



Investment in Argentina

2018

Argentina





Contents

Preface	3
Chapter 1 Argentina - Country Outline	4
Chapter 2 Opportunities for international investors	10
Chapter 3 Exporting to/from Argentina	24
Chapter 4 Business Entities	26
Chapter 5 The Argentine Tax System	30
Chapter 6 Business Taxation	32
Chapter 7 Taxation of Foreign Beneficiaries	48
Chapter 8 Labor Legislation	50



Preface

***Investment in Argentina* is one of the booklets published by KPMG to provide information to those interested in investing in the country or doing business from abroad.**

As laws and regulations in Argentina are subject to be changed, we recommend that legal, accounting or other professional advice be obtained before deciding whether to invest in the country.

Investment in Argentina was prepared by KPMG, a partnership established under Argentine law and a member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, and is one of a series of guides that KPMG is publishing on investing in different countries.

This is the thirteenth edition of this booklet and includes all major changes in regulations occurred to this date.

This edition is based on information available up to June 2018.

June 2018.

1

Argentina - Country Outline

Geography and Climate

Argentina, officially the Republic of Argentina, is a large country of about 3.8 million square kilometers (1.45 million square miles). It borders Chile, Bolivia, Paraguay, Brazil and Uruguay.

To the west, the country is limited by the Andes Mountains, which in the north reach considerable altitudes. The central and eastern areas of the country are flat and fertile, but almost half of the country experiences rainfalls of less than 500 mm per year and a good deal of this area is desert-like.

The climate is mainly moderate to dry. The north of Argentina is subtropical and the south is arctic. The climate in Buenos Aires is pleasant, with many days of sunshine; summer months (December through February) are at times hot and humid. Very few businessmen stay in town during January and February; therefore, business visitors from abroad should plan their visits outside this period.

History and Government

During the time of the Spanish colony, Argentina had very little development. Only the northern area was developed as a supply base for Potosí, an important mining town in

current Bolivia. Buenos Aires was mainly founded to stop as far as possible the smuggling of goods through Río de la Plata, as Spain had decided that all commercial relations of the South American colonies should be channeled through Central America and Callao, the port of Lima. For this reason, the development of what is now Argentina started very late, only two centuries ago.

The first census was conducted in 1869 and at that time only 1,629,000 inhabitants were counted. However, this number did not include any native inhabitants (who were not taken into account). But even after correcting this omission, there were certainly less than 2 million inhabitants in Argentina at that time; in other words, just 145 years ago Argentina was virtually empty of inhabitants. From 1890 to 1915 Argentina showed an amazing development and millions of immigrants were drawn in from Europe.

The Argentine constitution was shaped on that of the USA, but not always in Argentine history have constitutional provisions been respected. Since 1983, the democratic government has been reestablished and the general feeling is that this time democracy will stay for good.

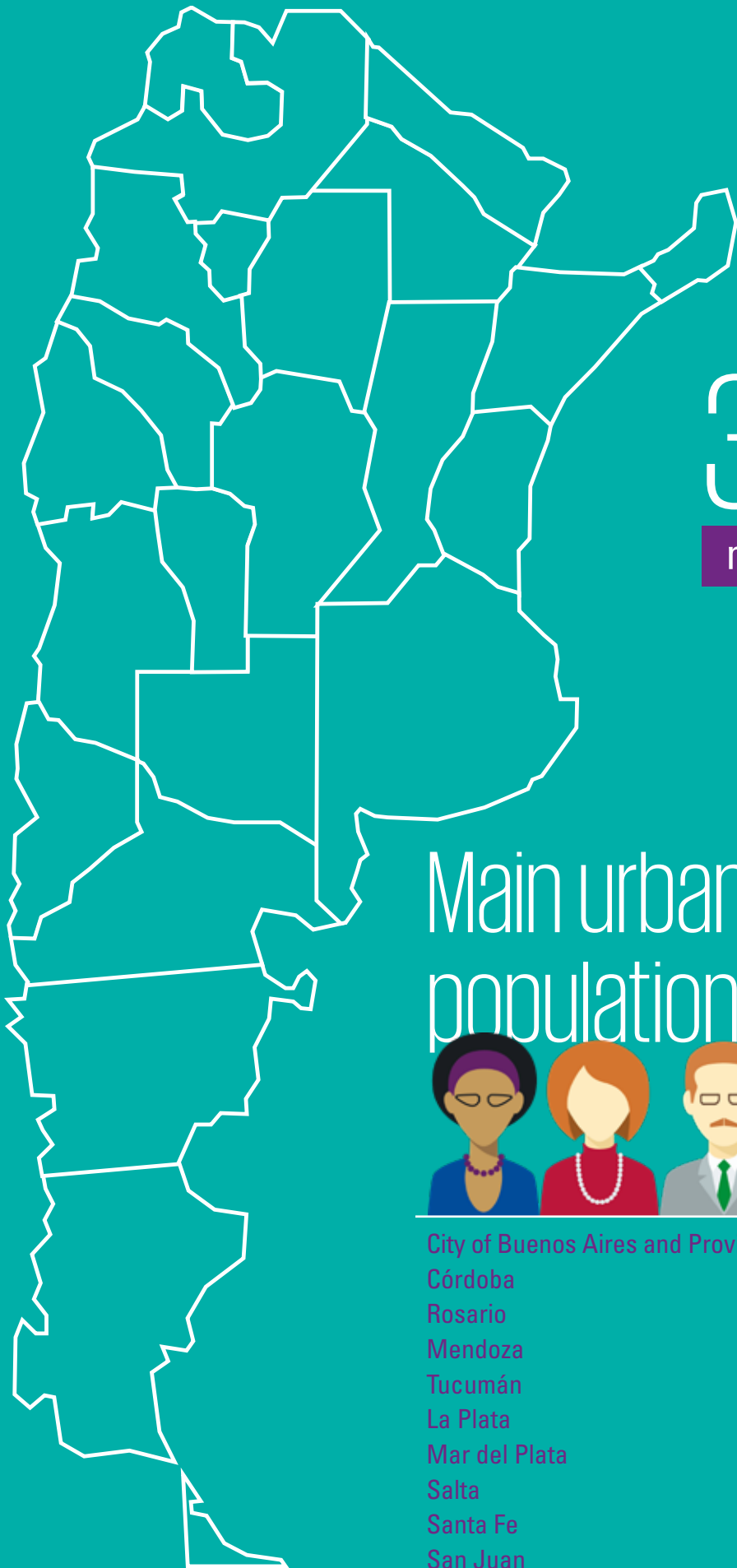
Population and Language

The population of Argentina may be estimated at about 43.9 million inhabitants (based on estimates from the original 40.1 million according to the 2010 census), mostly of European origin. Most of the inhabitants live in cities, the countryside being very sparsely populated. More than 15.6 million people live in the Province of Buenos Aires, and 2.9 million in the City of Buenos Aires (Ciudad Autónoma de Buenos Aires), which is also the main financial and business district of the country.

The growth rate of the population is 1.1 % per year. Its demographic profile is relatively young with a median age of 29.8 and a life expectancy at birth of 76 years.

The urbanization rate is high, with 93 % of the population living in metropolitan areas.

Spanish is the official language of Argentina. The cultural links with Spain are still very significant, but an important native culture has been developed and also the influence of other Latin American cultures is noticeable. However, the rather European character of Buenos Aires always surprises visitors from abroad.



3.8 km
millions square

Main urban areas by population (2010 Census)



City of Buenos Aires and Province of Buenos Aires	13,175,000
Córdoba	1,418,000
Rosario	1,272,000
Mendoza	912,000
Tucumán	822,000
La Plata	751,000
Mar del Plata	621,000
Salta	549,000
Santa Fe	513,000
San Juan	477,000

Education is compulsory in Argentina from 4 years old to high school. The National Government has put forward a bill, which is currently being analyzed, to raise compulsory education to 13 years in total (from the age of 5 to the age of 18). In the City of Buenos Aires, this bill has already been approved.

There are secondary schools all around Buenos Aires and in most of the important towns. There are numerous private schools in addition to those operated by the Government. Moreover, some of these schools are registered in examination programs, which qualify for application to certain foreign universities, mainly in the U.S.A. Many new universities have been created over the last decades. There are now over 121 universities, including public and private institutions.

Currency

On January 1, 1992, a new currency was introduced, the Peso (ARS), which currently remains as the official currency of the country. The exchange rate was very close to 1 Peso (ARS) = 1 US Dollar (USD). This new monetary unit was the result of the fourth monetary reform introduced in 1970. As a consequence of the high inflation rates prevailing in recent decades, 13 zeroes have been chopped off from the currency since January 1970.

In response to political and economic uncertainties in Argentina, on January 7, 2002, the Argentine Government announced an official abandonment of the "peg" and a devaluation of the Peso, adopting the current floating system.

Visa Requirements

Upon an international assignment, every assignee travelling to Argentina to perform activities other than tourism or leisure purposes must apply for the appropriate category and benefit conferred by the Immigration Office in Argentina or Consular Authority in the country of residence. However, as of April 2017, OECD (Organization for Economic Co-operation and

Development) member countries are exempt from the Argentine consular visa requirement when the entry into our country is made on a transitional basis and for a period of up to NINETY (90) days, under the provisions of Section 24 of Law No. 25871, whenever the reasons for admission involve:

- a) The development of any unpaid activity, or
- b) The carrying out of business activities or performance of commercial or economic transactions, at one's own risk or with one's own capital, or with an interest in companies or legal entities that perform such activity, or on behalf of them, as provided for in Section 1 of Provision No. 1171, as amended, issued by the Immigration Office in Argentina on June 29, 2010 (Resolution No. 137-E.2017).

Work Permits

There are three categories of residences for Argentina:

- **Transitional residence:** This type of residence is for those foreigners remaining in the country for a short period of time, generally less than 3 months. There are two kinds of transitional residences: technical residence and business residence.
- **Temporary residence:** This type of residence is for those foreigners who need to live in the country for a long period of time. They are able to work, study, live, etc. Mostly, the following categories are required: Work residence, intra-company transfer residence, family reunification residence, Mercosur agreement.
- **Permanent residence:** This type of residence is for those foreigners who want to live in the country permanently. Under this residence, foreigners can work, study, live, etc.

Employers and employees who violate the above rules are subject to penalties. Further, employers are legally obliged to comply with social security regulations and must make social security payments, except for foreign professional, scientific or technical research personnel hired

for a maximum of two years and employees from countries that have signed social security agreements with Argentina. These expatriates can ask for an exemption.

To obtain temporary or permanent resident status, foreigners must file personal documentation with the immigration authorities from host and home countries.

Registration of the Local Company

Renure is the national registry where all the local companies requiring foreign staff must be enrolled in order to require the type of residence involving a local company. The requesting person (private or state, individual or legal entity) must be registered with Renure.

Foreign Exchange Regulations

In Argentina, exchange control regulations apply to the purchase and sale of foreign exchange. Visitors holding foreign bank accounts can obtain Pesos through an automated teller machines.

Cost of Living

Argentina has been, generally speaking, an expensive country. Only food, public transportation and cabs are comparatively economical. Due to the recent devaluation, prices have decreased dramatically compared to foreign currencies; however, this situation may not continue due to inflationary pressures.

Housing

Housing in Buenos Aires is rather expensive for expatriates, as they usually wish to live in fashionable areas where they can find an abundant supply of services, including foreign schools. However, any expatriate willing to buy a house or a flat may still be able to find a home at a price lower than that charged in other big cities. We do not refer to housing elsewhere in Argentina as conditions vary greatly among different areas, and most expatriates settle in Buenos Aires anyway.

Transportation and Communications

Although public transportation is available in most large urban areas, an automobile is essential in many regions. Car rentals are available throughout the country. Because of the distances involved, business visitors frequently travel between Argentine cities by air. Austral and Aerolíneas Argentinas and other less important airlines provide air transportation services. In Buenos Aires, trains connect most major suburban areas, and buses connect Buenos Aires with major Argentine cities.

Medical Services

Argentina has extensive public and private medical facilities. Employees of companies and family members are entitled to medical assistance under the country's social security system, which provides medical services directly through associated hospitals.

Many middle and high-income people pay a monthly fee to a private health care organization to receive medical assistance in private hospitals.

Public Holidays

There are 3 types of public holidays in Argentina:

- Public holidays that can be celebrated on a different day.
- Public holidays that cannot be celebrated on a different day, depending on the day of the week they fall. If the public holiday falls on a Tuesday or Wednesday, it will be celebrated on the previous Monday. If the public holiday falls on a Thursday, Friday, Saturday or Sunday, it will be celebrated on the following Monday.
- Touristic public holidays, which is an extra holiday. National Decree 1584/2010 establishes that whenever public holidays fall on a Tuesday or Thursday, the Government will establish 2 holidays per year on a Monday or Friday immediately before or after the holiday date. If the holiday date does not fall on a Tuesday or Thursday, the Government will set 2 holidays to encourage tourism.

Under Argentine law, those of Jewish or Islamic faith are entitled to additional public holidays. These include Yom Kippur, the first and last days of Passover and New Year for Jews; Eid al Fitr, Eid al Adha, and the Islamic New Year for Muslims; Genocide Remembrance Day for Armenians. The dates in italics vary from year to year.

New Year's Day (a): January 1

Carnival: March 3 and 4

Remembrance for Truth and Justice: March 24

Malvinas Islands Day: April 2

Maundy Thursday: March 29 (b)

Good Friday: March 30 (c)

Labor Day: May 1

Anniversary of the May Revolution: May 25

Flag Day: June 20

Independence Day: July 9

Anniversary of the death of General José de San Martín: *(August 17)* (d)

Remembrance for Cultural Diversity: *(October 12)* (d)

National Sovereignty Day: *(November 20)* (d)

Feast of the Immaculate Conception: December 8

Christmas Day (a): December 25

(a) Banks and most offices are open only in the morning during the previous days (December 24 and 31).

(b) Maundy Thursday is optional for business activities, it depends on the date of Catholic Easter.

(c) It depends on the date of Catholic Easter.

(d) According to National Decree 1584/2010, based on the day these holidays fall, national holiday of August 17 will be moved to the third Monday of that month; national holiday of October 12 will be moved to the second Monday of that month; national holiday of November 20 will be moved to the fourth Monday of that month.

Spanish is the official language of Argentina.



14

Buenos Aires

The best destination
in Latin America and
number 14 in the world



Leisure and Tourism

Buenos Aires offers entertainment possibilities that satisfy all tastes. Tripadvisor rated Buenos Aires as the best destination in Latin America and number 14 in the world. There are many theaters, cinemas and discos, as well as art and science museums. Teatro Colón (the main opera house in Argentina) ranks five among the best concert venues in the world. National and international sporting tournaments are held in many clubs and stadiums. Restaurants offering international cuisine (French, Italian, Mexican, Japanese, Indian, Chinese and so forth) compete in excellence with those offering local cuisine. Argentine restaurants are particularly famous for their beef.

Argentina's wide range of climates and scenery make the country attractive for tourism. Varied landscapes include wide and beautiful beaches, the highest mountains in the Western Hemisphere, soft green hills in the central provinces, a wonderful lake region and paradises for skiing in the south and west. Argentina also offers an extensive network of protected areas –national parks– throughout the country.





2 Opportunities for international investors

► Attitudes towards foreign investment

Since 2015, the current administration has implemented significant market-oriented political and economic changes. It has removed the restrictions that once affected access to foreign currency purchases, payment of dividends, royalties, technical assistance services, etc., and it has also passed new laws on transparency, such as the Law on Access to Public Information (Law No. 27275), and the Public-Private Partnerships Law (Law No. 27328). Accordingly, it has promoted significant tax reforms that seek to spur a competitive economy, including but not limited to those aimed at reducing taxes and export duties on commodities as well as on the import of high-value products, such as electronics. Additionally, the implementation of a floating exchange policy together with real positive interest rates (in pesos) have allowed that the Argentine Central Bank (BCRA) reserves in foreign currency return to adequate levels (~ USD 53,000 million); a situation that is currently supported by the most recent stand-by loan agreed with the International Monetary Fund (IMF), in the amount of USD 50,600 million, which will be gradually disbursed up to 2021 to the extent that certain tax and monetary goals be complied with.

In addition, the successful deal with the hedge funds to definitively close the still pending hindrance of the default on the external debt declared in 2002 is worth mentioning, since it enabled Argentina to regain access

to international credit markets. Additionally, it should be noted that the country has been recently promoted to the “Emerging Market” status by the rating agency Morgan Stanley (MSCI), since, in the opinion of the rating agency, the country is ready to receive international institutional investors willing to operate. However, in the light of the current Argentine devaluation process, MSCI also clarified that it would review its reclassification decision should the Argentine authorities introduce any sort of market accessibility restrictions, such as capital or foreign exchange controls.

At present, there are no restrictions on foreign investment. No prior approval from Argentine authorities is required, though some of them are applicable to sensitive areas, such as telecommunications, defense and oil

and gas. Profits may be freely transferred, and the BCRA has eliminated restrictions preventing banks from selling foreign currency to their clients. There is also a legal system that seeks to prevent money laundering based on the recommendations of the FATF. Moreover, Argentina has signed international bilateral agreements with capital exporting countries (whereby foreign investments from these countries are given a favorable treatment), and adhered to the new global standard on AEOI (Automatic Exchange of Information).

