

Global Tax Alert

News from Americas Tax

Argentine taxpayers may be entitled to request reduced income tax prepayments due to application of integral adjustment for inflation

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Companies that will close their tax years in December 2019 and thereafter may qualify for a reduction in their income tax prepayments because the integral inflation adjustment mechanism has been triggered in Argentina.

Background

Laws 27,430 and 27,468 established an integral inflation adjustment mechanism that 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.

Reduction in income tax prepayments

As of August 2019, inflation since the beginning of the year has increased to 30.1%, which means companies that close their tax year in December 2019 and onwards must apply the integral adjustment for inflation for income tax purposes to those tax years.

Companies must make 10 monthly prepayments to be credited in their income tax return, which are calculated based on the tax for the previous tax year. Consequently, those prepayments may exceed the tax obligation of the tax year in which the adjustment for inflation will begin to be applied, because they are calculated based on the tax determined for a year in which the adjustment did not apply.

To prevent accumulating tax credits from exceeding the tax obligation, companies should evaluate whether they should request a prepayment reduction. Companies should be able to obtain a reduction if they project that their prepayments will exceed their tax obligation.

New precedent regarding allocation of adjustment for inflation

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.

In a recent precautionary measure, however, a federal judge provisionally allowed a taxpayer to allocate the negative adjustment for inflation totally to the tax year to which it corresponded, instead of allocating it to three tax years, as provided by the income tax law. The ruling must still be affirmed by the higher courts but could be a welcome precedent if affirmed.

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