labour insurance companies (Aseguradoras de Riesgos del Trabajo or ART) by the Superintendencia de Riesgos del Trabajo (SRT).

Where the share capital of a joint-stock company (corporation) or limited liability company exceeds ARS10 million it is subject to the “permanent control regime” as prescribed under the Commercial Companies Law No. 19,550, section 299, requiring the establishment of a collegiate Board of Directors (comprising at least three responsible members, together with one substitute) and a Sindicatura (comprising just one responsible member and one substitute).

Where share capital is issued the law provides for the issuance of non-endorsable nominative shares. Anonymity is maintained to the extent that the only agency able to discover a shareholder’s identity is the Argentine tax authority, the Administración Federal de Ingresos Públicos (AFIP). Such anonymity applies for all other purposes (financial, commercial, civil, etc.).

Of the various types of legal entities available, those most frequently used for the purposes of establishing operations in Argentina are a local entity with foreign shareholders, or a branch. Possible structures include:

- branch of a foreign entity;
- joint-stock company or corporation (Sociedad Anónima (SA));
- single-shareholder corporation (Sociedad Anónima Unipersonal (SAU));
- limited liability company (Sociedad de Responsabilidad Limitada (SRL));

#### *Branch of a foreign entity*

Any organisation wishing to establish a branch of a foreign entity must register with the Registro Público de Comercio, providing evidence of such company's registration abroad together with minutes of a board meeting of the parent company authorising the registration of a branch in Argentina and appointing a legal representative. A branch must also establish domicile in Argentina.

In terms of legal, audit and regulatory compliance, branches are treated in the same way as a company (SA) under regulation by the Inspección General de Justicia (IGJ). A branch is required to maintain separate accounting records from its parent company.

#### *Joint-stock company or corporation (Sociedad Anónima (SA))*

The establishment of a corporation (Sociedad Anónima (SA)) requires a minimum of two shareholders (who may be Argentinian or foreign, but who must each own a minimum share of 5–10%) and a minimum investment of ARS 12,000. The Board of Directors (which must have at least two officers, one with effective responsibility and one a substitute) may comprise Argentinian and foreign members, but the President of the company must be resident in Argentina. A Sindicatura is not mandatory except for entities with capital in excess of ARS 10 million. Public corporations, financial entities, insurance companies, etc., require a Collegiate Sindicatura (comprising three members, all of whom must be lawyers or public accountants and at least one substitute).

#### *Single-shareholder company (Sociedad Anónima Unipersonal (SAU))*

The Sociedad Anónima Unipersonal (SAU) is very similar to the SA. It differs in that shares cannot be made available through a public offering, and requires a minimum investment of ARS 100,000. A SAU must have a Board of Directors with at least three members, as well as a Sindicatura, and is subject to the same tax compliance obligations as a SA. A SAU cannot own shares in another SAU.

#### *Limited liability company (Sociedad de Responsabilidad Limitada (SRL))*

A limited liability company (SRL) is similar to a corporation, but differs in that membership is limited to 50 individual partners (individuals or entities). A SRL cannot make a public offering. The company's incorporation documents must be amended if members change. Members are liable only to the extent of the company's charter capital. Members are not subject to any restrictions on nationality or residence and, while the deed of incorporation may place restrictions on the transfer of shares, it cannot prohibit them. A Managing Director (resident in Argentina) must be appointed, although this individual need not be a partner.

#### *Transitory Union of Enterprises (UTE)*

This is the local equivalent of a "joint venture" contract. Two or more entities act as partners in the management of a specific project, with the UTE ending once the project is over.



# 03

## Taxation



### Business taxation

The national tax authority in Argentina is the Administración Federal de Ingresos Públicos (AFIP).

Businesses incorporated in Argentina are subject to a range of federal and local taxes – the majority of business taxes being collected by federal government. The country's 24 provinces are responsible for collecting certain taxes, including gross income tax (turnover tax), stamp duty, inheritance tax (in Buenos Aires and the Entre Rios province only) and real estate taxes, with municipalities responsible for levying certain local contributions to public advertising, weights and measures, and public hygiene, cleaning and lighting.

One of the most significant local taxes is the 'turnover tax', levied by each of the provinces as well as the city of Buenos Aires, applied on income arising from activities undertaken in those localities. Double taxation provisions are in place to prevent this tax being paid in more than one locality.

### Income Tax

#### Residence

Entities incorporated in Argentina, and branches of foreign companies, are deemed to be resident for tax purposes. Individuals born in Argentina are deemed to be residents, unless spending more than 180 days per year abroad.

#### Year End

The tax year-end for entities is the same as the financial year-end. For individuals, the tax year-end is December 31st.

#### Sources of income

Argentine residents are taxed on worldwide income, while non-residents are taxed only on income of Argentine source.

Where profits are of Argentine source, income tax paid abroad is treated as a deduction against the tax base of the local income tax.

Where income obtained by an Argentine resident is of foreign source, the income tax paid abroad can be treated as an income tax credit.