The BCRA has eased several regulations which, in the past, controlled the country’s capital inflows and outflows. Foreign investors are not required to obtain government permission to make investments in the country. Foreign companies as shareholders, partners or home office have to be registered with the Public Registry of Commerce. In general terms, there are not any legal restrictions to take money out of Argentina.

Argentina has always been a very attractive country to potential investors.



Recent political and economic changes resulted in an attractive environment to foreign investors.”

Some of the main measures adopted over the last years to revitalize the economy may be summarized as follows:

- Withholdings on exports were eliminated or reduced, mainly in the agribusiness and natural resources (mining) sectors.
- Import tariffs on electronic products have also been eliminated (Executive Decree No. 117/2017).
- Removal of capital/repatriation restrictions.
- Important tax reform introduced to lower taxes and improve competitiveness.
- Free floating rate and recovery of international reserves.
- No restrictions on the purchase of foreign currency.
- New laws governing access to public information and

public-private partnerships have been passed. These laws have been much expected, since they provide more transparency and attract investments.

- Inflation targeting to reach single-digit CPI in 2020-23.
- Stand-by loan agreed with the International Monetary Fund (IMF) in the amount of USD 50,600 million.
- Upgrading by MSCI to “Emerging Market” status.
- For the purposes of stabilizing and revitalizing the economy, strict controls and restrictions on cross-border transfers were lifted. Authorization from the Tax Authorities is no longer required for cross-border money transfers (applying a single exchange rate) and for transfers of funds to be either invested or used to settle liabilities and other payables (royalties, dividends, etc.) abroad.



Additionally, Argentina has always been a very attractive country to potential investors. US companies traditionally lead the process of permanent investment in the country. In fact, according to the AMCHAM (2017), US companies represent around 20% of Argentina's GDP and employ 400,000 people. However, in the last years, as a consequence of the default and the policies followed by the former government, the country had one of the lowest levels of foreign direct investment (FDI) of the region (Argentina's share in FDI destined to the region fell from average 17 % in the nineties to 6 % in the 2010-2016 period). The abovementioned change in policies offers excellent opportunities in various sectors, particularly in infrastructure. Argentina is one of the countries with bigger opportunities in the shale gas industry, underexploited mining resources and a field of opportunities in the traditional and renewable energy sectors. During the last years, the demand for energy has grown substantially, whereas investment did not accompany such demand, so growth in this sector is expected. Additionally, the lack of private sector investment in the last decade generates the need for major infrastructure projects, and opportunities would be greater with a more developed financial system, which is expected to exist in the country.

Promotion and Protection Agreements for International Investors

As it has been previously mentioned, Argentina has signed a number of international bilateral agreements with capital exporting countries (USA, Italy, UK, France, Germany), whereby foreign investments from these countries are given a favorable treatment. Argentina has also adhered to the Multilateral Investment Guarantee Agency (MIGA)¹, whereby investments in Argentina have become eligible for insurance by this agency against political risks. MIGA is a member of the World Bank Group who seeks to promote FDI into developing countries to help support economic growth, reduce poverty, and improve people's lives. Argentina entered into fifty "bilateral investment treaties" in order to protect foreign investments and avoid double taxation.

State Assistance and Grants

Special incentives for certain activities and tax refunds on exports, among others, are granted under identical conditions to nationals and foreigners. Foreign investors are not required to obtain government permission to invest in Argentina. Foreign investors may wholly own a local company, and any investments in shares listed on the stock exchange require no government approval.

¹MIGA helps investors and lenders deal with risks by insuring eligible projects against losses relating to: currency convertibility and transfer restrictions, expropriation, war, terrorism and civil disturbance, breach of contract, non-honoring of financial obligations.



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Foreign investors are
not required to
obtain government
permission to invest.”



Development of key sectors

There are many areas that are very attractive for investment, among others:

Energy



Argentina is amongst the first four countries with the highest levels of unproven reserves of shale oil and shale gas, and its territory offers plenty of opportunities to renewable energy sources. Furthermore, Argentina also has important reserves of conventional gas². In 2015, Law No. 27191 was enacted to promote the use of renewable sources for electric power generation. This law requires that, by the end of 2025, 20 % of all the electric power derives from renewable energies. With the aim of attracting capital investments in the sector in order to achieve the goals set by the new law, the Ministry of Energy and Mining launched the RenovAr program. Rounds 1.0, 1.5 and 2.0 of the program showed very positive results in terms of number of bids and prices. Up to the end of 2017, the program had awarded 4500 MW of power, which, save for the worsening of any economic context issues detrimental to the government energy objectives, should be progressively added to the system over the next years at an average cost of USD/MWh 55 as per the last tender (2017). Moreover, other opportunities within the energy sector have been spotted, such as:

- Over 10GW of new baseload generation capacity and transmission infrastructure needed.
- Great production potential and investment promotion regimes for shale oil/gas.
- Development of offshore and biofuels.
- Energy opportunities add up to more than USD 65 Bn.

Mining



Law No. 24196, enacted in 1993, establishes special incentives for the mining activity (excluding oil and natural gas, which are governed by Hydrocarbons Law No. 27007). However, it includes a number of connected activities, such as crushing, cutting, palletizing, etc. if carried out by the mining company. The benefits are guaranteed for 30 years and mainly relate to income tax. Activities such as prospecting, exploration, special mineralogy, metallurgy, feasibility and pilot plant studies may be fully offset against taxable income, and also may be amortized for tax purposes (it works as a double tax deduction). Investments in infrastructure and in machinery, equipment and vehicles may be amortized/depreciated on an accelerated basis for tax purposes. These benefits are subject to a number of conditions. There is a system that provides for the advanced refund of the Value Added Tax payable on the imports of depreciable movable assets and on the investment in infrastructure for the mining industry. Once the holder of an exploration permit has found minerals, a written request (declaration of discovery) must be filed with the related authorities (provincial or federal, as applicable). The authorities shall grant an exploitation concession, giving the holder a perpetual property right on the mine, subject to the payment of an annual fee (royalties levied by the provinces should not exceed 3 % of the value of the minerals extracted) and the requirement of a minimum investment. Recently, Executive Decree No. 349/2016, issued in February 2016, eliminated the duties imposed by the Government on mining exports for the purpose of promoting investment in this sector. This measure was accompanied by the so called Federal Mining Agreement (in Spanish, AFM), which has been signed by most mining provinces (except for La Pampa and Chubut) to channel and increase investments in the sector, by updating the regulatory framework applied so far (i.e. Mining Law No. 24196 of 1993). The AFM is aimed at i) establishing general criteria to determine the royalties paid by extractive industries (which are set at 3 % of the pithead value); ii) establishing an additional tax of 1.5 % of the pithead value for the creation of a provincial fund aimed at the financing and development

²According to the reports of the U.S. Energy Information Administration (EIA) issued from 2011 to 2013, Argentina is one of the countries with stronger possibilities for the production of unconventional energy resources, particularly, in terms of shale gas and oil endowment in the formations of Vaca Muerta and Los Molles.

of environmental and water control works (Provincial Infrastructure Fund); iii) laying the foundations for the execution of regional agreements to encourage investments in such works; iv) establishing that concession agreements shall be in force until there are minerals available in the field, and that the tax conditions set out shall apply for a period of 30 years (pursuant to Law No. 24196); v) creating a cadastral organization for mining purposes; and vi) tightening sanctions to be imposed on companies that fail to comply with environmental regulations. Finally, it shall be considered that Mining is an always latent investment opportunity in Argentina, as there are ample mineral reserves such as copper, gold, silver and lithium. Mining opportunities add up to more than USD 30 Bn.

Infrastructure



In addition to the preceding investment in energy areas, the following should be included: investment in transportation, communication, ports, and internal security. Also, there are unmet housing needs, particularly for middle and lower classes. Accordingly, it is expected that the financial system be further developed to enable the strengthening of the mortgage loan market. The infrastructure plan is extremely ambitious, investment projects of more than USD 130 Bn. have been estimated.

Agribusiness



The very competitive agriculture sector is supplemented by industrial developments that exploit the economies

of scale and add value to the chain. Furthermore, there are investment opportunities in various areas such as: development of more than 4M Ha of artificial irrigation systems; expansion of the forestry and cellulose; paper and wood industries; great conditions for animal protein production (beef, pigs, chicken); and increased food industrialization. Agribusiness opportunities add up to USD ~ 13.5 Bn.

People



Argentines remain one of the best educated people in the region and source of talents, despite the regression observed in this area in the last years. Thus, this is also an area of potential attraction for companies interested in producing contents, and outsourcing human resources for international markets, taking advantage of the language skills and time zone of the country.

Investing in a fund



There are private equity funds managed by a trust aimed at investing in real estate. Their profitability comes from the revenue generated by leases and the recovery arising from buying and selling. Usually, the investment is made in warehouses, offices and strategic locations, where the purchase by an individual investor would be difficult.

➤ Tax system

Taxes are levied at three levels: national, provincial and municipal. National taxes, especially value added tax (VAT), which are collected by the federal government and distributed to the provinces, yield most of the revenue.

The provinces levy taxes primarily on gross receipts (turnover tax) and on real estate and, jointly with municipalities, they levy charges for services.

Argentine residents (whether individuals, companies or any other type of entity) are taxed on worldwide income. Non-residents are taxed only on Argentine-source income.

A tax credit is allowed for similar taxes paid abroad, up to the amount of the Argentine tax on the foreign-source income. All profits of local companies are taxable, including any kind of capital gain such as those from sales of depreciable assets, shares and real property.

An Argentine company is allowed to deduct from gross revenue the expenses incurred in producing taxable income, including a percentage of royalties, technical assistance fees, with some restrictions, and interest payable to beneficiaries abroad, regardless of whether these are economically related to the paying entity. Some restrictions apply to transfer prices, the thin capitalization rule, deductibility of interest, depending on whether such interest is paid before the annual tax return is filed, etc.

The income tax rate of 35 % is applied to amounts paid to non-residents (e.g. interest, technical assistance fees, royalties, etc.) on assumed Argentine-source income. The assumed Argentine-source amount may vary depending on the nature of the payment.

In addition to income tax, the federal government imposes value added tax, excise taxes, tax on minimum presumed income, customs duties, and a tax on financial transactions.

➤ Other benefits

Trained Labor Force

Strong labor force (47 % of total population), renowned for its technical skills, creativity and versatility. Argentina ranks #2 in Latin America in Human Development and Education Indexes (2016). In addition, there is a high literacy rate of 98 %, ~110,000 higher education graduates per year, and #1 in English proficiency. According to official data (IMF), the unemployment level –taking into account those beneficiaries of welfare programs- is projected around 8 % by the end of 2018. Argentina offers a well-trained labor force and, especially, an important pool of well-motivated and reliable people for managerial positions.

Availability of Financing Resources

The deep economic crisis undergone by Argentina, which worsened by the end of 2001, had an impact not only on the financial system but also on the behavior of economic agents. Indeed, the fall in the demand, the tax pressure, the financial system need to raise lending and the uncertainty as to macroeconomic changes helped build resilience in the traditional borrowers. During 2002 and part of 2003, the high interest rates, short financing terms and uncertainty as to the possibility of agreeing future renegotiations or as to the changes in interest rates developed strong aversion to borrowing in the financial system. Thus, many companies and individuals got used to the fact that private financing is unavailable.

However, the lending activity is reactivating, since as from 2003 a significant recovery of the financial intermediation levels has been observed, being the Argentine private banking sector one of the main drivers of such reactivation, restoring the deposit level, rebuilding the private sector's confidence in the financial system and, at the same time, offering more credit lines destined to production and consumption. This change could be seen again in 2008, when banking liquidity made interest rates start to drop, drastically increasing the credit offer in a context of growth in the activity levels.

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The Argentine labor
force strong is about
47% of the total
population”

Thus, based on World Bank data, the participation of the non-financial private sector in the GDP averaged 9 % in 2003-2005 and 14% in 2005-2015; showing a positive trend. In 2017, it reached 16 %.

The behavior shown by private lending is related to the policies developed by the Argentine Executive Branch to boost consumption (2003-2015), which sought to support growth within a clear economic slowdown, and increase mortgage and production lending as from 2016. Nevertheless, it should be noted that the incentives to boost consumption led to an accelerated increase in domestic prices, as they were not backed by policies aimed at developing production, investment and employment; a mistake that the current government is trying to undo by applying the adequate policies and measures to improve them considerably. With regard to the policies adopted to increase lending and financial intermediation, the financial sector has implemented the mortgage loans, known as UVA (purchasing power unit) in excess of ARS 100,000 million from the launch thereof by mid-2016, which foster the real-estate market.

The removal of exchange restrictions (which, since 2011, have limited access to the exchange market to settle imports and the remittance of foreign currency abroad), added to the elimination of, or reduction in, export duties on the agribusiness and the elimination of the mandatory deposits for investment flows in foreign currency (30 %), as well as the elimination of additional charges for purchases abroad (35 %) are all intended to promote growth and investments in the various national production sectors. In the energy sector, which together with the industry and agribusiness make up the main activities of national production, several measures have been taken to deal with the lack of oil and gas production (chronic since 1998) and the purchase of energy abroad³ which, in prior years, implied a significant portion of national imports. In addition, the current increase in electricity and gas rates for residential and business use to make them more realistic implies new measures intended to improve the distribution and transportation of energy and thus promote future investments in the sector.

Raw Materials

The country has traditionally had a self-contained economy. Raw materials are available within the country in an adequate supply to meet domestic needs and have a surplus to export. Argentina has largely unknown mineral resources and, of course, a very important and efficient agricultural industry. Industries based on raw materials derived from these sources would seem to be well positioned in Argentina.

³Some of them are i) the nationalization of YPF in 2012, ii) the agreements with companies for the exploitation of unconventional resources, iii) the new hydrocarbons law enacted in 2014, and iv) price agreements with producers (over decreasing international prices).



The 1990s

The Convertibility Law, approved in 1991, pegged the Argentine currency to the U.S. dollar at a fixed rate (i.e. 1 USD = 1 ARS).

The convertibility regime was a stabilization device to deal with the hyperinflation that existed at the beginning of the 1990s and, for this purpose, it was very successful. It was also part of a larger Convertibility Plan, which included a broader agenda of market-oriented structural reforms designed to promote efficiency and productivity in the economy. Under the Convertibility Plan, Argentina witnessed a marked improvement in its economic performance, particularly, during the early years of the plan. Inflation, which was ranging at a monthly rate of 27 % in early 1991, declined to single digits in 1993 and remained low. Growth was steady through early 1998, except for a brief setback associated with the Mexican crisis, and it averaged nearly 6 % during 1991-1998. Attracted by a more investment-friendly climate, there were large capital inflows in the form of portfolio and direct investments.

Argentina's performance deteriorated from the second half of 1998 onwards owing to adverse external shocks, including a reversal in capital flows to emerging markets following the Russian default in August 1998; the weakening of demand of major trading partners, notably of Brazil; a fall in oil and other commodity prices; the general strengthening of the U.S. dollar against the euro; and the 70% devaluation of the Brazilian real against the U.S. dollar in early 1999. Real GDP fell by over 3 % in the second half of 1998.

There was a mild pickup in the economic activity in the second half of 1999, spurred by increased government spending in the run-up to the October presidential elections, but this was not sustained, and GDP declined by 3.5 % in 1999 as a whole. The economy never recovered till the end of the convertibility regime.

In 1999, the economic slowdown, coupled with the election-driven surge in public spending, had important implications for fiscal solvency. Argentina's consolidated fiscal balance had been in deficit throughout the 1990s except in 1993, but the magnitude was not large. Consolidated public sector debt, however, increased more rapidly because of the periodic recognition of off-budget liabilities, of past pension benefits, as a consequence of the transition to a new capitalization-based pension plan scheme.

The 2000s

Argentina's problems intensified in 2000, when growing solvency concerns over the cumulative increase in public debt were exacerbated by the continued appreciation of the U.S. dollar and a further drying up of capital flows to emerging market economies. These developments would normally require a smaller current account deficit and a depreciation of the real exchange rate, but the convertibility regime placed severe limitations on the ability of Argentina to achieve this adjustment in a manner that could avoid recession. Market confidence did not recover as expected and market access was effectively lost later in the year, leading Argentina to seek an increased IMF support.

At the end of December 2001, following the resignation of President Fernando De La Rúa, the country partially defaulted on its international obligations. In early January 2002, Argentina formally abandoned the convertibility regime and replaced it with a flexible exchange rate system.

After reaching a pick of almost 1 USD = 4 ARS in June 2002, the exchange rate stabilized at levels that ranged from ARS 2.80 to ARS 3.1 per 1 USD. The average exchange rate was 1 USD = 3.30 ARS for year 2002, 1 USD = 2.92 ARS for year 2005 and 1 USD = 3.12 ARS for year 2007. A significant devaluation of approximately 50 % of the Argentine peso against the U.S. dollar occurred from 2013 to 2014, the exchange rate being 1 USD = 8 ARS. In 2015, 2016 and 2017, the exchange rate reached ARS 9.2, ARS 15 and ARS 16.6 per 1 USD, respectively. At present, the official exchange rate has stabilized at approximately 30 ARS per 1 USD (2018).

