

Global Tax Alert

News from Americas Tax Center

Argentina enacts promotional tax system for the knowledge-based economy

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On 10 June 2019, Argentina enacted Law 27,506, which establishes a promotional regime for the knowledge-based economy. The promotional regime will be in force from 1 January 2020 to 31 December 2029. Among the regime's benefits is a reduced income tax rate of 15% for eligible taxpayers and activities. For more information on the proposal, see EY Global Tax Alert, [Argentina's Executive Power proposes bill to promote knowledge-based economy](#), dated 22 April, 2019.

Overview

The objective of the regime is to promote knowledge-based and digital activities 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.

Requirements

To participate in this regime, resident companies have to: (1) derive at least 70% of their revenues from the promoted activities; (2) enroll in a registry; and (3) comply with at least two of the following requirements:

- ▶ Obtain a certification of continuous improvement on products, services or processes, according to recognized quality standards
- ▶ Invest at least 3% of sales in research and development or invest at least 8% of total salaries in training for their workforce
- ▶ Derive at least 13% of their total revenues from the export of goods or services (professional services companies must derive 70% of their total revenue from the export of services)

Tax benefits

Eligible companies will receive the following benefits:

- ▶ A 15% income tax rate
- ▶ The possibility of crediting foreign income taxes against Argentine income taxes due on Argentine-sourced income (the general system only allows foreign tax credits to offset taxes due on foreign-sourced income obtained by Argentine taxpayers)
- ▶ An exemption from value-added tax (VAT) withholdings and reverse withholdings
- ▶ Tax stability, which means the overall federal tax burden for the taxpayer cannot increase once the taxpayer applies for the regime (could be extended to provincial and municipal jurisdictions that adhere to the promotional system)

- ▶ A reduction in Social Security contributions for each employee that is duly registered
- ▶ A tax credit bond equivalent to 1.6 times the amount payable as Social Security contributions, which could be used to offset federal taxes, such as VAT and income tax, without subjecting the obtained savings to income tax

Companies participating in the promotional regime will be subject to reporting obligations and audits conducted by the tax authorities and will be required to pay a fee that will not exceed 4% of the tax savings obtained from the regime.

In addition, the law requires companies to pay an annual contribution not exceeding 1.5% of the tax savings obtained from the promotional regime. The annual contribution will go towards a fund for the development of entrepreneurship.

Special Software Promotion Law 25,922

The law allows companies currently benefiting from the software promotion regime under Law 25,922, which is due to expire on 31 December 2019, to apply for the knowledge-based economy promotional regime. Such companies will be given a special timeframe to comply with the requirements under the new regime.

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.

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