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Global Tax Alert

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Argentine tax reform bill sent to Congress

On 17 December 2019, the Argentine Executive Power sent a tax reform bill, the "Social Solidarity and Production Recovery in the context of the Public Emergency Law," to the House of Representatives. The bill would modify the income tax, personal assets tax, and tax on debits and credits in local bank accounts rules. It also would establish a new tax on certain purchases of foreign currency and a new tax debt settlement plan for certain taxpayers, and it authorizes the Executive Power to increase export duties.

Once approved by the House of Representatives, the Senate must approve the bill. Once approved by the Senate, the bill must be signed by the Executive Power and published in the *Official Gazette* for it to be enacted. The bill is expected to be enacted before year end and would be effective 1 January 2020.

Corporate income tax rate and dividend withholding tax

The bill would maintain the corporate income tax rate of 30% for one more year for tax years starting 1 January 2020, instead of reducing the rate to 25% as established under current law. The bill would also maintain the dividend withholding tax rate of 7% for one more year for profits accrued during tax years starting 1 January 2020, instead of applying the 13% rate established under current law.

Inflation adjustment for income tax purposes

Currently, the negative or positive inflation adjustment applicable to Argentine entities is allocated as 1/3 to the first tax year and 2/3 to the following two tax years. For tax years 2019 and 2020, the inflation adjustment factor is allocated equally over six years. For tax years beginning on or after 1 January 2021, taxpayers may deduct 100% of the negative or positive inflation adjustment in the year in which the adjustment is calculated.

Taxation on interest from certain Argentine investments

The bill would restore the income tax exemption Argentine individuals may claim for interest arising from term deposits in Argentine banks, investments in negotiable obligations (in Spanish, Obligaciones Negociables), certain common investments funds, debt titles of financial trusts and similar contracts, bonds, and certain other investments.

Personal assets tax

For companies, the bill would increase the tax on the net equity value of stock owned by Argentine individuals and foreign individuals or entities from 0.25% to 0.50%.

For Argentine individuals, the bill would maintain the minimum not subject to tax in ARS2m (approx. US$31,800) and would increase the progressive tax rates as follows: (1) 0.50% (instead of the current 0.25%) for the amount of assets exceeding the minimum not subject to tax up to ARS3m (approx. US$47,600); (2) 0.75% (instead of the current 0.50%) for the amount of assets exceeding ARS3m to ARS6.5m (approx. US$103,200); (3) 1% (instead of the current 0.50%) for the amount of assets exceeding ARS6.5m to ARS18m (approx. US$285,700); and (4) 1.25% (instead of the current 0.75%) for the amount of assets exceeding ARS18m.

The bill also would authorize the Executive Power to increase the rate applicable to assets held outside Argentina by Argentine individuals up to a maximum of 2.5%, and to reduce that rate if those individuals repatriate financial assets held abroad.

For foreign individuals with assets in Argentina, the bill would increase the tax rate from 0.25% to 0.5% for assets held in Argentina. The foreign individuals would have to designate a local substitute taxpayer to pay the tax.

Tax on debits and credits in local bank accounts for cash withdrawals

For Argentine entities not considered as micro and small enterprises, the bill would subject cash withdrawals from local bank accounts to a tax of 1.2% on those debits.

New tax for an inclusive and supportive Argentina

The bill would establish a new tax that would apply for five years to the following transactions:

- Purchases of foreign currency (i.e., "constitution of foreign assets") without a specific purpose by Argentine residents
- Purchases of goods or services from abroad or purchases by Argentine residents abroad through credit, debit or purchase cards, including cash withdrawals made outside Argentina
- Purchases made online through portals or virtual websites in foreign currency
- Purchases of services rendered abroad through Argentine travel agencies
- Purchases of ground, air and water passenger services with destinations outside Argentina

Both Argentine individuals and entities would be subject to the tax. The tax rate would be 30% and would apply to the amount of the taxable purchases. Argentine financial institutions, credit card issuers, travel agencies and transport companies would act as collection agents of the tax, which would be withheld at the time of payment for the purchases.

New tax debt settlement plan for micro and small enterprises

The bill would establish a new regime for settling outstanding tax debts as of 30 November 2019, for micro and small enterprises, including federal taxes, social security taxes (certain exceptions apply), and import and export duties. The bill also would allow tax liabilities subject to administrative or judicial claims to benefit from this regime. The deadline to apply for the settlement plan would be 30 April 2020.

The plan would provide the following benefits:

- Exemption from fines and penalties not yet determined as of the date of entering into the regime
- Total or partial exemption from compensatory and punitive interest

- Reduction of up to 15% of the consolidated tax debt, depending on the payment conditions chosen (e.g., cash, installment plan)
- Possible payment plan of up to 120 monthly installments, with a monthly interest rate of 3% for the first 12 months

Export duties

The bill would allow the Executive Power to increase export duties up to 33% for exports of soybeans, 15% for exports of other products that were not subject to export duties as of 2 September 2018, and 5% for industrial products and services.

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