

Argentina amends promotional tax system for knowledge-based economy

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On 26 October 2020, Argentina enacted Law 27,570, which amends the promotional regime for the knowledge-based economy by imposing new requirements to qualify for the regime and modifying certain benefits.

Background

In June 2019, Argentina enacted Law 27,506, which established the promotional regime for the knowledge-based economy. The regime was suspended by the Government in January 2020 with the intention of introducing certain changes. For more information, see EY Global Tax Alerts, [Argentina enacts promotional tax system for the knowledge-based economy](#), dated 14 June 2019 and [Argentina issues regulations on promotional regime for knowledge-based economy](#), dated 22 October 2019.

Overview

The objective of the regime is to promote knowledge-based and digital activities in Argentina that result in the manufacturing of goods, the provision of services or the improvement of processes.

The following activities are included in the promotional regime: software development and related activities (e.g., cloud computing, software as a service, help-desk services exported to foreign markets), audio-visual productions, biotechnology, geologic services, professional services qualifying as exports,

nanotechnology, satellite and aerospace industries, artificial intelligence, robotics, internet of things (i.e., extension of internet connectivity to physical devices), medicine and agriculture-related investigations and experimental developments.

Under the amended regime, professional services qualifying as exports include legal, accounting, management, public relations, audit, tax and legal advisory, translation and interpretation services, human resources, advertising, design, engineering and architectural services.

Requirements

To participate in this regime, resident companies must: (1) derive at least 70% of their revenues in the previous year from the promoted activities; (2) enroll in a registry; and (3) comply with at least two of the following requirements (except for exporters of services, which must comply with requirements 1 and 2 below):

1. Obtain a certification of continuous improvement on products, services or processes, according to recognized quality standards
2. Invest a minimum percentage per year of total salaries in training for their workforce (1% in the case of micro enterprises, 2% in small and medium-sized enterprises or 5% for big enterprises) or invest a minimum percentage per year of total sales in research and development (1% in the case of micro enterprises, 2% in small and medium-sized enterprises or 3% for big enterprises)
3. Derive a minimum percentage of their total revenues from the export of goods or services originated in the promoted activities (4% in the case of micro enterprises, 10% for small and medium-sized enterprises or 13% for big enterprises)

Tax benefits

Eligible companies will receive the following benefits:

- ▶ A 60% reduction in the income tax rate for micro and small enterprises, a 40% reduction for medium-sized enterprises and a 20% reduction for big enterprises, applicable on the income originated in the promoted activities (which, considering the current general rate of 30%, would result in effective income tax rates of 12%, 18% and 24%, respectively)
- ▶ Stability for the taxpayer's tax liability derived from the regime's provisions

- ▶ A tax credit bond that equals 70% of the amount payable as Social Security contributions on employees working in the promoted activities (80% if those employees are women, postgraduates, disabled and other specific groups), and:
 - Applies to up to 3,745 employees (and to new hires for promoted activities that increase the total headcount)
 - Is not transferable
 - May be used to offset federal taxes, except income tax (only exporters of services or goods originated in the promoted activities will be allowed to offset income tax with this bond)
 - Expires within 24 months of its issuance

Additionally, the income derived from the tax credit bond will not be subject to income tax. The total amount of the bonds issued will be subject to a certain quota per year established by the Government.

Eligible companies also may be able to deduct the foreign income taxes imposed on Argentine-sourced income (the previous regime allowed eligible companies to credit those taxes against local income taxes on Argentine-sourced income). Exporters of the promoted activities also will be exempt from value-added tax withholdings and reverse withholdings.

The regime will be in force until 31 December 2029.

Companies participating in the promotional regime will: (1) be subject to reporting obligations and audits conducted by the tax authorities; (2) have to maintain or increase their headcount; and (3) be required to pay a fee that will not exceed 4% of the tax savings obtained from the regime.

Special Software Promotion Law 25,922

The law allows companies that benefited from the software promotion regime under Law 25,922, which expired on 31 December 2019, to apply for the knowledge-based economy promotional regime retroactively since 1 January 2020.

Implications

Companies doing business in Argentina and multinational groups interested in the Argentine market should evaluate the new promotional regime and assess the potential benefits to their operations and activities.

For additional information with respect to this Alert, please contact the following:

Pistrelli, Henry Martin & Asociados S.R.L., Buenos Aires

- ▶ Carlos Casanovas carlos.casanovas@ar.ey.com
- ▶ Gustavo Scravaglieri gustavo.scravaglieri@ar.ey.com
- ▶ Ariel Becher ariel.becher@ar.ey.com
- ▶ Pablo Baroffio pablo.baroffio@ar.ey.com

Ernst & Young LLP (United States), Latin American Business Center, New York

- ▶ Ana Mingramm ana.mingramm@ey.com
- ▶ Pablo Wejcman pablo.wejcman@ey.com
- ▶ Enrique Perez Grovas enrique.perezgrovas@ey.com
- ▶ Juan Ignacio Pernin juan.ignacio.pernin@ey.com

Ernst & Young Abogados, Latin American Business Center, Madrid

- ▶ Jaime Vargas jaime.vargas.c@es.ey.com

Ernst & Young LLP (United Kingdom), Latin American Business Center, London

- ▶ Lourdes Libreros lourdes.libreros@uk.ey.com

Ernst & Young Tax Co., Latin American Business Center, Japan & Asia Pacific

- ▶ Raul Moreno, *Tokyo* raul.moreno@jp.ey.com
- ▶ Luis Coronado, *Singapore* luis.coronado@sg.ey.com

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EYG no. 007448-20Gbl

1508-1600216 NY

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