Recent Economic Indicators and Forecasts

Year	Gross Domestic Product (GDP)	(GDP)	Exchange Rate	Total Investment	Government Deficit (primary)	Current Account Balance	Inflation (average)	Unemployment Rate
	USD (in billions)	Growth (%)	\$ per dollar	% GDP			(%) change	(%) EAP
2008	363.5	4.1	3.2	19.6	1.7	1.5	23	7.9
2009	334.6	-5.9	3.7	16.1	-1.3	2.2	14.8	8.7
2010	424.7	10.1	3.9	17.7	-0.6	-0.4	25.7	7.8
2011	527.6	6.0	4.1	18.4	-1.6	-1.0	22.5	7.2
2012	579.7	-1.0	4.6	16.5	-1.7	-0.4	25.2	7.2
2013	611.5	2.4	5.5	17.3	-2.6	-2.1	27.9	7.1
2014	563.6	-2.5	8.1	17.3	-3.5	-1.6	38.5	7.3
2015	642.5	2.7	9.3	17.1	-4.4	-2.7	27.8	n/a
2016	554.1	-1.8	14.8	17.0	-4.7	-2.7	36.2	8.5
2017	637.7	2.9	16.6	19.1	-4.5	-4.8	25.7	8.4
2018	625.9	2.0	~30	17.4	-3.5	-5.1	30.0	8.0
2019	659.7	3.2		17.4	-2.4	-5.5	15.4	7.5
2020	698.7	3.1		17.8	-1.3	-5.9	12.3	7.0
2021	742.3	3.2		18.0	-1.0	-6.0	10.5	6.5
2022	786.8	3.3		18.1	-1.0	-6.0	9.2	6.1
2023	831.7	3.3		18.0	-0.9	-5.9	8.0	6.0

Source: Prepared by KPMG based on information from the International Monetary Fund (IMF) and other sources.



Activity

The industry has always been a relevant component of GDP (18 % - 20 % of GDP). In the last decade, its growth rates have been somewhat volatile, which may be explained by the measures and policies in place that certainly do not promote it. After reaching growth rates of 11 % in 2010, the industry started to show a significant shrinkage in 2012 (-3 %), jointly with a drop in total investment (16% of GDP). Although investment has recovered between 2013 and 2017 (to nearly 19 % of GDP), its growth rate has been volatile. By the end of 2018, total investments, as a percentage of GDP, are expected to remain at around 17 % of GDP.

It should be noted that during the second half of the first decade of the new century, changes in the international context have particularly favored the Argentine economy. The rise in the international prices of commodities and the improvement in the exchange terms encouraged investment and production of tradable goods, mainly those including a significant primary component. All this was added to the economic benefits brought about by the local currency devaluation occurred in 2001/2002 (import-substitution industrialization, increased exports and substantial increase in the production of commodities and industrial goods). The growth of the emerging countries and their need for better food and supplies for production were also some of the forces that drove the development of producing and commodity-exporting countries, including Argentina among them. During period 2003-2015, public and private consumption had been the most important driver of economic development, though the ensuing overheating (rise in prices due to the lack of investments) had undesired effects, mainly on the price structure and salaries.

In addition, economic growth has been significantly slowing down. Likewise, it is expected that 2018 ends with a growth of 2 %, according to estimates made by the IMF. Furthermore, the IMF forecasts an important recovery of almost 3 % by 2020, a figure that might be annually maintained towards 2023, as a result of many aspects contrary to those mechanisms that worked as barriers against growth during the period 2003-2015, mainly the change of government that took place in December 2015 (keen on market), the newly implemented economic measures and the relevance



Consumption has been the leading force of the economy.”

granted to institutional aspects. This new government understands that the return on investments (and, therefore, the profit obtained by investors) depends mainly on competitiveness and productivity; in this way, it seeks to organize the macroeconomic, legal and institutional components to generate a foreseeable framework and gradually reduce uncertainty levels.

In this sense, a more open economy is expected, with less subsidies, less presence of the State through bureaucratic regulations, less inflation that favor investments, especially those that are labor intensive or applied to solve infrastructure needs.

Inflation

According to the National Statistics and Censuses Institute (in Spanish, INDEC), the inflation rate of the CPI was around 9 % from 2005 to 2010 (average annual accumulated rate). As the official institute in charge of publishing inflation data was seriously questioned since 2011, the Argentine Congress, on a monthly basis, has been reporting the inflation rates gauged by private consulting firms. During 2017, inflation has evidenced a decreasing trend, which accounted for 25 %. However, by the end of 2018, it is expected to rise and reach 30 %. In addition, in the next years, inflation rates are expected to reach one-digit figures (in fact, the IMF estimates an inflation rate of 8 % by 2023).

Fiscal Sector

Public spending measured in real terms had been significantly lower in 2002-2005 than in the previous years. Nevertheless, from 2006 onwards, public spending started to grow considerably until a level of around 40 % of GDP by 2015/2016. Over the last years, although tax collection kept on growing, public spending increased at a rate higher than tax revenue, which gives rise to a considerable fiscal deficit that reached 5 % of GDP by the end of 2016. However, the figures of 2017 onwards seem to show a more favorable trend as a result of the reduction in expenditures carried out by the current government (basically the reduction in the number of public employees and the reduction in funds transfers destined to the subsidies in transport and energy). Despite the fiscal deficit will continue in 2018 (~3.5 % of GDP) and the following years, it is estimated that it will start to normalize by 2020.

Foreign Trade

The depreciation of the peso led to a significant surplus in Argentina's foreign trade, mainly as a result of import-substitution industrialization. However, imports have grown faster than exports taking the surplus to USD 12 billion in 2012 and USD 3.1 billion in 2014. In 2015, the

growth of imports brought about the first trade balance deficit since 1999. In 2016, in turn, as a result of export incentive policies, the trade balance showed again a surplus (of around USD 2 billion). In 2017, even though the exports were increased, a much more significant growth of imports led to a trade balance deficit of around USD 8.4 billion.

Argentina's foreign trade surplus as a percentage of the GDP accounted for 2 % in 2012, nearly 1 % in 2014 and reached -0.5 % in 2015. In 2016 and 2017, the figure reached 0.4% and -1.3 %, respectively. However, this figure has been decreasing since the 2001 crisis, when the balance of trade accounted for 16 % of the GDP in 2002, 12 % in 2003, 8 % in 2004 and 6 % in 2005, which shows the serious problem existing in the balance of trade and the current account (including net income generated by gains and losses on interest, earnings and dividends, the component of which accounts for negative figures over the years), worsened by the foreign currency drain that directly affects other component of the balance of payment: the capital account that is showing cyclical results, deficit in some years and surplus in other years.

Labor and Social Indicators

Unemployment rate fell from 10.1 % in 2005 to 7.5 % in 2007. Over the last years, unemployment rate has averaged ~8 % (2010-2017). According to IMF's statistics, an unemployment rate of 8.4 % is forecasted for the end of 2018, followed by a downward trend for the next years.

Government Debt

As of 2017, Argentina's official debt was approximately 50 % of GDP. This figure is expected to decrease gradually over the next years.

Local Banking System

Control and supervision of the banking and financial system is carried out mainly by the BCRA, which is a government agency.

The BCRA is the exclusive currency issuer. It also has a significant participation in the foreign currency market through the purchase and sale of foreign currency. The BCRA also issues, trades and pays government bonds and notes.

The BCRA controls and supervises banks and other financial institutions through the following methods, among others:

- setting rules regarding, among others, credit risk, debt-to-equity ratios, liquidity and minimum capital requirements;
- determining the minimum cash reserves to be maintained by banks;
- issuing detailed rules concerning periodic reports (daily, weekly, monthly, quarterly and annually) to be filed with the BCRA;
- establishing detailed accounting and auditing standards;
- conducting audits; and
- authorizing the creation and set-up of entities and branches.

As of 2016, total assets in the Argentine banking system amounted to approximately USD 130 billion. The public sector owns about 45 % of total assets and private local and foreign banks own 55 %. The market is highly concentrated: 18 banks, each with assets exceeding USD 1 billion, account for most of the financial system's total assets (88 %).



Stock Exchanges

The main stock exchange is Bolsa de Comercio de Buenos Aires (Buenos Aires Stock Exchange). There are also smaller exchanges throughout Argentina. In 2009, about 100 companies were listed on the Buenos Aires Stock Exchange. This number has been falling since then: 97 in 2013 and 93 in 2016, because the market did not fulfill the role of providing capital to companies. The general public preferred to invest their savings in bank deposits or foreign currency. Indeed, market capitalization⁴, as a percentage of GDP, has been decreasing over the last decade, from 20 % in 2007 to around 12 % in 2016.

Shares are purchased and sold on the Buenos Aires Stock Exchange through brokers, some of them are related to national or international banks. The system is controlled by the Comisión Nacional de Valores (Argentine Securities and Exchange Commission), which has functions similar to those of the Securities and Exchange Commission (SEC) of the United States. Listed companies must file their financial statements and board of directors' reports with the Stock Exchange on a quarterly basis as well as annual audited financial statements.

The over-the-counter market, also regulated by the Argentine Securities and Exchange Commission, is growing. The shares traded in this market are those of the companies listed on the Buenos Aires Stock Exchange. A trend towards using more sophisticated financial instruments is reflected in the growth of the negotiable instruments and options market. Both are traded on the Buenos Aires Stock Exchange. Foreign-owned companies may be listed on the Stock Exchange. To list its shares on the Stock Exchange, a company must comply with certain detailed requirements.

⁴It is the total value of listed companies' outstanding shares. It is calculated by multiplying a company's shares outstanding in a given period by the average price of one share.

Commodity Exchanges

Cash and forward transactions, primarily in agricultural and cattle-raising products (such as grains, oil-seeds and meat), are carried out in the commodity markets. Two of the leading markets in Buenos Aires are the Mercado de Hacienda de Liniers (Liniers Livestock Market) and the Mercado de Cereales de Buenos Aires (Buenos Aires Grain Market).

Exchange Controls

The release of exchange restrictions, the elimination of, or reduction in, export duties and the elimination of the mandatory deposits for investment flows in foreign currency, as well as the elimination of additional charges for purchases abroad (35 %) are intended to promote growth and investments in the various national production sectors.

As it has already been said, there are no restrictions on foreign investment. No prior approval from Argentine authorities is required, though some of them are applicable to sensitive areas, such as telecommunications, defense and oil and gas. After the new government took office, profits may be freely transferred and the Argentine Central Bank has eliminated restrictions for banks to sell foreign currency to their clients. However, there is a legal system that seeks to prevent money laundering based on the recommendations of the FATF.

The Central Bank has eased certain regulations to control the country's capital inflows and outflows. Foreign investors are not required to obtain government permission to make investments in the country. They can wholly own a company, and any investments in shares listed on the stock exchange requires no government approval. The most common entities used to do business in Argentina are stock companies or Sociedades Anónimas ("SA"), limited liability companies or Sociedades de Responsabilidad Limitada ("SRL") and branches. Foreign companies as shareholders, partners or home office have to be registered with the Public Registry of Commerce.



The general public preferred to invest their savings in bank deposits or foreign currency.”

Business Regulatory Requirements

Only in some special cases, such as mass media, banking, airlines, etc. do specific regulations exist with respect to foreign investments which, however, have been diluted in recent times to such an extent that foreign investments are practically on the same footing as local investments in these areas.

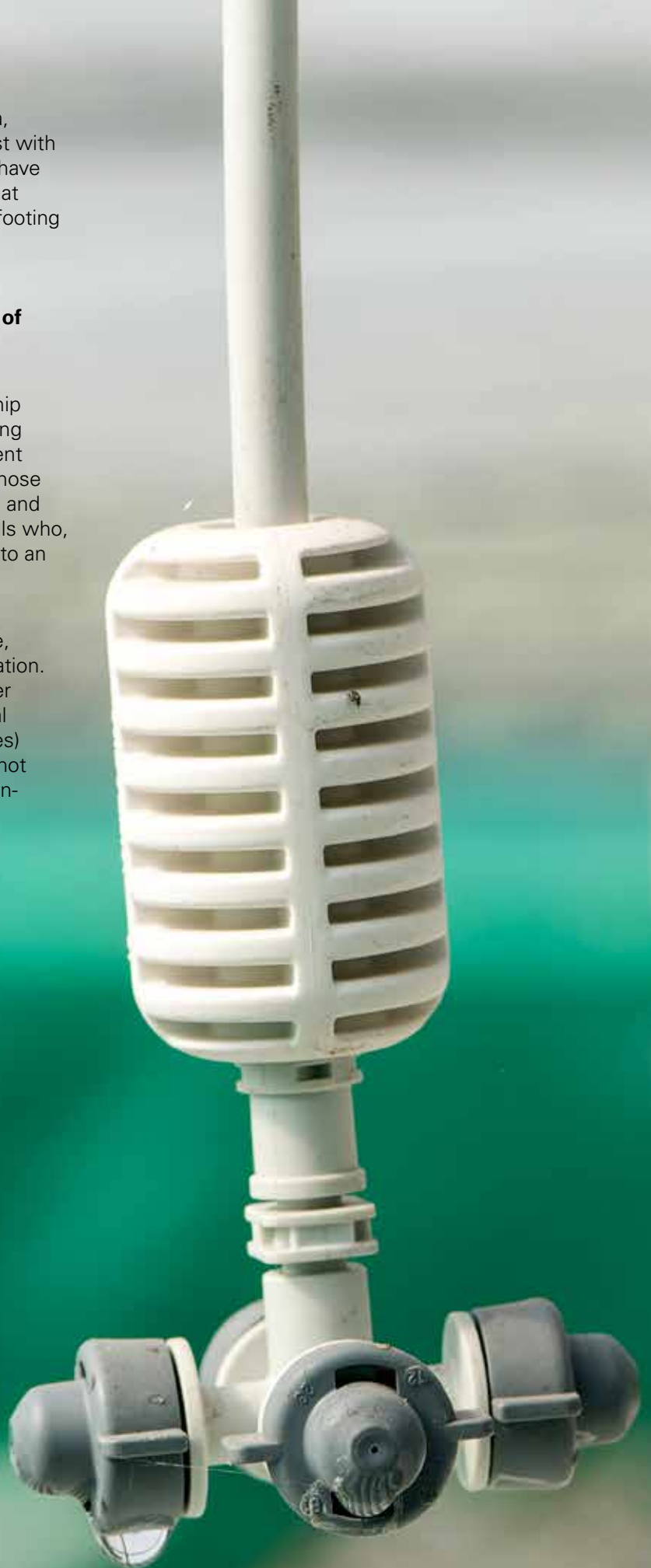
Limitation on the Possession and Ownership of Rural Lands

The new Rural Lands Law No. 26737 of 2011 regulates and limits the possession and ownership of lands by foreign individuals or entities, excluding those individuals with a continuous and permanent residence in the country of or over 10 years; or those who can prove a 5-year residence and have sons and daughters born in the country; or those individuals who, complying with other requirements, are married to an Argentine citizen.

The law states that ownership or possession of rural lands will be limited to 15 % in any province, municipality or equivalent administrative organization. Additionally, it states that the same foreign holder will not be able to have an area or surface of rural lands bigger than 1000 ha (one thousand hectares) and that the purchase of lands by foreigners cannot be computed as investment, as it is a natural, non-renewable resource.

15%

limitation of
ownership
of rural lands



3 Exporting to/from Argentina

▶ Import Regulations

Argentine Customs Authorities have incorporated the Harmonized System Codes (HS codes) to classify goods and assign tariffs, which is the basis for the Mercosur Common Nomenclature (NCM), applicable to Mercosur member countries. Basic rates are calculated on the CIF (cost, insurance and freight) value of imports. Tariff rates vary according to the different kinds of goods and range from 0 to 35 %.

Imports are also subject to the revenue tariff of 0.5%. However, such tariff cannot exceed the following maximum amounts:

Customs value	Maximum revenue tariff
Less than USD 10,000	USD 50
Between USD 10,000 and USD 20,000	USD 100
Between USD 20,001 and USD 30,000	USD 200
Between USD 30,001 and USD 50,000	USD 300
Between USD 50,001 and USD 100,000	USD 400
More than 100,001	USD 500

In addition, imports are subject to VAT. The VAT rate may be 21 % or 10.5 %, depending on the classification of the goods, and is calculated on an amount equivalent to the addition of the customs value, the import duties and the revenue tariff.

The import of goods is subject to the advance payment of certain taxes (VAT / Income Tax / Excise Tax/ Turnover Tax advances). These charges are actually advances for VAT, Income Tax, Excise Tax and Turnover Tax liabilities that the importer shall pay in relation to its activities (sales, services, supplies, etc.) in the domestic market. For instance, the income tax advance collected by the Customs Authorities upon the import is a credit towards the payment of the annual income/corporate tax liability of the importer. (Please bear in mind that these advances –additional VAT, income tax and turnover tax– are not applicable if goods are regarded by the importer as fixed

assets for accounting purposes, or if the importer obtains specific tax exemption certificates.). The VAT advance rate is 20 % or 10 % (depending on the classification of the goods), the income tax advance rate is 6 %, and the turnover tax advance rate is 2.5 %.

