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Global Tax Alert

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Argentine Congress to take up bill with changes to promotional regime for knowledge-based economy

On 19 February 2020, the Argentine Executive Power sent a bill to the House of Representatives proposing changes to the promotional regime for the knowledge-based economy, which is currently suspended. For more information on this regime, see EY Global Tax Alerts, *Argentina enacts promotional tax system for the knowledge-based economy*, dated 14 June 2019, *Argentina issues regulations on promotional regime for knowledge-based economy*, dated 22 October 2019, and *Argentina suspends promotional regime for knowledge-based economy*, dated 27 January 2020.

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.

Background

Law 27,506 created a promotional tax system for the knowledge-based economy, which will be in force from 1 January 2020 through 31 December 2029. Among the regime's benefits are a reduced income tax rate of 15%, reduced social security contributions, an exemption from value-added tax (VAT) withholding and reverse withholding, and a tax credit bond to offset federal taxes. Taxpayers may also credit foreign income taxes against Argentine income taxes due on Argentine-sourced income.

Argentina's Ministry of Productive Development suspended the regime on 20 January 2020.

Proposed changes

Requirements

The bill proposes several changes to the requirements with which companies must comply to participate in the regime. Specifically, the bill would require micro enterprises to invest 3% of their total salaries in training for their workforce or 1% of sales in research and development (R&D). Small and medium-sized enterprises would have to invest 5% of their total salaries in training for their workforce or 2% of sales in R&D. All other companies would have to invest 8% and 3%, respectively. Previously, companies had to make an 8% investment for training the workforce or 3% in R&D, regardless of the size of the company.

The bill also would require (1) micro enterprises to derive at least 4% of their total revenues from the export of goods or services, (2) small and medium-sized enterprises, 10%, and (3) all other companies, 13%. Previously, all companies had to comply with the 13% threshold, regardless of their size.

The requirement that companies must derive at least 70% of their revenues from the promoted activities could be waived if the companies can prove that those activities are carried out intensively to integrate knowledge derived from scientific and technological developments in their products and services, with the objective of adding value and innovation (to be further regulated). Self-development of technology for the company's use or for the use of related entities would not be included in calculating the 70%.

Companies registered in the regime would have to revalidate their compliance with the regime's requirements every two years, and those requirements would increase in accordance with regulations to be issued.

Benefits of the regime

The bill proposes the following changes to the regime's benefits:

- Replacing the 15% income tax rate with a new calculation that involves reducing the income tax due by 60% after applying a 30% income tax rate to the income derived from the promoted activities
- Replacing the credit for foreign income taxes paid with a deduction
- Creating quotas for tax stability agreements that would be distributed by the tax authorities beginning in 2021, as set out in the Annual Budget Law
- Prohibiting reductions in Social Security contributions for registered employees

Additionally, the bill would establish a tax credit bond equivalent to 70% of the amount payable as Social Security contributions, which could be used to offset federal taxes, such as VAT and income tax. This benefit would apply only for the employees involved in the promoted activities, but the benefit would be limited to a certain number of employees. Previously, the tax credit bond was equivalent to 1.6 times the amount of contributions paid to all employees, with no limit on the number of employees.

The tax credit bond would be 80% of the amount of Social Security contributions paid on new hires of women, certain postgraduate professionals, disabled people, residents in unfavorable zones and people who were previously beneficiaries of social programs.

In addition, the bill would require companies to pay an annual contribution of no more than 4% (previously, 1.5%) of the tax savings obtained from the promotional regime. The annual contribution would go towards a fund for the promotion of the knowledge-based economy.

Implications

Companies doing business in Argentina and multinational groups interested in the Argentine market should monitor the approval and entry into force of the changes to the promotional regime for the knowledge-based economy and assess the potential benefits to their operations and activities.

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