

Global Tax Alert

News from Americas Tax

Argentina issues regulations on promotional regime for knowledge-based economy

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On 16 October 2019, Argentina's Executive Power published, in the *Official Gazette*, Decree 708/2019 (Decree 708) to implement the provisions of the promotional tax system applicable to the knowledge-based economy. For more information on this regime, see EY Global Tax Alert, [Argentina enacts promotional tax system for the knowledge-based economy](#), dated 14 June 2019.

Background

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

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. Some of the activities included in the promotional regime are software development and related activities, audio-visual productions, biotechnology, professional services qualifying as exports, nanotechnology, satellite and aerospace industries, artificial intelligence and robotics.

Decree 708

Decree 708 clarifies the requirements taxpayers must satisfy to access the benefits established by the promotional tax regime.

Under the regulations in Decree 708, taxpayers must satisfy a main activity requirement to qualify for the regime. The main activity requirement is satisfied if the taxpayer derives at least 70% of its annual revenues from one or more of the promoted activities listed in the law. In the case of professional services, a taxpayer will satisfy the main activity requirement if it derives at least 70% of its revenue from exports.

Eligible companies must enroll in a special registry according to the terms and conditions to be established by the Application Authority, which will annually verify compliance with the requirements.

The regulations also establish the mechanism for calculating the level of investment in research and development, and the level of employee retention, employee training and exports, among others.

The reduced social security contributions and the tax credit bond derived from the social security contributions paid will apply to all of a company's employees, beginning on the date the company enrolls with the special registry. In addition, once the company registers, the tax authorities will grant "exclusion certificates" for local VAT withholding and reverse withholding.

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. In addition, taxpayers should expect the Government to issue additional regulations to implement the promotional regime.

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