For intra-MERCOSUR, special trade regulations apply. The applicable import duty rate is 0 %. The revenue tariff is not applicable. Eligible products must have a certificate of origin from a Mercosur member country showing that a sufficient manufacturing process occurred within a Mercosur member country.

During the last nine years, Argentina implemented a general import substitution industrialization and trade balancing policy through import licensing procedures and informal export requirements. These measures were introduced initially to cushion the impact of the world economic and financial crisis in 2009, but they were extended and generalized till the end of 2015 through the Advance Import Affidavit (in Spanish, *Declaración Jurada Anticipada de Importación* – “DJAI”), which operated as a non-automatic import licensing procedure applicable to any single product to be imported.

In December 2015, when the new government took office, the DJAI system was replaced by the new Comprehensive Import Monitoring System (in Spanish, *Sistema Integral de Monitoreo de Importaciones* – “SIMI”). Under this system and in order to obtain an import license (which, depending on the classification of the goods, may be an automatic license or a non-automatic license), the importer shall submit a standard set of information through the Tax Authorities (in Spanish, *Administración Federal de Ingresos Públicos* – “AFIP”) website. This information will be shared with all the agencies and regulatory bodies involved in the clearance of goods through the Foreign Trade e-Window (in Spanish, *Ventanilla Única de Comercio Exterior* – “VUCE”). Authorities may request additional information. The approval will be granted within a term of 10 days in

the case of an automatic license and 60 days in the case of a non-automatic license, from the filing date. Once it has been approved, the import license will be valid for a term of 180 calendar days. However, according to the applicable legislation, said term may be extended once.

Export Regulations

Export Subsidies

As of December 2015, Argentina eliminated export duties, except for certain agricultural products.

There are also certain export incentives, for example, a scheme involving the refund of domestic taxes on the export of certain products. The rate of refund depends on the classification of the products.

The export of certain agricultural products is subject to the prior approval of the government.

Authorized Economic Operators Program

As per AFIP General Resolution No. 4150/2017, Argentina implemented the Authorized Economic Operators program ("AEO Program"), in accordance with the SAFE Framework of Standards to Secure and Facilitate Global Trade of the World Customs Organization.

Importers-Exporters that comply with the requirements established by the regulations in force may request the Customs Service their inclusion in the AEO Program in order to obtain important benefits in relation to the customs operations that are carried out.

As per AFIP General Resolution No. 4197/2018, an AEO Program pilot plan ("AEO Pilot Plan") has been implemented for automobile companies that are users of the in-factory customs system (in Spanish, Régimen de Aduana en Factoría).

In-factory customs system users may request the Customs Service to be included in the AEO Pilot Plan in order to carry out specific import operations and export operations. If such request is approved, the user will be included in the AEO Pilot Plan for a 12-month term.

We understand that the Customs Service will be offering this AEO Pilot Plan to other groups of companies in the near future.

Common Market of the Southern Cone (in Spanish, *Mercado Común del Sur* - "MERCOSUR")

On March 26, 1991, Argentina, Brazil, Paraguay and Uruguay signed a treaty stating a gradual reduction in import duties on trade among the 4 countries. The full implementation of this treaty started as of January 1, 1995. While there have been discussions and, at several times, unilateral measures by the member countries, the MERCOSUR has already promoted trade among member

countries. In the meantime, this trade agreement has become so important to the participants that it can be expected that any future difficulties will be overcome by negotiations between the parties. An agreement has also been reached with respect to a common duty for imports from third-party countries, which accounts for a significant percentage of trade.

Since June 2006, Venezuela has been incorporated as a full member. However, the elimination of import duties is subject to a convergence program. Chile and Bolivia signed free trade agreements with MERCOSUR. MERCOSUR has also signed preferential trade agreements with other ALADI countries (Mexico, Colombia, Ecuador, Peru, Cuba), aiming at creating free trade areas. There are also trade agreements with India and Israel.

There are important distinctions between the objectives of MERCOSUR and those of the North American Free Trade Agreement (NAFTA) signed by the United States, Canada and Mexico. NAFTA creates a free-trade zone, but it does not provide for a common foreign tariff. The basic motivation compelling NAFTA member countries was to remove protectionism barriers among them, not to align member countries' policies.

The MERCOSUR model shows greater similarity with the European Community as to the motivation and degree of integration intended to attain.

Considering the broad scope of the South American integration project, the timeframe for implementation is quite tight, though up to now, the rate of progress has been good. MERCOSUR is expected to be extremely important in the development of foreign trade, especially with Brazil. Any investment project should consider the potential effect of MERCOSUR.

Regional and International Trade Associations

Argentina is a member of the Latin American Integration Association (LAIA), which was organized to promote the economic and social development of the region. Other members of the LAIA are Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. The LAIA carries out its purpose through an economic reference area with a regional tariff preference, regional agreements and agreements between particular member countries. To date, however, LAIA has not had much influence on the region's economic development.

Argentina is a member of the General Agreement on Tariffs and Trade (GATT) and the Organization of American States (OAS).



4 Business Entities

Please find below a summary of the basic guidelines and aspects regarding different vehicles for doing business in Argentina. In particular, we will describe the organization of the “Sociedad Anónima” (SA), the “Sociedad de Responsabilidad Limitada” (SRL), and the “Sucursal Argentina” (Branch) which are the most commonly used entities to do business in Argentina.



A SA is a stock company whose articles of incorporation and by-laws shall be registered with the Public Registry (PR) to operate regularly in Argentina. SAs allow its equity holders to limit their liability, in general, to the par value of the shares they have agreed to subscribe.

A description of the main requirements and aspects involved in the process of incorporation of a SA follows:

(i) Equity holders: the Argentine Companies Law No. 19550 (ACL), as amended, requires that Argentine companies have at least two members (except in the case of SAUs, as defined below), and that any members that are foreign companies shall be duly registered with the PR. The PR considers that the plurality of equity holders required by the ACL is a substantial matter, and not merely a formal matter. Consequently, we recommend that the SA's minority shareholder holds at least a 5 % interest in the company. We point out that the transfer of shares is not required to be registered with the PR .

(ii) Foreign company as equity holder: as mentioned above, the ACL requires that in order to hold an interest in Argentine companies (such as a SA, SRL, or a SAS), a **foreign company** shall be duly registered with the PR. We may expand on this matter at your request and prepare a memorandum with the relevant requirements.

(iii) Corporate capital: the PR requires an initial minimum stated capital of ARS 100,000. In addition, if the capital is contributed in cash, at least 25 % of its amount shall be paid in at the time of issuance and the 75 % balance may be paid within two years. If the contributions are made in kind (such as real estate, equipment or other non-monetary assets), they shall be fully paid in at the time of issuance.

(iv) Management and supervision: SAs are managed by a board of directors, whose members may be elected for a maximum term of three fiscal years and may be reelected. The majority of the members of the board of directors shall be Argentine residents. If the corporate capital is lower than ARS 50,000,000, the board of

directors may be comprised of one regular director. If the corporate capital exceeds such amount, the board of directors shall be comprised of at least three regular directors. The chairman of the board of directors is vested with the legal representation of the SA as well as the corporate signature.

SAs may be organized with or without supervisory auditors. If the SA is organized without supervisory auditors, the equity holders shall appoint at least one alternate director. In some cases, it is mandatory to appoint one or more supervisory auditors (for instance, if the SA is a listed company; if the corporate capital exceeds the amount of ARS 50,000,000, etc.).

(v) Shareholders' meetings: the corporate authority governing the SA is the shareholders' meeting. The shareholders are required to hold an ordinary meeting at least once a year and such annual shareholders' meeting is competent to approve the audited annual financial statements, to appoint and/or remove directors and supervisory auditors and to deal with any other matters related to the SA's ordinary course of business. In addition to the ordinary meeting, the shareholders may hold extraordinary meetings to consider any other matters (for instance, amendments to the by-laws or reorganizations).

(vi) Financial Statements: SAs shall approve financial statements and file them with the PR on an annual basis.

Please note that the registration of a SA with the PR might take approximately fifteen working-days as from the date on which the relevant documentation is submitted to the PR. Pursuant to PR Resolution No. 1/2018, as from April 4, 2018, SAs and SAUs filed on an urgent basis will be registered within 24 hours, provided no observations are raised to the documentation submitted to the PR. The PR also provides the company's Tax ID upon registration, provided certain additional documentation is furnished with the initial filing.

The “Sociedad Anónima Unipersonal” (SAU) is a type of SA which has been recently incorporated into the

Argentine regime. The SAU may be organized with only one equity holder and is subject to certain additional requirements. Pursuant to Argentine law, SAUs are subject to permanent governmental control. In this regard, SAUs shall, among other requisites: (i) appoint at least one regular supervisory auditor; and (ii) comply with the filings required for companies subject to permanent governmental control by the PR. The fact that SAUs are subject to permanent governmental control makes them an expensive type of corporate entity, which would not be convenient for small-scale business operations.



A SRL is a limited liability company whose articles of organization shall be registered with the PR to operate regularly in Argentina. This company allows its members to limit their liability to the par value of the units that they have agreed to subscribe, although each member shall guarantee, jointly and with no limitation, all pending capital contributions and any overvaluation of non-monetary contributions.

A description of the main requirements and aspects of this type of company follows:

(i) Members: in this case, the ACL also requires a minimum of two members (being the requirement of substantial plurality of the PR applicable), who may be residents or non-residents in Argentina. However, the SRL may have a maximum of fifty members. The transfer of units shall be registered with the PR.

(ii) Foreign company as a member: please see our comments in section 1(ii) above, which also apply to the SRL.

(iii) Capital: there is no minimum capital required by the ACL for a SRL, though each unit –i.e. the way the membership interests are represented in SRLs– shall be equal to ARS 10. As regards the paid-in capital, we refer to our comments in section 1(iii).

(iv) Management and supervision: SRLs are managed by one or more managers, who may be appointed for an indefinite period of time (and may also be reelected). It is not required that the managers are members of the SRL, but the majority of them shall be residents in Argentina. The legal representation of the SRL shall be vested on one or more managers, as set forth in its operating agreement.

SRLs may be organized with or without supervisory auditors. However, the appointment of one or more supervisory auditors is mandatory if the SRL's capital exceeds ARS 50,000,000.

(v) Meetings of members: the authority governing the SRL is the meeting of members. The form in which the members of a SRL discuss and adopt resolutions is simple and flexible, and it may be established in the

operating agreement. Unless the operating agreement provides otherwise, members may adopt resolutions by written consent; annual members' meetings shall be held to consider audited annual financial statements of SRLs with a stated capital in excess of ARS 50,000,000.

(vi) Financial Statements: SRLs shall approve financial statements, but there is no need to file them with the PR, unless its capital reaches the amount of ARS 50,000,000.

The terms for registration of the SRL with the PR are similar to those applicable to the SA. The registration within 24 hours as from the filing made on urgent basis is also applicable for SLRs pursuant to PR Resolution 5/2017, in which case, the PR also provides the Company's books with their related legalization. In this case, the PR also provides the company's Tax ID upon registration, provided certain additional documentation is furnished with the initial filing.

Branch

Another alternative for doing business in Argentina is setting up a Branch of a foreign company.

According to the ACL, the Branch shall be registered with the PR to validly operate in Argentina on a regular basis (habitually), though it is governed by the laws of the place of organization of the Branch's headquarters. We may expand on the requirements for this registration at your request.

To perform activities in Argentina, the Branch shall keep accounting records; thus, it shall keep books of account separate from those of the headquarters to record the transactions carried out locally. Accordingly, its legal representative shall prepare and file with the PR annual financial statements.

Additionally, the Branch shall establish a legal domicile in Argentina and appoint a legal representative, who may or may not be an Argentine resident.

Capital may be assigned to the Branch, though such assignment is not mandatory. Headquarters is liable for all the Branch's operations in Argentina.

Please note that, normally, the registration of a Branch with the PR might take approximately thirty working-days as from the date on which the relevant documentation is submitted to the PR.

SAS

(A SAS is a new business form set forth in year 2017 by means of Law No. 27349. The articles of incorporation and by-laws of the SAS shall also be registered with the Public Registry (PR) in order to operate regularly in Argentina. This new company structure allows its members to limit their liability to the paid in capital, even though all shareholders are jointly liable *vis-a-vis* third parties for full payment of all the shares.

A description of the main requirements and aspects of this type of company follows:

(i) Members: SASs can be organized with a minimum of one shareholder.

(ii) Foreign company as a member: please see our comments in section 1(ii) above, which also apply to the SAS.

(iii) Corporate capital: the minimum capital required for a SAS is twice the minimum wage required by law (currently ARS 19,000). As regards the paid-in capital, we refer to our comments in section 1(iii).

(iv) Corporate purpose: the corporate purpose can comprise multiple activities not linked with each other.

(v) Management: SASs are managed by one or more managers, who may be appointed for an indefinite period of time (and may also be reelected). It is not required that the managers are members of the SAS, at least one of them shall be an Argentine resident and all members shall have a Tax ID (in Spanish, "CUIT"). The legal representation of the SAS shall be vested on one or more managers, as set forth in its by-laws.

The managers meetings can be convened by electronic means, and be held outside the registered office.

SASs may be organized with or without supervisory auditors, if there is no supervisory auditors appointed, the shareholders shall appoint at least one alternate director.

It is also worth mentioning that SASs can carry books, grant powers of attorney and sign minutes and other documents digitally.

(vi) Shareholders' meetings: the corporate authority governing the SAS is the shareholders' meeting. Shareholders' meetings can be held at the corporate address or not, by any means that allows all participants to communicate simultaneously. Resolutions may also be adopted by written consent of shareholders.

(vii) Financial Statements: although SASs shall approve financial statements, they can only consist on the balance sheet and income statement. There is no need to file them with the PR, even if its corporate capital exceeds the amount of ARS 50,000,000.

(viii) Restrictions: this corporate structure is not allowed for those companies under permanent control by the

PR, as provided for in Section 299 of the ACL (such as: government owned companies, companies that develop financial activities and/or companies that operate public concessions or public services). The same restriction applies to companies holding interests in the SAS, provided such interest exceeds 30 % of its capital, or control the SAS in any manner.

It is worth noting that SASs can be registered by electronic means and within 24 hours since the time of the filing with the PR. The PR also provides the company's Tax ID upon registration, even if evidence of legal address is not furnished at the moment of filing. The SASs will have to provide such evidence within 12 months after registration.



5 The Argentine Tax System

▶ Main Taxes

Federal, provincial and municipal governments levy taxes in Argentina. The Federal Government imposes income tax, value added tax, minimum presumed income tax, wealth tax, excise tax, tax on financial transactions and customs duties.

The provincial and municipal jurisdictions levy turnover tax, real estate tax, stamp tax, tax on vehicles and tax on public advertising, among others.

▶ Sources of Tax Law

The Legislative Branch (Congress), which consists of the House of Representatives and the Senate, enacts federal tax legislation. Legislation is generally proposed by the President of Argentina based on studies conducted by the Ministry of Economy.

Decrees and regulations issued by the Government facilitate the proper interpretation and application of the law. Moreover, the Tax Authorities continuously issue rules that establish practical application procedures or provide information on official interpretations of tax legislation. Answers to the Tax Authorities' requests of information also provide a guideline for interpretation, exclusively binding on the firm submitting the query. In addition, decisions rendered by Argentine courts result in case law, which provide additional guidance and clarification to taxpayers.

Provincial and local tax laws are enacted by the legislatures of each province or local government and, therefore, vary among jurisdictions. Most provinces and local governments issue regulations to assist in the interpretation of their tax laws.

▶ Tax Administration

Filing Procedures and Tax Payments

The Argentine tax system is based on the principle of self-assessment. Federal tax laws require taxpayers to file annual or monthly returns to report their taxable income, determine their tax liability, deduct any taxes withheld or paid in advance, and pay any balance due.

Companies are required to make 10 monthly advance payments of their annual income tax liability. Advance payments are calculated based on a percentage of the previous year's income tax obligation. An optional system to make estimated payments is available. The corporate income tax return shall be filed within five months after the end of the company's fiscal year.

The tax year for individuals is the calendar year. Individuals whose sole earnings are employee's compensation are not required to file an individual income tax return for the year. Instead, their employers are required to withhold income tax monthly, and this tax is considered final. Notwithstanding the abovementioned, depending on the level of income, tax returns for information purposes may be required.

Individuals with significant amounts of non-wage income, such as income from self-employment, are required to make 5 advance payments towards their final tax liability. These payments are calculated as a percentage of the prior year's income tax and are made bimonthly from August to April. Resident individuals with non-wage income shall file an annual income tax return within six months after the end of the calendar year.

Foreign taxpayers not established in Argentina are not required to file a tax return if their income tax liability is fully satisfied by withholding taxes on Argentine-source income.

▶ Audits, Assessments and Appeals

The Tax Authorities (AFIP) review tax returns to confirm their accuracy and completeness. Tax officials usually visit the premises of taxpayers to examine books and documents and determine if the taxable bases are correct. Likewise, they make routine visits to monitor compliance with value added tax obligations.