Independently of these general concepts, where tax treaties to avoid double taxation are in place, rules established under such agreements are enforced.

#### Tax liabilities and rates

The standard corporate (income) tax rate is 35%. Tax losses accrued may be carried forward for a period of up to five years.

#### Tax on minimum presumed income (IGMP)

Resident companies, subsidiaries and branches are subject to a tax on minimum presumed income (Impuesto a la Ganancia Mínima Presunta, IGMP) based on such entities' assets at the end of their tax year. The standard rate is 1%, with entities liable for income tax or IGMP, whichever is higher. Any IGMP paid in excess of income tax liabilities can be carried forward for a period of up to 10 years.

### Capital gains

Capital gains made by companies are taxed under the income tax regime (at 35%). As regards individuals, sales of shares in entities not offered on the local stock market (and, in general, the international stock markets) are subject to income tax at a rate of 15% on profits arising from such transactions. Foreign beneficiaries (i.e., any non-residents achieving a gain on the sale of shares in a resident Argentine company) are liable for capital gains tax at a rate of 15% on the profit of such transactions.

### Dividends

In accordance with the amendments introduced by Law 27,260, dividends paid to individuals or foreign residents (whether individuals or entities) are no longer subject to withholding tax. Dividends paid to Argentine residents from foreign companies are subject to income tax at 35%. Provided such dividends are sourced abroad, where such beneficiaries' participation is 25% or more, the taxes paid on such income by the company, and the withholding tax attributable to the beneficiaries, are treated as a tax credit in terms of local income tax.

# 03

## Taxation

(continued)

### **Tax treaties**

Argentina has tax treaties in place with 15 major jurisdictions including Australia, Belgium, Bolivia, Brazil, Canada, Denmark, Finland, France, Germany, Italy, Norway, Spain, Sweden, Switzerland, The Netherlands, The Russian Federation and the United Kingdom but not, as yet, with the United States or Chile.

### **Anti-avoidance regulation and transfer pricing**

Argentina has regulations in place governing transfer pricing and thin capitalisation. Acceptable transfer pricing methodologies include comparable uncontrolled price, resale price, and cost plus, profit split, and the transactional net margin method. Arm's-length transactions should be thoroughly documented to satisfy the AFIP.

Interest deductions are disallowed where an entity's debt-to-equity ratio exceeds 2:1 and interest is paid to a controlling financial institution or creditor benefiting from a reduced withholding tax rate.

### **Tax incentives**

Certain incentives are available to companies engaging in reforestation, and in non-industrial activities (intended to develop underpopulated and/or tourist areas) in the provinces of Catamarca, La Rioja, San Juan, Mendoza, San Luis and Patagonia. Concessions are also available in the petrochemicals, mining, alternative energy, renewables and software industries.

### **Tax compliance**

The tax year correlates to a company's accounting year. Companies must make 10 advance payments, comprising the first of 25% of the preceding year's liability followed by subsequent payments of 8.33%, from the sixth month following the accounting year. Interest on late payments is applied at a rate of 3%, and penalties range from 50–100%.

### **Withholding taxes**

Non-resident individuals and entities benefitting from income or gains (other than dividends) deemed to derive from Argentina are subject to withholding tax at 35%. Various rates of presumptive net income apply, under which the effective tax rate can be substantially reduced: interest on certain loans, debts and time deposits being subject to a presumptive net income of 43%, royalties on technical assistance 60–80%, salaries of temporary employees in Argentina 70%, personal property leases 40%, real estate property leases 60%, and on the disposal of assets in Argentina 90%.

Where a tax treaty is in place between Argentina and the beneficiary's country, the withholding tax may be lower and, in some cases, effectively reduced to zero.

Equalisation corporate tax: those distributions of profits exceeding the taxable profit of the preceding fiscal year, minus income tax, are subject to withholding tax at a rate of 35% on dividends in excess of that limit.

### **Indirect taxes**

#### **VAT**

VAT (Impuesto al valor agregado (IVA)) is applicable at a general rate of 21%, with a reduced rate of 10.5% on certain essential goods and services including agriculture and food production, residential housing construction, medical services, utilities, and certain essential foodstuffs.

A higher rate of 27% is applied to telecoms, domestic gas supplies, water and industrial energy.

All companies registered for VAT are required to submit monthly returns (between the 10th and 12th of the following month). Non-resident companies cannot typically claim refunds on expenses in Argentina. Overpaid VAT may be refunded or carried forward.

VAT is not applicable to exports, and credit refunds are available on purchases. The export of services is exempt, provided such services have no economic effect within Argentina. Imports are subject to VAT at standard rates, applicable on import on receipt of payment for services rendered outside of Argentina, provided such services have economic effect in Argentina.

#### *Stamp duty*

This is a tax imposed by the provinces, applied at rates of around 1% on contracts. Notarisation of documents in real estate transactions can attract stamp duty of over 2.5%.

#### *Tax on bank transactions*

Credit and debit financial transactions are taxed at a rate of 0.6%. To date, 33% of the tax on credit transactions has been treated as an income tax credit. Congress is currently considering a modification to treat the full tax on bank transactions as a credit against income tax.

