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Global Tax Alert

News from Americas Tax Center

Certain Argentine taxpayers subject to integral adjustment for inflation for local income tax purposes

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In April, May and June 2019, interannual inflation exceeded 55% in Argentina, which means companies that close their last tax year in one of those months must apply the integral adjustment for inflation for income tax purposes to those tax years.

Laws 27,430 and 27,468 established an integral inflation adjustment mechanism. The mechanism is triggered when the variation of the Consumer Price Index (in Spanish, *Índice de Precios al Consumidor nivel general* or IPC) supplied by the National Institute of Statistics and Censuses (in Spanish, *Instituto Nacional de Estadística y Censos* or INDEC), exceeds 55%, 30% and 15%, for tax years beginning on or after 1 January 2018, 2019 and 2020, respectively.

When companies apply the integral inflation adjustment mechanism, they must allocate one-third of any resulting negative or positive inflation adjustment to the tax year to which it corresponds, and the remaining two-thirds, in equal parts, to the following two tax years.

Companies with tax years ending in July through November 2019 should monitor the inflation rate. If the interannual inflation as of the month in which they close their tax year exceeds 55%, they will have to apply the integral inflation adjustment mechanism. For tax years ending in December 2019 through November 2020, the threshold for applying the integral inflation adjustment will be 30%.

According to certain court opinions issued by the Argentine Supreme Court of Justice, companies that closed their tax years before April 2019 may be able to apply the adjustment for inflation for income tax purposes if they can demonstrate that the calculation of income tax without the adjustment for inflation created an “excessive tax burden.” The tax authorities, however, may dispute the use of the integral inflation adjustment mechanism in these cases.

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