The appeal procedure for assessments received as a result of a tax audit is divided into two phases: administrative and legal. The administrative phase begins when the taxpayer answers the notice of assessment (in Spanish, *vista*). If the taxpayer challenges the assessment, but the Tax Authorities maintain their position by issuing a resolution (*ex officio* assessment), the file is forwarded to the tax collector that issues a tax bill (in Spanish, *boleta de deuda*), unless the taxpayer files an appeal with the same Tax Authorities or with the special tax court.

If the Tax Authorities' position is confirmed when the administrative phase ends, the tax bill is bound to be collected, and the taxpayer shall pay the amount assessed. To challenge the unfavorable decision issued by the Tax Authorities or the special tax court, the taxpayer may begin the legal phase, after paying the amount assessed, by filing an appeal with a federal district court or with the federal court of appeals.

▶ Calculation of Tax

Tax laws establish very detailed rules on how the tax should be calculated. In general, the calculation is based on known facts, such as those shown in the books kept by the taxpayer or in the documentation kept on file. Only when no detailed information has been provided by the taxpayer or no proper books of account are being kept, or the information or records prove to be incorrect or incomplete, may the Tax Authorities turn to legal assumptions to establish the tax obligation of the taxpayer at issue.

▶ Penalties

The Tax Authorities may impose various penalties for late filing of returns, unreported taxable income or fraud. A penalty equal to 100 % of the underpaid tax is imposed for failure to file tax returns or withhold taxes, and for filing inaccurate returns. The fine will be equivalent to 200 % in case of recidivism. When the failure to report or withhold tax arises from operations with foreign entities, the fine will be equivalent to 200 % of the unpaid tax, and may increase to 300 % in the case of recidivism. The penalty for fraud is equivalent to 2 to 6 times the evaded amount. There is a penalty interest of 3 % per month for late payment of taxes. There are penalties involving imprisonment for those who commit fraud. This embraces directors, managers, supervisory auditors, members of the statutory audit committee, administrators, agents, and representatives of entities involved in the commission of fraud.

The Federal Government has promoted a law whose regulation sets forth how to pay tax credits, deductions or other transactions. It requires that any transaction over ARS 1,000 be paid by bank check, wire transfer or other specific checks created for such purposes. Also, the Government decided to create a special legal forum for tax frauds in order to reduce the tasks of the current federal courts, and to improve tax collection.

▶ Confidentiality

Data and information given to the Tax Authorities shall be kept confidential. The AFIP may, however, share information with the Customs Authorities, the Argentine Securities and Exchange Commission (in Spanish, CNV) and the BCRA. Moreover, a judge may request the AFIP to disclose information to a court. However, on certain occasions, the AFIP have published the amount of the tax on the private property paid by individual taxpayers, and the names of taxpayers that, according to the records of the AFIP, have missed a tax deadline.

▶ Statute of Limitations

The statutory period for assessment is normally five years. Still, there are circumstances that might be examined in each case. It is important to note that Law 26476 (2009 Tax Amnesty) states that the statute of limitations has been suspended for one year. For social security matters, the statute of limitations extends to ten years.

6 Business Taxation

▶ Corporate Income Tax

Resident Companies

A comprehensive tax reform (Law 27430) was enacted and published in the Official Gazette on December 29, 2017. The amendments introduced by the Law are generally effective on January 1, 2018.

The abovementioned reform has introduced a partial integration system, in which the tax paid by the company is supplemented by the tax withheld from the shareholder at the time of the distribution of the dividends.

Tax Rates

The corporate income tax rate will be gradually reduced according to the following schedule:

- 2018 and 2019—a rate of 30 %
- 2020 onwards—a rate of 25 %

An additional withholding tax will be levied on distributed dividends or profits, which will bring the total tax rate to 35 %, as follows:

- 7 % dividend withholding tax rate for distributions on profits accrued for fiscal years between January 1, 2018 and December 31, 2019.
- 13 % dividend withholding tax rate for distributions on profits accrued for fiscal years beginning on or after January 1, 2020.

Territoriality

For resident companies, worldwide income is taxable, including income of foreign branches and subsidiaries. Income of foreign subsidiaries is taxable only to the extent of dividends actually paid, unless the subsidiary is subject to the tax transparency regime, in which case, the Argentine company is taxed on the allocable share of the subsidiary's income regardless of whether dividends are paid (CFC rules further explained below). Companies formed under Argentine law, as well as commercial, industrial, agricultural, mining, and other

types of permanent establishments of foreign entities, are considered to be residents. They must keep separate books and records for a permanent establishment in Argentina.

Gross Profit

Gross profit generally includes all income collected by or due to the company.

Business Income

Business income includes income from the sale of goods, depreciable assets, shares or real estate; income from dividends other than from resident companies; interest; royalties and fees; and foreign exchange gains.

The only type of business income for which the law specifically defines "gross profit" is that derived from the sale of inventories; it is defined as net sales less the cost of acquisition or production.

Other gross profit may be determined by any appropriate, technically sound and consistently applied accounting procedures.

Capital gains

A company's capital gains are not subject to a specific tax. They are included in the scope of income tax and, consequently, subject to a 30 % rate, the same as ordinary income.

Net Operating Losses

Net operating losses may not be carried back, but may be carried forward for a maximum of five years.

Specific Losses

Tax losses arising from the sale of stock, representative shares or deposit certificate shares, membership or equity interest, bonds or other securities in Argentine companies can only be offset against income arising from similar source and nature. Same treatment applies to losses incurred in derivative transactions (excluding hedge transactions). Losses from activities producing foreign-source income may be offset only against foreign-source income.

Valuation of assets

Tax regulations generally provide for valuation of assets in such a way that current values are usually reached.

Inventory

Specific methods of inventory valuation must be used, depending on the nature of the inventory.

Goods held for resale and raw materials must be valued at the price of the latest purchase made during the last two months before the end of the year. If no purchase was made in that period, the last prior purchase must be considered.

For manufactured products, companies that can determine their production costs are allowed to use them for tax purposes. Indirect costs must be included. If a company cannot determine its production cost, it must value its inventories at selling price less direct selling expenses incurred and net profit margin realized in the last two months before the end of the year. If no sales were made in that period, the last prior sale must be considered.

Fixed Assets

Fixed assets are valued at cost less accumulated depreciation - calculated according to law - and adjusted for the effects of inflation up to March 1992.

Notwithstanding the abovementioned, as a result of certain amendments introduced by the Tax Reform, fixed assets purchased as from January 1, 2018 can be adjusted for inflation in order to determine depreciation and their computable cost in the event of sale or transfer.

Deductions

Business Expenses

Companies may deduct from gross profit all ordinary and necessary expenses incurred to obtain, maintain and keep taxable income. If an entity's income is partially taxable and partially non-taxable, its expenses must be allocated proportionately to taxable income.

Depreciation and Amortization

Depreciation of buildings used to generate taxable income may be deducted at an annual 2 % rate of the cost of the buildings. Such depreciation expense must be indexed to inflation occurring between the month of acquisition or construction and the end of the tax year but not beyond March 1992. Other depreciation rates may be used if they are technically supported.

Annual depreciation of all other depreciable assets used to generate taxable income is determined by dividing the acquisition cost of the asset by its estimated years of useful life, and then indexing the result to inflation in the same manner as for buildings and improvements.

Tax law does not provide standard depreciation rates.

Other depreciation methods, such as those based on units of production or sum of the years, may be used if they are technically supported.

Amortization of goodwill, trademarks and similar intangible assets is not deductible.

At the taxpayer's option, organization costs may be deducted either in the year in which they are incurred or capitalized, and then amortized over a period not exceeding five years.

As a result of certain amendments introduced by the Tax Reform, fixed assets purchased as from January 1, 2018 can be adjusted for inflation in order to determine depreciation.

Reserves

Write-offs and allowances for bad debts, in reasonable amounts and in accordance with prevailing practices, are deductible. However, the criteria for the deductibility of bad debts are somewhat restrictive.

Other Deductions

The general rule for deduction of expenses is that they must be related to business and deemed necessary to earn income.

Interest expense on loans, plus related exchange losses, may be considered for deduction. In addition, expenses incurred in obtaining, renewing and settling loans are deductible. Loans granted by a foreign home office or affiliate must comply with the arm's length principle. Furthermore, thin capitalization rules must be considered.

When interest is paid on debts (including corporate bonds) held with companies in the country (except for financial institutions), the withholding rate is equivalent to 35 % and the amount of the withholding will be considered a tax credit for the beneficiary.

Taxes, other than income tax, are generally deductible. The minimum presumed income tax is supplementary to the general income tax, and it can be used as a credit towards the payment of the income tax liability for a period of ten years.

Extraordinary losses resulting from casualties (such as a fire or storm), theft or force majeure involving assets that generate taxable income are deductible to the extent they are not covered by insurance or otherwise indemnified.

Losses derived from crimes committed by employees against business property which contribute to the generation of taxable income are deductible to the extent they are not covered by insurance or otherwise indemnified. Such losses must be proven to the satisfaction of the Tax Authorities.

Fees paid to resident directors are deductible up to a maximum of 25 % of book earnings or an amount established by law, whichever higher.

Fees to non-resident directors are deductible up to 12.5 % of book earnings if all of them are distributed as dividends. If no dividend is distributed, the maximum is 2.5 %. If a dividend is distributed between these two limits, the maximum deduction must be calculated proportionally according to the lowest limit.

Entertainment expenses are deductible up to a maximum of 1.5 % of the salaries paid during the calendar year.

There are limits imposed by law on the deduction of depreciation and other expenses related to automobiles.

Expense deductibility as a result of payment (instead of accrual) is established for Argentine-source expenses paid to a foreign related party or a party located in a low or null taxation jurisdiction.

Payments for technical assistance from abroad are deductible up to 3 % of the sales on which the fees are based or 5 % of the investment made as a result of the assistance.

Expenses incurred or contributions made to personnel for purposes of sanitation, education and cultural improvement are deductible. In general, all payments made by an employer to the benefit of employees and their dependents, such as annual bonuses paid to employees prior to the filing of the employer's annual tax return, are deductible.

Amounts reserved for retirement plans established by the company for its employees are deductible, if payment to employees is not subject to conditions, such as reaching a certain age or not being dismissed.

Contributions to certain retirement plans managed by authorized entities are also deductible, up to fixed amounts established by the tax law.

Research and development expenses may be deducted as incurred, or may be capitalized and subsequently amortized over a period not exceeding five years at the taxpayer's option.

Bad Debts

A deduction of bad debts is generally allowable when the debts are determined to be uncollectible based on uncollectibility events. Some of the uncollectibility events established by law include bankruptcy, presumption of death from absence, legal actions, and statute of limitations.

The actual or presumed suspension of payments is excluded from the uncollectibility events considered to determine bad debt deductions.

In addition, in relation to receivables that are "not material" in accordance with the guidelines of the AFIP, given the wide range of activities that may emerge, the AFIP must decide, by considering each activity type, the maximum amount of overdue receivables that are not material and can be deducted as bad debts without the need to implement mandatory collection efforts.

In the case of secured receivables, they may be deducted in the amount secured, only if the related judicial sale has been ordered.

Thin Capitalization Rules

According to the new rules, interest on financial debts - thus excluding any debts arising from the acquisition of assets, and provision of services in the ordinary course of business- owed to related parties (whether Argentine residents or otherwise) will be deductible from the balance sheet for tax purposes in the year in which they are accrued, provided they are paid within the term established for filing the tax return corresponding to such year.

Additionally, the law states that such deduction cannot exceed the annual amount set by the Argentine Executive Branch, or an amount equivalent to thirty per cent (30 %) of net income before deducting the aforementioned interest and depreciation set forth by this law, whichever higher.

The excess accumulated during the preceding three (3) fiscal years may be added to the aforementioned cap amount, when, in any of such years, interest actually deducted is lower than the applicable cap amount, as long as such excess had not been previously used in accordance with the procedure established herein. In other words, the limit will be increased by the amount related to the unutilized deduction capacity in the prior three years.

Any interest that could not be deducted in accordance with the preceding paragraphs may be added to interest subject to the limitation accrued in the following five (5) fiscal years, in which case, the cap amount referred to above will be applicable.

The foregoing implies that -unlike previous regulations, in which interest paid on liabilities in excess of the ratio was permanently non-deductible- if certain interest is not deductible due to the limitations established by the law, they can be carried forward for five years.

The deductibility limit will not be applicable in the following cases:

- 1.** Entities governed by Law 21526, as amended;
- 2.** financial trusts created in accordance with sections 1690 to 1692 of the Argentine Civil and Commercial Code;
- 3.** companies whose main business is the execution of lease-purchase agreement, and whose secondary business consists exclusively in financial activities;
- 4.** when the interest amount does not exceed the amount of interest income (active interest income);
- 5.** when, for a given fiscal year, it is evidenced through reliable means that the ratio between interest subject to the limitation above and net income referred to therein is equal to or lower than the ratio between liabilities to independent creditors and net income determined for such fiscal year by the economic group to which the entity belongs in accordance with such provisions, and considering the requirements established by the related regulatory decree; or

6. when it is evidenced through reliable means, as required by the regulatory decree, that the beneficiary of interest has actually paid tax on such income in accordance with this law.

Inflation Adjustment

Argentine tax legislation sets forth an adjustment for inflation. However, although these rules have not been repealed, their application has been suspended, and no inflation adjustments for tax purposes have been permitted since April 1, 1992.

The new tax reform has re-established the integral adjustment for inflation procedures as long as the variation of the Internal Wholesale Price Index (*Índice de Precios Internos al por Mayor* – IPIM) accumulated in the 36 months prior to the end of the fiscal period, is higher than 100%. This provision will be applicable for fiscal years beginning on or after January 2018.

Additionally, it is worth mentioning that the Tax Reform introduced a Revaluation of Assets Regime for Tax Purposes (RARTP). The RARTP intends to partially reverse the distortions in the taxpayer's balance sheet for tax purposes (in particular, for Corporate Income Tax purposes) which were caused by inflation. Under the RARTP, the taxpayer will have the option to adjust the tax base of the assets used in its income generating activities.

The taxpayers who elect to be included in the RARTP will be subject to a special tax, which will be levied on the amount of the adjustment to the taxable basis of assets.

Additionally, the Tax Reform has also introduced a Revaluation of Assets Regime for accounting purposes.

Foreign Tax Credit

Resident companies may compute foreign income taxes as a credit towards their Argentine tax liability, up to the amount of the increase in their tax liability that results from including foreign-source income in the taxable base. This credit includes foreign withholding taxes where the Argentine entity is considered the payer, even if the foreign payer of income is a third party. The foreign tax credit cannot be carried back, but may be carried forward for a period of up to five years.

Treatment of Groups of Companies

Group Returns

Consolidated filing is not permitted. Each entity, even if belonging to the same owner or affiliated group, must file a separate tax return.

Foreign-source Dividends - CFC Rules

The tax transparency test consists of validating whether or not the entity abroad meets the parameters required to qualify for any of the groups subject to the tax transparency regime.

Revocable Trusts and similar vehicles: Income obtained by trusts, private foundations and entities of any similar nature organized, domiciled or located abroad, whose main purpose is the management of financial assets, shall be allocated by the resident managing them to the fiscal year or period in which the fiscal year of such entities ends.

The situations in which an individual/legal entity will be regarded as managing these entities are expressly regulated.

Companies not legally registered for tax purposes in the foreign jurisdiction: Income earned by local residents as a result of their ownership interest in companies or other legal entities organized, domiciled or located abroad, shall be allocated by shareholders residing in Argentina to the fiscal year or period in which the fiscal year of such companies or legal entities ends, pro rata to their ownership interest.

Companies legally registered for tax purposes in the foreign jurisdiction: Income earned by local residents as a result of their direct or indirect ownership interest in companies or other legal entities organized, domiciled or located abroad, shall be allocated by shareholders residing in Argentina to the fiscal year or period in which the fiscal year of such companies or legal entities ends, provided always that these requirements (among others) are met: a) controlling interest (interest equal to or higher than 50 % in the equity, the P&L or voting rights of the non-resident entity, individually or jointly with certain relatives; or -regardless of ownership percentage- powers or attributes evidencing control), b) substance or nature of income (in general, passive income accounting for at least 50% of income for the fiscal year), c) low taxation in the foreign jurisdiction (below 75 % of the tax that would have been levied under applicable Argentine tax law).

Income allocated according to the abovementioned provisions shall receive in relation to the individual/legal entity residing in Argentina the same treatment that should have been given in the event such income had been earned directly.

Distribution upon Liquidation

In general, a company distributing property at the time of final liquidation must recognize the gain or loss that would have resulted from selling such property at fair market value. In most cases, any gain earned by the owners from the company's liquidation will not be taxable.

Dividends, Interest and Royalties Paid to Foreign Affiliates

It should be noted that the tax reform has eliminated the Equalization Tax mechanism for dividends or profits that correspond to accrued profits in fiscal years beginning on or after 1/1/2018, maintaining its application for the prior years. The purpose of the Equalization Tax was that the excess between accumulated accrued and taxable profits be subject to a withholding tax.