## **Personal taxation**

### ***Income tax***

Individuals resident in Argentina are subject to income tax ranging from 9–35% according to their net income in a tax year. Deductions are available for certain costs including medical expenses, donations, mortgage interest, etc.

Income arising from the sale or disposal of shares offered on the local stock market (in the near future also international stock markets), from bonds and letters issued by the Government of Argentina, from interest on savings accounts, and from certain investments in banks, are exempt from income tax.

Professional services delivered by a foreign beneficiary are subject to withholding tax at 24.5%. Foreign individuals working under contracts of up to five years on temporary visas are taxed only on their income in Argentina.

### ***Personal assets tax***

Individuals resident in Argentina owning assets worth more than ARS 800,000 are subject to a net wealth tax at a fixed rate of 0.75% in 2016; more than ARS 950,000, at a rate of 0.50% in 2017; and more than ARS 1,050,000, at a rate of 0.25% in 2018. Public bonds, saving accounts and some other financial investments are exempt. Shares and other holdings are taxed at 0.25%. This tax will be abolished from 1 January 2019. Non-resident individuals are subject to this tax at the same rates, but only on assets located in Argentina.

### ***Taxes on real estate***

Property owners pay an annual tax based on a valuation of land and buildings, and any improvements thereto.

### ***Inheritance tax***

Inheritance taxes apply only in Buenos Aires and Entre Rios provinces.



# 04

## Employment regulations and social security



The key regulation governing employment in Argentina is the Labour Contract Law No. 20,744.

Employees may be engaged on fixed-term or standard contracts. Standard contracts include a three-month trial period during which either party may terminate the contract on 15 days' notice.

From June 2016 the minimum wage in Argentina is ARS 6810: this is due to increase to ARS 7560 in September 2016, reaching ARS 8060 in January 2017.

Employees are entitled to an annual bonus (aguinaldo), paid in two instalments in June and December, equivalent to 50% of the employee's highest monthly salary received over the preceding six months. Employers may make additional benefits available to employees, at their discretion. Once awarded, these cannot be withdrawn without the employee's consent.

Employees are entitled to annual paid vacations (depending on seniority) of 14 to 35 days per year. Employees are entitled to sickness leave on full pay, subject to presentation of an appropriate medical certificate. Statutory maternity leave provides for 45 days before and 45 days after birth, during which time salaries are paid by the government social security agency, the Administración Nacional de la Seguridad Social (ANSES).

**Social security contributions are as follows.**

<b>Tax rates</b>	<b>Paid by employer</b>	<b>Paid by employee</b>
Socail Security	14.32%	14.00%
Healthcare	6.00%	3.00%
Unemployment protection	1.11%	
Family allowance	5.56%	
Industrial accident insurance	5.00%	

*(These percentages apply to total gross salaries including taxable benefits (bonuses, commission, etc.))*

Where an employer is categorized as a small or medium-sized company these percentages decrease as shown below.

<b>Tax rates</b>	<b>Paid by employer</b>	<b>Paid by employee</b>
Socail Security	11.67%	14.00%
Healthcare	6.00%	3.00%
Unemployment protection	0.89%	
Family allowance	4.44%	
Industrial accident insurance	5.00%	

*(Such categorization depends on business activity and average annual turnover over the last three financial years. Exports compute at 50%.)*

Where a local company is controlled by one or more foreign companies, local and foreign turnover must be added together. Businesses are categorised as shown below (ARS).

<b>Category Sector</b>	<b>Agricultural</b>	<b>Industry &amp; Mining</b>	<b>Commerce</b>	<b>Services</b>	<b>Building Trade</b>
Micro	2,000,000	7,500,000	9,000,000	2,500,000	3,500,000
Small	13,000,000	45,500,000	55,000,000	15,000,000	22,500,000
Medium—1st tier	100,000,000	360,000,000	450,000,000	125,000,000	180,000,000
Medium—2nd tier	160,000,000	540,000,000	650,000,000	180,000,000	270,000,000

*(Depending on the location in which employees of the local company are working, social security charges paid by the employer can be reduced by up to 2.95%.)*





**Russell Bedford Argentina**

Consultoría - Outsourcing - Impuestos

Lima 287, 5° piso, 'A'  
C1073AAE - Buenos Aires, Argentina

T: +54 11 4381 0220  
E: [secretaria@russellbedford.com.ar](mailto:secretaria@russellbedford.com.ar)  
W: [www.russellbedford.com.ar](http://www.russellbedford.com.ar)

**Russell Bedford Argentina**

Auditoría - Consultoría Impuestos - Actuarial

Tucumán 829, 6° piso  
C1049AAQ - Buenos Aires, Argentina

T: +54 11 4328 5432  
E: [info@russellbedford.com.ar](mailto:info@russellbedford.com.ar)  
W: [www.russellbedford.com.ar](http://www.russellbedford.com.ar)

Russell Bedford Argentina is a member of  
Russell Bedford International, a global network  
of independent professional services firms.