The profits generated in years beginning in January 2018 will be subject to the new scheme of partial integration between the corporate income and the dividend.

Therefore, in order to define the treatment to be given to dividends, it should be considered when the profits to be distributed were generated, following a FIFO methodology.

Interest is a deductible expense -with certain limits- and is subject to withholding tax when paid to foreign beneficiaries at the rate of 15.05 % or 35 %.

Royalties are deductible and subject to withholding tax. The withholding rate depends on the nature of the service and compliance with the local legislation on transfer of technology. Rates are 21 %, 28 % and 31.5%. The deductibility of royalties is limited to 80 % of the gross payment made to non-resident entities.

Reorganization of Companies

Tax losses and exemptions can be transferred from the former company to the surviving company.

However, it is required that the owner/s of the former companies hold(s) at least 80 % of their ownership interest during a period not shorter than two years prior to the reorganization date.

This requirement shall not be in force when the former company or companies offer(s) shares in equity markets for the same period.

It is still mandatory for the owner/s of the former company and during two years after the reorganization date to keep at least 80 % of its ownership interest to that date or offer shares in equity markets for the same period.

Tax Incentives

Incentives are available for mining, research and development activities, the software industry, investment in capital assets and infrastructure works, the biofuel industry, modern biotechnology and the bioethanol industry.

Mining Promotion

Several tax incentives are granted to resident individuals and legal entities organized or established in Argentina. For them to be eligible, they must develop mining activities in Argentina, or create an establishment in Argentina for that purpose, and register with the applicable authorities.

Individuals or entities rendering mining services, as well as state-owned organizations engaged in mining activities, are exclusively eligible for benefits relating to import duties exemptions on capital assets and equipment.

The incentives are granted for the prospecting, exploration, development, preparation, extraction and certain processing of minerals subject to the Mining Code.

In order to be eligible the project must be located in the territory of the provinces under the incentive scheme.

Hydrocarbons, the industrial production of cement, the industrial production of ceramic, the extraction of sand and quarrying are not eligible activities.

Eligible projects receive, among others, the following tax benefits:

- Tax stability

Except for VAT and social security contributions, the total tax burden may not be increased during 30 years from the filing of feasibility studies. This benefit covers taxation at federal, provincial and municipal levels (i.e. provinces and municipalities under the scheme);

- Special rules regarding deductibility and depreciation;

- Royalties

Royalties charged by provinces are limited to 3 % of the value of the mineral extracted and transported before any transformation process (the pithead value).

The administration and control of the scheme is the responsibility of the Mining Bureau. In order to obtain the benefits it is necessary to be registered with the Mining Bureau. This authority must issue a certificate stating the taxes and charges (whether national, provincial or municipal) applicable to the project at filing date and send a copy of that certificate to the Tax Authorities.

Tax Credit Regime for Institutions

There is a tax credit granted on qualifying gifts or expenses incurred by companies or sole entrepreneurs destined to support training institutions. For large companies, the tax credit may not exceed 0.8% of the annual payroll (8% for micro, small and medium-sized enterprises). The tax credit is granted, upon request, by the applicable government agency and it may be used to pay any federal tax (e.g. income tax, VAT). Expenses or gifts originating in the tax credit are not deductible for income tax purposes. The tax credit may be assigned only once a year. The property acquired with the expenses attached to the tax credit is subject to certain limitations (e.g. with respect to its transfer).

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Tax Credit on Research and Development Projects

Argentine companies may obtain a “tax credit certificate” of up to the lower of 10 % or ARS 5 million of certain eligible expenditures in research, development or technological innovation. Such certificates will be

computed as a credit towards the payment of federal taxes. The Executive Branch will assign and fix the annual amount of tax credits that may be granted under this regime.

Investment in Capital Assets and Infrastructure Projects (Law 26360)

The regime grants tax benefits for investments in new movable depreciable capital assets that are used for industrial activities, excluding vehicles and civil engineering projects, which comply with the relevant requirements and are eligible under the activities defined by the applicable regulations, i.e. manufacturing.

Eligible individuals/entities must be registered with the relevant authorities and create new jobs according to the labor law governing the applicable activities.

The tax benefits available under the regime, primarily, consist of either:

(1) the option of obtaining an early refund of the input VAT attributable to either the capital assets or the infrastructure project included in the investment project; or

(2) the application of an accelerated depreciation of specific assets, subject to certain conditions.

The benefits under (1) and (2) are only available together in respect of investment projects which are intended exclusively for the export market.

Software Industry Regime

The law provides for tax benefits to certain activities undertaken in the software industry, including the creation, design, development, production and implementation of software systems and operating instructions.

Taxpayers shall be registered with the Bureau of Entrepreneurs and Small and Medium-Sized Enterprises of the Ministry of Production (in Spanish, *Secretaría de Emprendedores y de la Pequeña y Mediana Empresa del Ministerio de Producción*) to be eligible for the tax regime applicable to the software industry.

The tax benefits provided by this regime are available until December 2019, according to the regulations of Law 26692.

Tax Benefits

Under the law, tax benefits include:

• Tax stability

Under the new tax regime, taxpayers (both entities and individuals) will not be subject to raises in all national tax rates until December 31, 2019.

• Bonus tax credit

Under the law, taxpayers are allowed an additional tax credit in an amount equivalent to 70 % of employers' contributions effectively paid to the social security system, generally, based on the total payroll of the company. The bonus tax credit can be used to offset certain national taxes, except for income tax. Taxpayers cannot use the bonus tax credit to satisfy outstanding tax debts dated before registration with the special tax regime.

• 60% exclusion in income tax payable

Qualifying taxpayers can benefit from a 60 % exclusion in income tax payable.

Law 25922 - Software Industry Promotion Regime became effective upon the issuance of Decree 1182/2004 published in the Argentine Official Gazette on September 9, 2004.

Renewable Energy Regime

By the end of 2015, Law 27191 was enacted for the purpose of fostering the generation of electricity from renewable sources.

The Law defines that an 8 % of electricity should be generated from renewable sources by the end of year 2017 and 20 % by the end of year 2025. Goals shall be progressively met in accordance with the following schedule:

- 12/31/2017: Minimum consumption 8%
- 12/31/2019: Minimum consumption 12%
- 12/31/2021: Minimum consumption 16%
- 12/31/2023: Minimum consumption 18%
- 12/31/2025: Minimum consumption 20%

Tax Benefits

- VAT: Early refund of the tax in the construction stage.
- Income tax:
 - Accelerated depreciation of personal property and infrastructure work
 - Tax losses can be computed for a term of 10 years
- Minimum presumed income tax exemption up to the eighth year subsequent to start-up, on property involved in the project subject to the promotion regime (nevertheless, Law 27260 repeals the tax as from 01/01/2019).
- Tax certificate equivalent to 20 % of the amount of the national-source component (60 % of national-source component shall be evidenced, which can be reduced up to 30 % to the extent that non-existence of local production is evidenced). The certificate can be assigned only once.
- Import duties exemptions.

Other Benefits

- Loans from Banco de la Nación Argentina: Short-term loans will be granted at a special interest rate to finance the payment of VAT by the beneficiaries of the regime during the development of the project until it becomes operative.
- Treatment under the Companies Law: For the purposes of section 94, subsection 5 and section 206 of the Companies Law, interest and exchange losses arising from the financing of the project subject to the promotion regime may be excluded from the company's losses. They may be disclosed for accounting purposes in an explanatory note. For tax deduction purposes, the provisions of the Income Tax Law (general treatment) shall be applied.

Biofuel Industry

The law defines biofuel as bioethanol, biodiesel and biogas produced with raw material from agriculture, agro-industrial and organic waste, which complies with the quality standards established by the applicable authorities.

Tax benefits available under this regime are the following:

- An accelerated depreciation/amortization of equipment and investments for income tax purposes;
- An early refund of VAT on purchases of fixed assets and investments in infrastructure;
- An exemption for such assets from the minimum presumed income tax, and
- An exemption for bioethanol and biodiesel from the hydro-infrastructure fee, the tax on fuel liquids and natural gas and the tax on the transfer of gasoil.

The Income Tax and VAT benefits are mutually exclusive.

The tax benefits mentioned above shall be in force for 15 years and may be extended for other 15 years by the Argentine Executive Branch.

Modern Biotechnology

The law defines "modern biotechnology" as the technology application based on rational knowledge and scientific principles derived from biology, biochemistry, microbiology, bioinformatics, molecular biology and genetic engineering, which uses live organisms or part of them for the production of goods and services or for the substantial improvement of production processes or products.

The preferential regime is available to resident individuals and legal entities incorporated in Argentina that submit a research and development project based on the application of modern biotechnology, and also to individuals and legal entities filing or executing application projects of modern biotechnology for the production of goods and/or services. Eligible individuals/entities shall be registered with the relevant regulators.

Tax benefits available under this regime, which shall be in force for 15 years, are the following:

- An accelerated depreciation of fixed assets, equipment and parts thereof for income tax purposes;
- An exemption from the minimum presumed income tax for such assets;
- An early refund of VAT on purchases of such assets. This credit will be used towards the payment of other national taxes, and
- A credit certificate for 50 % of the social security contributions paid. This certificate can be used as a credit towards the payment of national taxes, e.g. VAT, income tax, income tax advances.

Resident individuals and legal entities incorporated in Argentina that submit a research and development project based on the application of modern biotechnology will also have the benefit of a credit certificate for 50 % of the research and development expenses incurred with qualified institutions (as defined by law).

Micro, Small and Medium-Sized Enterprises Regime (in Spanish, MiPyME)

Law 27264 provides MiPyME with several tax benefits. Among them, there are the following:

- Minimum presumed income tax exemption from fiscal year 2017 onwards.
- Micro and small-sized enterprises may compute 100 % of the credit and debit tax effectively paid as a tax credit against income tax. Medium-sized enterprises related to the manufacturing industry may offset 60 % of such payments.
- MiPyME may pay the VAT balance on the due date corresponding to the second month immediately following its original maturity.
- Fiscal stability from July 1, 2016 until December 31, 2018.
- Further tax benefits are provided for those MiPyME making productive investments and those that develop the manufacturing industry.
- Law 27440 has established the electronic credit invoice as a financing instrument for MiPyMEs.

Non-resident Companies

Foreign companies are taxed only on Argentine-source income. They are generally imposed withholding taxes at different rates, depending on the nature and origin of income.

Import-related Income

Income earned by a foreign company from imports into Argentina is not taxable, provided that the ownership of goods is transferred overseas and that the local purchaser clears the goods through the Argentine Customs Authorities.

Portfolio Income

Dividends paid by resident companies (corporations, limited liability companies or branches) are subject to a withholding tax. Withholding rates are as follows:

- 7% for profits accrued in fiscal years 2018 and 2019.
- 13% for profits accrued in fiscal year from 2020 onwards.

Proceeds from the sale of shares of local companies are subject to tax at a 13.5 % rate on the gross amount, or at a 15 % rate on the net amount (at the taxpayer's option).

However, foreign beneficiaries -provided they do not reside in and the funds do not come from non-cooperative jurisdictions- will be exempted on:

- Income derived from the sale of shares that are publicly traded in stock exchanges or stock markets under the supervision of the Argentine Securities and Exchange Commission (CNV).
- Interest income and capital gains on the sale of public securities, negotiable obligations and certificates of deposit of shares issued abroad that represent shares issued by entities domiciled or located in Argentina (i.e., ADRs). It is worth clarifying that in the case of ADRs, the new rules confirm that the source of income is determined by the place in which the original issuer of the shares is located.

LEBACS (Central Bank notes) are not included in this exemption.

The tax reform has also introduced the indirect taxation of shares. A non-resident is deemed to obtain Argentine-source income from the sale of shares or any other right representing the capital or equity of an entity domiciled or located abroad, when the following conditions are met:

(a) The market value of shares, upon the sale or in any of the twelve (12) months prior to the sale, accounts for -at least- 30 % of the value of the assets owned by the referred seller -either directly or through the intermediation of other entities- in Argentina.

(b) Shares, interests, units, securities or rights sold which, at the moment of the sale or in any of the twelve (12) months prior to the sale, account for -at least- 10 % of the foreign company's equity that owns, either directly or indirectly, the assets indicated above.

Argentine-source income is determined only as the proportion of the interest that the assets in the country represent in the value of the shares sold. Note that indirect transfers within the same economic group are not taxable, as long as the requirements set forth by the regulatory provisions (still pending) are met.

Additionally, it is worth mentioning that taxation will only apply to interest in foreign entities acquired after the tax reform is in force.



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Partnerships, Limited Liability Companies and Joint Ventures

Taxable income of individuals, who are partners in a general partnership allowed under Argentine law, is first computed for the partnership as a whole and, then, is generally allocated to the partners in accordance with their capital or profit sharing agreement. Each partner is subject to income tax on his or her own allocated taxable income.

Limited liability companies are taxed in the same manner as corporations.

For joint ventures, taxable income is allocated among the joint venture members, whether companies or individuals. Each joint venture member is then subject to income tax on its allocated taxable income under the rules applicable to the related member (whether company or individual).

Tax losses are also allocated to partners and joint venture members.

Taxation of Individuals (Residents and Non-residents)

Territoriality

Individuals residing in Argentina are subject to tax on their income arising from both Argentine and foreign sources. Non-residents are taxed only on Argentine-source income.

Residence

Individuals who reside permanently in Argentina (having obtained a permanent residence or having remained in the country for 12 months) are considered residents. If double residence situations are verified, permanent residence of an individual is determined by reference to matters such as location of home, location of spouse and dependents, personal property, economic interests and social ties. Individuals working in Argentina under duly evidenced working contracts for periods of five years or less are not considered residents, but non-residents with permanent presence in Argentina. As such, these individuals may be taxed as residents on their Argentine-source income, but are not subject to tax on their worldwide income.

Non-residents working less than six months are subject to a 24.5 % withholding tax on the compensation for services rendered.

Taxation of Residents

Income Subject to Tax

For income tax purposes, income in Argentina is classified into four categories:

- Income from real estate.
- Income from capital gains.
- Business income.
- Compensation for services rendered.

Capital Gains

Residents are taxed on their worldwide investment income.

As a result of several exemptions being eliminated, the individuals with income from financial products (Argentine sovereign bonds, negotiable obligations issued by Argentine entities, time deposits made in local financial institutions, among others) are taxed as follows on both the sale and yields (as applicable):

- A 15 % rate will apply to income derived from indexed or foreign currency-denominated securities and other financial income. Currency exchange gains will not be subject to taxes in those instances.
- A 5 % rate will apply to income derived from fixed-income securities denominated in Argentine pesos and that have no adjustment clauses.

The sale of shares listed on the Argentine stock exchange is exempted, subject to certain requirements.

Dividends, Interest and Rental Income

Dividends distributed by foreign companies to residents, interest and rental income are taxable at regular income tax rates.

Dividends distributed by local companies are taxable at a 7 % rate (for profits accrued in FY 2018 and 2019) and 13% (for profits accrued from FY 2020 onwards).

Compensation

As a rule, it can be stated that all types of compensation and benefits received by an employee for services rendered in Argentina constitute taxable income, regardless of where they are paid.

Additionally, Argentine residents' compensation received for services rendered outside the country will be taxable for income tax purposes.

Deductions upon Computing Taxable Income

As a rule, expenses incurred to obtain or maintain taxable income may be deducted. In addition, certain deductions that may be claimed are exhaustively described and capped by the law.

Personal Deductions

Personal deductions are available to individuals who stay more than six months in Argentina.

The following deductions are available for fiscal year 2018:

Deductions 2018	
Non-taxable income	ARS 66,917.91 ARS 48,447
Spouse	ARS 62,385.20
Each dependent child (under 18 years)	ARS 24,432 31,461.09

A special deduction from compensation for services rendered is available. The amount that may be deducted for fiscal year 2018 is ARS 66.917.91 (minimum amount

Accumulated net taxable income		Base tax in ARS	Tax	
Higher than ARS	Up to ARS		Plus percentage	Of the ARS amount exceeding
0	25,754	-	5 %	0
25,754	51,508	1287.70	9 %	25,754
51,508	77,262	3,605.56	12 %	51,508
77,262	103,016	6,696.04	15 %	77,262
103,016	154,524	10,559.14	19 %	103,016
154,524	206,032	20,345.66	23 %	154,524
206,032	309,048	32,192.50	27 %	206,032
309,048	412,064	60,006.82	31 %	309,048
412,064	Onwards	91,941.78	35 %	412,064

not subject to tax); and ARS 321,205.97 as special deduction for employees.

Rates

General rates applied to residents and non-residents with permanent presence in Argentina range from 5 % to 35 % as follows:

Foreign Tax Credit

A tax credit is allowed for similar taxes paid abroad up to the increase in the Argentine tax due to the foreign-source income. Foreign taxes may not be carried back but they may be carried forward up to five years.

Treatment of Losses

Tax losses may not be carried back but they may be carried forward for a maximum of five years. Tax losses resulting from foreign sources may be offset only against foreign-source income.

Tax losses derived from the purchase and sale of shares, bonds and other securities may be offset only against income of the same nature and source.

Wealth Tax

This tax is imposed upon all assets owned at the end of the calendar year. Individuals domiciled in Argentina are taxed on assets located in Argentina and abroad in excess of the amounts established by law. Individuals domiciled outside Argentina, including non-residents with permanent presence in Argentina are taxed only on assets located in Argentina. For instance, expatriates residing in Argentina on international assignments for a period that does not exceed five years are considered to be domiciled abroad. Thus, they are taxed only on their personal assets located in Argentina.

Assets Exempt from Wealth Tax

Deposits in Argentine financial institutions – except for checking accounts- are not included in the taxable base.

In addition, the wealth tax exemption is currently applicable to:

- Securities, bonds, and other negotiable instruments

issued by national, provincial and municipal governments and the City of Buenos Aires, regardless of the date of acquisition.

- Securities issued by the BCRA.

The tax to be levied on shares or interests in the capital stock of companies incorporated under Law 19550 and most local trusts, which are held by individuals and/or undivided estates located in the country or abroad, should be calculated and paid by the referred companies.

Fiscal Year 2018 (and Onwards) – Tax Returns Due in 2019 (and Onwards)

The minimum amount of assets and tax rates for individuals domiciled in Argentina will be as follows:

Fiscal year	Amount in excess of	Tax rate
2018 & onwards	ARS 1,050,000	0.25 %

A tax credit is allowed for similar taxes paid abroad, limited to the Argentine wealth tax payable on the assets located abroad.

The same new flat rates will apply for individuals domiciled outside the country which continue to be taxed only on the assets located in Argentina at the end of each year.

Withholding Taxes

Foreign individuals and entities that do not have a permanent establishment in Argentina are subject to a withholding tax on income received from Argentine sources. A 35 % withholding tax is applied to presumed net income, which is a fixed percentage of the gross amount received. This percentage varies depending on the type of income, and the effective withholding rates vary accordingly. See the discussion below regarding taxation of foreign beneficiaries.

Transfer Pricing

Overview of the Transfer Pricing Regime

Argentine regulations on transfer pricing require that prices in transactions between related companies abroad be consistent with prices that would have been charged in similar transactions performed on an arm's length basis.

Additionally, pursuant to the provisions of sections 8 and 15 of the Income Tax Law, the transactions carried out with individuals or legal entities domiciled, created or located in non-cooperative countries⁵ shall not be considered to be consistent with the arm's length principle.

Even though Argentina is not an Organization for Economic Co-operation and Development (OECD) member, local transfer pricing rules are based on the main concepts of OECD Guidelines.

It is worth mentioning that there is no hierarchy for the application of the OECD accepted methods. The selection of the appropriate transfer pricing method in Argentina depends, primarily, on the availability of information and the number and significance of adjustments necessary to achieve comparability.

The Income Tax Law incorporated the following methods to evaluate controlled transactions of any type:

- Comparable uncontrolled price
- Resale price
- Cost plus
- Profit split, and
- Transactional net margin

Taxpayer Considerations

To collect taxpayer's information relevant to transfer pricing, the AFIP require that supplementary transfer pricing returns be filed, disclosing the amounts related to the different intercompany transactions, including:

- Tangible goods
- Royalties
- Loans
- Insurance
- Advertising
- Freight
- Services
- Other transactions

Taxpayers are required to file supplementary transfer pricing returns:

Return	Due date
Annual form F.969	15 days after the income tax deadline
Annual form F.743	Eight months after the fiscal year end
Semi-annual form F.742	Five months after the first six-month period end

In addition to the above obligations regarding transactions with related parties abroad, taxpayers must also disclose on an annual basis (Form F.867) information involving the import from, and export to, unrelated parties abroad of

tangible goods, with the exception of commodities, with non-related parties, provided that the amount exceeds one million Argentine pesos (ARS) during the fiscal year. In the case of the import from, and export to, unrelated parties abroad, of commodities, companies shall file a mid-term form (Form F.741) per each six-month period.

Return	Due date
Annual form F.867	Seven months after the fiscal year end
Semi-annual form F.741 (1st half of year)	Five months after the first six-month period end
Semi-annual form F.741 (2nd half of year)	Five months after the fiscal year end ⁶

On the other hand, regulations also state that it is mandatory to file, together with the annual returns mentioned above, a transfer pricing analysis report containing, at least, the following information:

- The taxpayer's activities and functions.
- The risks assumed and the assets used by the taxpayer in such activities and functions.
- A detail of the elements, documentation, circumstances and facts that have been priced for the purpose of the transfer pricing analysis.
- A detail and the amounts of the transactions that fall within the scope of the transfer pricing analysis.
- Identification of the foreign taxpayers with which the transactions, stated in the returns, have been conducted.
- Method used in support of transfer prices, with a description of the reasons and grounds for considering it to be the best method for the transaction involved.
- Identification of each comparable company selected to justify the transfer pricing method applied.
- Identification of the sources of information from which the comparable companies were selected.
- A detail of the comparable companies selected and subsequently discarded with an indication of the reasons.
- A detail of the amounts and method applied to make the necessary adjustments to the selected comparable companies.
- Determination of the median and the interquartile range.
- Transcription of the Income Statement of the

⁵In accordance with Regulatory Decree 589/2013. In addition, pursuant to General Resolution 3576, the list of non-cooperative countries as from January 1, 2014 became effective.

Countries, domains, jurisdictions, territories, states or other special tax regimes are deemed to be cooperative for the purposes of tax transparency whenever they have signed with the government of the Republic of Argentina a tax information exchange agreement or a double taxation convention, including a broad information exchange covenant, provided that the exchange is effectively fulfilled.

⁶Coinciding with the income tax due date.

comparable companies corresponding to the fiscal years necessary for the comparability analysis, with an indication of the sources of such information.

- Description of the corporate activity and the characteristics of the business carried out by the comparable companies.
- Conclusions reached.

The transfer pricing report shall be electronically filed, attached to form F.4501, accompanied by a Certified Public Accountant (CPA) attest report on an annual basis. F.4501 shall bear three digital signatures: (i) the taxpayer, (ii) the CPA involved, and (iii) the representative of the professional association where the CPA has been licensed.

Potential Penalties

In case of noncompliance with the formal obligation of filing the returns, the transfer pricing analysis report and the statutory financial statements at due date, taxpayers will be imposed a fine of ARS 10,000 (approximately USD 500⁷) for locally owned entities and a fine of ARS 20,000 (approximately USD 1,000) for foreign owned entities.

Additionally:

- The failure to provide the information requested by the Tax Authorities to audit international transactions is subject to a fine ranging from ARS 150 to ARS 45,000 (approximately USD 2,300).
- The transfer pricing tax adjustment is subject to a fine that ranges from two to six times the unpaid tax amount.⁸

On the other hand, an extensive Tax Reform has been approved by the Argentine Congress and published in the Official Gazette dated December 29, 2017, including several changes to the Argentine Income Tax Law and to the tax system in general. Some of them involve regulations related to the transfer pricing rules. Here follows a brief summary:

a) Intermediary substance test

For import and export of goods where an international intermediary is part of the transaction, it will be required that the local taxpayer evidences that the compensation of such intermediary is aligned with functions, assets and risks involved in the transactions. Such provision will be applicable whether (i) the intermediary is a related party of the local taxpayer or (ii) the foreign counterparty in the transaction is a related party of the local taxpayer.

b) Sixth Method

The previously so called "sixth method"⁹ has been now adapted to the principles recently developed in the Action 10 BEPS initiative as integrated to the OECD guidelines for commodity transactions. The previous law included a mandatory "method" in order to consider the price at shipment date in certain commodity¹⁰ export transactions. The new rules include provisions requiring that in export of commodities, where an international intermediary participates, the local taxpayer must –on top of complying with the substance test as explained before– register with the local tax authorities the written

agreements where the price and other conditions of the export of such goods has been determined. Only upon the lack of such registration the pricing of the transaction will be determined based on the price at shipment date.

c) Low Tax Jurisdictions

While transfer pricing rules apply not only to related parties transactions but also to transactions where the counterparty is located in jurisdictions considered "Non cooperative," the new law add again the concept of Low Tax Jurisdictions that will make the transactions with them also subject to transfer pricing scrutiny.

d) APAs

A first step in including regulations embracing APAs has been done by introducing in the Tax Procedural Law a chapter called "*Determinación Conjunta de Precios de Operaciones Internacionales*" which state the possibility of agreeing unilateral APAs with local tax authorities.

e) Transfer Pricing compliance thresholds

The new tax law delegates to the tax authorities the power to enact through further regulations the minimum thresholds to be considered for general transfer pricing compliance filings (Transfer Pricing Returns and Local Transfer Pricing Report).

On the other hand, AFIP General Resolution No. 4130 published in the Official Gazette on September 20, 2017, introduces an information regime –Country by Country Report (Title I)- which consists on an annual filing of a Country by Country Report –CbCR-, regarding entities belonging to MultiNational Enterprise Groups (MNE Groups).

-The resident entities information regime will be open to be completed on the Tax Authorities (AFIP) web service named "Régimen de Información País por País"; obtaining the form F.8097 as a proof of filing.

-While the report is intended to cover ultimate parent companies (UPC) of MNE Groups with residence in Argentina, also imposes the obligation to local taxpayers being part of an MNE Group to comply with the CbCR information regime if any of the following assumptions is verified: (i) the UPC is not bound to comply with this obligation in its jurisdiction, (ii) there is no competent authorities agreement signed with the UPC jurisdiction that may allow the Argentine authorities to automatically obtain the CbC report, or (iii) there are systematic failures of the UPC jurisdiction to submit the CbC report to the Argentine authorities.

⁷Based on Banco de la Nación Argentina USD/ARS exchange rate during March 2018.

⁸An exhaustive detail of penalties is found in the Argentine Tax Procedure Law enacted in November 2003.

⁹Introduced by Law 25784, published in the Argentine Official Gazette on October 21, 2003.

¹⁰Grains, oil seed, other soil products, hydrocarbons and hydrocarbons by-products and, overall, goods with quotations in transparent markets.

-The regime will not apply to those MNE Groups whose total consolidated annual revenues attributable to the fiscal year prior to the fiscal year to be reported are less than € 750,000,000 or its equivalent converted into the local currency of the fiscal jurisdiction of the UPC.

-The CbCR shall be filed annually, until the last business day of the twelfth month immediately following the UPC reporting period.

Additionally, Title II of Resolution 4130 states that resident entities that are part of an MNE Group are bound to submit information about their UPC and the MNE group, among others, within the third month subsequent to the UPC reporting period. .

-The resident entities information regime –Title II- will be open to be completed on the Tax Authorities (AFIP) web service named “Régimen de Información País por País,” obtaining the form F.8096 as a proof of filing.

- If an MNE Group has more than one entity-resident of the country, any one of such entities may be designated to file the information as provided for by Title II, notwithstanding any penalties imposed on the parties subject to the regime in case of noncompliance by the designated entity.

- Also, two months after the deadline for filing the CbCR, the local entities are also required to inform whether the CbCR was filed in the jurisdiction of the UPC.

The provisions of AFIP General Resolution N. 4130 are applicable to UPC fiscal years beginning on or after January 1, 2017.

CbyC Reporting penalties

Also the Tax Procedural Law includes a new section about material penalties in relation to the failure to comply with or deficiencies in complying with the CbyC Reporting rules adopted in Argentina (AFIP Resolution N 4130/17). The most relevant, among others, are:

- Local CbyC filing failure – Penalties range from ARS 600,000 to 900,000

- Local CbyC reporting failure – Penalties range from ARS 80,000 to 200,000

Other Considerations

In terms of audits and transfer pricing scrutiny, there is an increasing tendency for the AFIP to challenge transfer prices for taxpayers that disclose systematic losses beyond a specific fiscal year, mainly among resellers. There are no particular types of transactions under scrutiny and the AFIP have initiated audits in different industries. The AFIP do pay special attention to the analysis criteria applied to the different fiscal years, mainly with respect to the use of multi-year periods for the tested party. They also require that financial information used in the analysis of comparables be checked against the relevant data sources. Lack of

supporting information may cause the exclusion of the comparable from the analysis of the AFIP.

In the context of the OECD/G20 BEPS Project, it should be mentioned that, on June 7, 2017, Argentina took part in the signing ceremony for the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS held during the annual OECD Week.

Indirect Taxes

Value Added Tax

Scope

The value added tax (VAT) is a general tax on consumption within the Argentine territory. It is levied on the delivery of goods and the provision of services by any person or legal entity conducting an economic activity, and on the import of goods and services.

Services rendered and loans granted from abroad the utilization of which is made in Argentina by Argentine VAT payers in the country shall be taxable. The payment thereof will be used as a VAT credit.

As a result of the tax reform, the tax base for digital services provided by foreign companies has been broadened to include services such as downloading of videos, music, games, or similar products and that are used in Argentina.

Under the VAT system, the tax is levied at each stage of the manufacturing and distribution process on a non-cumulative basis. The accumulation of tax is avoided through the deduction of VAT invoiced to the entity. The entity pays VAT on the total amount invoiced by it in each monthly tax period, but it is entitled to recover the input VAT that was invoiced to the entity during the same period. If in any tax period, the credit arising from input VAT is higher than the amount of VAT due on output, the entity is not entitled to a refund (unless the refund is related to exports, see below); rather, the excess is used as a credit towards the payment of future VAT liabilities.

Exports of goods and services are included in the scope of VAT, but they are taxed at a zero rate. This means that VAT is not levied on the output, but the VAT paid on inputs may be recovered through tax refunds, which should be requested by the taxpayer.

Real estate transactions are outside the scope of VAT, except for the lease of commercial buildings exceeding the amount of ARS 1,500, which is taxable. On the other hand, certain transactions are exempt, such as sales of shares and securities. Entities performing these activities may not recover input VAT.

Since June 5, 2001, the amounts paid on the purchase, import, or lease (including lease agreements) of automobiles may be claimed as a tax credit, only if the cost of acquisition, import or market price is equal or less than ARS 20,000 (net of VAT). If the value exceeds that limit, the tax credit can be only claimed up to this limit. When the automobiles are inventory or a key operating fixed asset for the purchaser, this limitation will not be applicable. The restriction on computing the tax credit related to maintenance, repair and use of automobiles,

which can be deductible with no limit, has also been lifted.

Taxable Basis

The VAT basis is the net price of the goods or services, or interest on loans, including the following items:

- Readjustments, interest and financing charges on deferred payments of services or sales of goods, including compensatory interest accruing during the related monthly period, and
- CIF (cost, insurance and freight) value of imports or customs value plus customs duties.

Rates

The general rate is 21 %. A higher rate of 27 % is applied to electricity, natural gas and water supplied to business activities. The rate of 10.5 % is applied to some activities. For example, to the construction industry only with respect to the construction of dwellings (houses).

A special rate of 10.5 % applies to interest and commissions paid on loans granted by local financial institutions. The same rate applies to loans granted by a bank located in a country, whose central bank or equivalent body has adopted the international standards on banking supervision set forth by the Basle Committee. Borrowers must be registered taxpayers.

There are special reduced rates of 2.5 %, 5 % and 10.5 % for the sales and imports of newspapers, magazines and periodicals. The rate applicable depends on the accumulated income for the past twelve months. Such rates are also applicable for the sales of advertising space in newspapers, magazines and periodicals.

Capital goods, whether imported or manufactured, are subject to a regime that applies a VAT rate of 10.5 %. A list of HS codes for goods that will be considered under this regime is available. Taxpayer's credits originated as a consequence of these transactions may be refunded under certain limits.

Documentation

If the purchaser is a VAT-registered taxpayer, the invoice must segregate the price of the sale or service from the VAT amount. Such an invoice allows the purchaser to determine and compute the related VAT credit.

If the purchaser is a non-registered taxpayer, the invoice must include an additional VAT calculated on a presumed mark-up of 50 %. This document does not give the purchaser the right to a VAT credit. Only some taxpayers with revenues below certain limits and activities have the option of maintaining the non-registered condition.

If the purchaser is a final consumer or is VAT exempt, the invoice must not show the VAT separately. The seller shall, therefore, include the VAT in its selling price. As a consequence, only 82.64 % of the total invoicing is revenue for the seller because 17.36 % (21 % of 82.64 %) is a tax liability.

Administration

The VAT is reported and paid monthly, based on a system designed by the Tax Authorities.

Transfer of VAT Credits

Under the provisions of Section 24 of the VAT Law, VAT credits arising from direct payments may be transferred to other taxpayers according to the provisions of Section 36 of Law 11683 (Tax Procedural Law).

Refunds of VAT credit balances:

VAT credit balances (input VAT) derived from the purchase or import of fixed assets (except for automobiles) which, after a period of six consecutive months, have not been absorbed by VAT debits (output VAT) will be refunded by the Tax Authorities.

Within a term of 60 months, the taxpayer shall (i) apply such funds to pay VAT on domestic supplies or (ii) evidence that it would have had the right to reimbursement pursuant to the Exporters Regime. If the taxpayer fails to comply with these requirements, it will have to repay the amounts at issue to the Tax Authorities, plus interest.

The purpose of this amendment to the VAT Law is to create an incentive for Argentine companies to make investments in fixed assets. One of the main obstacles for Argentine companies to make significant investments in fixed assets is the fact that the purchase or import of assets requires immediate payment of VAT to the supplier (in the case of purchase) or to the Customs Service (in the case of imports). Absorbing this input VAT (VAT credit) with output VAT (i.e. VAT on sales or services) may take a significant period of time, which creates financial disadvantages or disincentives for the taxpayer. The reimbursement of the input VAT derived from purchases or imports of fixed assets aims at mitigating such financial disincentives.

Other Federal Taxes

Minimum Presumed Income Tax

This tax is imposed upon the value of assets located in Argentina and abroad belonging to, among others, companies, foundations and civil associations domiciled in Argentina as well as sole proprietors located in the country, trusts and permanent establishments of non-residents in Argentina. Liabilities may not be deducted.

The applicable rate is 1 %. If the aggregate value of the assets in the country is lower than ARS 200,000, the minimum presumed income tax is not applicable.

Some assets are tax-exempt, e.g. shares and other ownership interests in other entities subject to taxation, assets of mining companies, exempt entities recognized by the AFIP or entities that have been provided with the exemption by national laws. The acquisition of new goods subject to depreciation –except for automobiles– as well as the investment in construction of new buildings or refurbishment (for the first two years) is excluded from this tax.

The income tax assessed for the same fiscal year may be considered as a credit towards the payment of this tax to the extent that the income tax liability does not exceed the amount of the minimum presumed income tax. Otherwise, the income tax excess does not constitute a

tax credit.

However, if minimum presumed income tax exceeds income tax in a given fiscal year, such excess can be computed as a credit towards future income taxes occurring in any of the next ten fiscal years.

The minimum presumed income tax –1 % on assets held at the end of the tax period, supplementary to income tax– would no longer be effective as from January 1, 2019.

Wealth Tax

Technically, the wealth tax is a tax on the net assets of individuals; however, there is a substitute taxpayer when the shareholder of a local entity, organized under Law 19550, and most local trusts, is a foreign entity.

At present, domestic companies shall pay the tax as substitutes for their shareholders. Such tax is equivalent to 0.25 % of the equity of the local entity annually. Local companies responsible for paying the tax will be entitled to be reimbursed by their foreign shareholders.

Tax on Financial Transactions

Competitiveness Law 25413 (Argentine Official Gazette, March 26, 2001) has created a tax on debits and credits in bank accounts opened in financial institutions, except for those expressly excluded, as well as on the following transactions:

- The transactions carried out by financial institutions, in which a demand deposit account is not used, no matter how they are named, the mechanisms used to carry them out and their implementation for legal purposes.
- All transactions or release of owned or third party's funds –even in cash– that any individual or entity –including financial institutions– may carry out in their own accounts or in the account of another and/or on behalf of other parties, no matter the mechanisms used to carry them out, how they are named and their implementation for legal purposes. This paragraph includes the transactions necessary to credit funds to merchants operating with the credit card system, except for the transactions or release of funds related to the payroll deposit service for employees.

The taxable event will take place:

- Bank account debits and credits: at the time of making the debit or credit to the related account.
- Other: at the moment of making payments, crediting the amounts or making funds available. In the case of drafts and transfers, when they are issued.

The general tax rate is 0.6% (six per thousand) for credits and 0.6% (six per thousand) for debits, except for transactions involving collection management, report of receipts from, and payments to, merchants within the credit card system –when the amounts collected and receipts and payments are not credited to accounts opened in the name of the beneficiaries of the checks or issuers of the management, receipt or payment order– as applicable, in which case, the tax rate to be levied will be 12% (twelve per thousand).

Holders of bank accounts levied with the general rate of 6 % can compute, as a tax credit, 33 % of the tax paid for both credits and debits.

Such amount will be considered as a credit towards the payment of either income tax or minimum presumed income tax.

The Executive Branch is entitled to progressively reduce (by up to 20 % each year), the portion of the tax on debits and credits that cannot be credited against Income Tax obligations.

Excise Taxes

The excise tax is imposed by the federal government on the sale, transfer or import of specific products, based, in general, on the amount invoiced. Main items subject to this tax are tobacco and tobacco products, alcoholic beverages, soft drink concentrates and soft drinks, diesel engines and cars, cellular phone services, electronic products and insurance premiums. This tax does not apply to exported items.

Excise tax rates vary depending on the item.

Estate and Gift Taxes

Transfers of property upon death and inter vivos are not subject to any special tax and are considered income tax exempt.

Local and Provincial Taxes

Turnover Tax

Local governments impose tax on the turnover (revenues) of businesses. Tax rates vary depending on the type of activity and jurisdiction (there are 24 jurisdictions). Farming and cattle raising, mining and other primary activities are taxed at 1 %; industrial activities at 1.5 %; commerce and services in general from 3 % to 4 %; and financial and intermediation activities at 5.5 %. Rates are applied to the total amount of gross receipts accrued in the calendar year.

To avoid multiple taxation a multilateral treaty exists for the distribution of the taxable basis among the different tax jurisdictions.

Exports of goods are also tax exempt.

Stamp Tax

Stamp tax is levied on the execution of public or private instruments. It is payable in the jurisdiction in which the economic transaction is documented, but it may also be applicable in the jurisdiction in which it has effects.

Documents subject to this tax include, among others, all types of contracts, deeds, invoices confirmed by a debtor, promissory notes and negotiable instruments. In general, the taxable basis is the economic value of the agreement.

In general, the applicable rate is 1 %, although it can vary depending on the type of deed and on the legislation of the jurisdiction imposing this tax. In the case of real

estate sales, among others, the rate may be 2.5 %.

Real Estate Taxes

Local governments assess the value of local real estate and levy a progressive real estate tax on the assessed values. The progressive rates run from 0.2 % to 1.5 %. Based on these valuations, the municipality applies rates of 0.55 % for public lighting, sweeping and cleaning services and 0.02 % for pavement and sidewalk maintenance.

Estate and Gift Taxes

On September 23, 2009, Law 14044 was enacted in the Province of Buenos Aires, whereby a tax on the transfer of assets for no valuable consideration was created in that jurisdiction. This tax levies all increases in equity for no valuable consideration, such as:

- Inheritances;
- Legacies and devises;
- Gifts;
- Inter vivos gifts; and
- Any other event resulting in an increase in equity for no valuable consideration.

It is worth noting that this tax is levied on assets located in the province (even though the owner is not domiciled in that jurisdiction) and/or transferred to individuals or legal entities domiciled in the province.

In addition, the transfer of assets for no valuable consideration is exempt when the aggregate value is equivalent to or lower than ARS 269,000 or ARS 1,120,000 in the case of parents, children or spouses. When the value of assets is in excess of the referred amount, all the assets transferred for no valuable consideration will be levied with the tax.

This tax shall be paid at a rate ranging from 1.6026 % to 8.7840 %, depending on the taxable basis and the relationship with the decedent or the donor.

The tax is effective as from January 1, 2010.

Tax Incentives

Technological District (Buenos Aires)

The District shall function as a center of technology promotion and development, innovation and knowledge, which gathers software, IT and Communication companies and highly qualified professionals.

The aim of the Technological District is to place Buenos Aires as the Latin American city of technology.

Companies that set up in the District shall enjoy the following benefits and exemptions:

- Turnover tax and stamp tax exemption as well as public lighting, sweeping and cleaning (in Spanish, ABL) service charge exemption for 10 years.
- Companies will be able to defer taxes to foster investments and will have tax incentives for construction works for a 10-year period.

This was inspired by model 22@ from Barcelona and Caohejing Hi-Tech Park (CHJ) from Shanghai, where more than 1200 high-tech companies are set up.

Industrial Promotion Regime (National Territory of Tierra del Fuego)

The industrial promotion regime ruled by Law 19640 states that activities and operations carried out in the National Territory of Tierra del Fuego, or assets existing in this territory, are exempt from all national taxes (in the case of some specific taxes, reduced rates may apply).

Regarding customs duties, the benefits include the exemption or reduction in taxes that levy the imports and exports of movable property.

Decree 751/2012, published on May 16, 2012, removed tax and customs benefits, as previously provided for by Law 19640, for activities relating to the production and export of oil, gas, and certain mineral resources. It is important to mention that in order to claim the tax exemptions, activities need to be performed in Tierra del Fuego's territory.

The aim of this regime is to promote the establishment of companies in the referred province and, therefore, encourage its inclusion, development and competitiveness.

Tax Credit for Capital Goods, IT and Telecommunications

A tax credit of 14 % is available for capital goods, information technology and telecommunications related items through 2014.

Executive Branch Decree 1027/2012 –published in the Argentine Official Gazette on July 2, 2012– changes the types of goods eligible for the tax credit taking into consideration where the goods are produced. Additionally, there is another amendment that requires that an affidavit about the number of registered employees be submitted.

Furthermore, Decree No. 593/2017 (former Decree No. 379/2001) extends the incentive regime for capital goods, IT and telecommunications investments to December 31, 2017.

Consequently, the tax credit is:

- Equal to 14 % of the difference between the goods selling price and the costs of inputs, parts or components imported to manufacture such goods.
- Taxpayer-specific, but it may be transferred once to a third party.
- Extended to December 31, 2017.

Double Taxation Conventions

Argentina has valid double taxation conventions signed with the following countries: Australia, United Kingdom, Chile, Denmark, Germany, Belgium, France, Italy, Sweden, Canada, Bolivia, Brazil, Finland, Norway, Spain, Switzerland, the Netherlands, Russia, Mexico and United Arab Emirates (not yet in force). In addition, a number of treaties concerning income tax exemption for international transport are in force.

7 Taxation of Foreign Beneficiaries

➤ Taxation of Branches of Foreign Companies

Foreign companies that have set up a branch office in Argentina are taxed in exactly the same way as local companies. Accordingly, for corporate income tax purposes, the applicable flat rate is 35 % on taxable income; the distribution of profit is not taxed, as long as the amount of dividends does not exceed the taxable income.

➤ Taxation of Foreign Companies

Foreign companies earning Argentine-source profits are subject to a withholding tax that, in many cases, is based on an assumed net profit percentage of the gross amount paid. Listed below are the main cases of assumed net profit percentages, the resulting effective tax rate on gross amount, and the same rate in case of grossing up, should the tax be assumed by the Argentine taxpayer. The existing double taxation conventions may stipulate lower percentages, which will be applicable in the case of payments to beneficiaries in the relevant countries.

Type of payment	Assumed net profit (%)	Effective tax rate on gross amount (%)	Same rate in case of grossing up (%)
Interest (if not exempt) or	43	15.05 or	17.716
Interest (if not exempt)	100	35 ⁽³⁾	53.846
Fees on technical assistance	60	21	26.582
Royalty payments	80	28	38.889
Royalty payments (if not complying with the Transfer of Technology Law)	90	31.5	45.129
Copyrights (if registered locally)	35	12.25	13.960
Lease of goods	40	14	16.279
Lease of real estate ⁽¹⁾	60	21	26.582
Sale of assets located in Argentina ⁽¹⁾	50	17.5	21.212
Insurance	90	31.5	45.129
Reinsurance	10	3.5	3.627
Exploitation of images and sounds	50	17.5	21.212
Benefits, in general, paid to foreign residents	90	31.5	45.129
Dividends	N/A	7/13	7.527/14.943
Sale of shares ⁽²⁾	100 or 90 ⁽⁴⁾	15 (4)	15.607

⁽¹⁾ The beneficiary may choose to pay 35 % of actual net profit, which shall be computed subject to the AFIP's approval.

⁽²⁾ The profit derived from the public offering of bonds is exempt.

⁽³⁾ Loans granted by banks located in a country that has either (a) not been considered a low-tax jurisdiction, or b) signed a treaty providing for the exchange of information with Argentina, and has no local restrictions regarding such exchange between the Tax Authorities of both countries: 15.05 %. If the borrower is a local financial institution, the rate is always

15.05 %. In the case of imports of depreciable movable equipment, except for vehicles, the rate is always 15.05 %. For all other loans: 35 %.

⁽⁴⁾ Proceeds from the sale of shares of local companies are subject to tax at a 13.5 % rate on the gross amount, or at a 15 % rate on the net amount (at the taxpayer's option). The sale of shares that are publicly traded in stock markets or stock exchanges under the control of the CNV (Argentine Securities and Exchange Commission) are tax exempted.

Artists, technicians, professionals, sports persons and the like, working for less than 6 months a year in Argentina, are assumed to earn a net taxable income of 70 % of the gross amounts collected (effective tax rate of 24.5 %). Non-resident artists engaged by the Argentine government or by tax exempt entities for less than 2 months a year are taxed at 35 % of their receipts (effective tax rate of 12.25 %).

Maximum Withholding Tax Rates under Double Taxation Conventions

Country	Interest% (a)	Royalties% (b)	Dividends% (c)
Australia	12	10(d)	10(f)
Belgium	12	10(h)	10(f)
Bolivia	(g)	(g)	(g)
Brazil	(g)	(g)	(g)
Canada	12.5	10(h)	10(f)
Chile	12 or 15	10(i)	10(f)
Denmark	12	10(h)	10(f)
Finland	15	10(h)	10(f)
France	20	18	15
Germany	10 or 15	15	15
Italy	20	18(e)	15
Mexico	12	15	10(f)
The Netherlands	12	10(h)	10(f)
Norway	12.5	10(h)	10(f)
Russia	15	15	10(f)
Spain (i)	12	10(h)	10(f)
Sweden	12.5	15	10(f)
Switzerland	12	10(h)	10(f)
U.K.	12	10(h)	10(f)

(a) Interest paid to non-residents or foreign loans granted by banks located in a country that a) has not been considered a low-tax jurisdiction, or b) has signed a treaty providing for the exchange of information with Argentina, and has no local restrictions regarding such exchange between the Tax Authorities of both countries is subject to a final withholding tax of 15.05 % of the gross payment. Interest on foreign loans to finance imports of depreciable movable equipment, except for vehicles, is subject to a withholding tax of 15.05 %. All other loans are subject to a 35 % rate. Some double taxation conventions also provide for certain exemptions, which may include interest paid to or by governments.

(b) The rate shown is the effective rate for patent royalties. Film royalties are taxed at an effective rate of 17.5 %, all other copyright royalties are taxed at 12.25 %. The effective rate for technical assistance, engineering and consulting fees is 21 %, if technology is not available locally, and 26.40 % for other license fees. Otherwise, the rate is 31.50 %.

(c) Dividends are subject to withholding tax at a 10 % rate. In addition, if the amount distributed exceeds the taxable income, the excess will be subject to a withholding of 35 % as a one-off payment (equalization tax).

(d) Copyright of literary or artistic works, use of industrial or scientific equipment, or supply of scientific, technical, or industrial knowledge are taxed at 10 %; otherwise, the withholding is reduced to 15 %.

(e) Copyright royalties are taxed at 10%.

(f) If the receiving company owns 25 % or more of the distributing company; otherwise the rate is 15 %.



(g) Taxable only in the contracting state making the payment, i.e. income becomes tax exempt in Argentina.

(h) This rate applies to patent, trademark and similar royalties. The rate is 3 % for the use of news. It is 5 % for copyright royalties (excluding film royalties). Otherwise, the rate is 15 %.

(i) This rate applies to patent, trademark and similar royalties. The rate is 3 % for the use of news. Otherwise, the rate is 15 %.

8 Labor Legislation

A general Employment Contract Law, supplemented by additional laws and statutes related to specific activities, regulates employment conditions throughout the country and collective bargaining agreements.

The Employment Contract Law does not apply to household and government employees, whose work conditions are covered by separate statutes.

Workforce

Argentina has a skilled labor force.

Currently, Argentina has an unemployment rate of 7.2 % (Third quarter of 2017)¹¹.

Methods of recruiting employees vary depending on the qualifications required, from hiring directly at the employer's facilities to using specialized private employment agencies. Agencies are used especially in recruiting managerial and technical positions. Many are located in the city of Buenos Aires and its surroundings, where the labor force is highly concentrated.

Employment contracts are not required in writing and, in practice, they are not usually used.

Executive Compensation

Executives receive various fringe benefits in addition to salaries. Foreign companies usually provide such benefits in accordance with the parent company's policies. The most common benefits are employer-provided automobiles and bonuses.

If the employer agrees to pay all income tax and social security contributions on salaries, executive compensation may constitute a significant cost to the employer. This kind of agreement is common for expatriates, but not for local employees.

Salaries and Wages

Salaries and wages for office and industrial workers are not the same in all the regions of the country. Minimum salaries for employees included in the collective bargaining agreement are generally established by the collective bargaining agreement itself, but supply and demand usually have great influence on determining the salaries of the best qualified workers.

Further, during the last years, labor unions have bargained new salary ranges.

Advance Notice

Employer shall give notice of termination of the labor relationship to the employee no later than 15 days, in case the employee is working under probationary period; one month, when the employee has worked for the employer for a period not exceeding 5 years; and two months for employees with more years of service.

The employee shall give notice of his/her intention of terminating the employment contract 15 days in advance.

During the notice period, the employee is entitled to take two hours off each day to search for new employment. He/she may also accumulate these hours in one or more full working days.

Should employer or employee fail to give proper notice of termination, the party at fault shall pay the other party compensation in lieu of notice equal to the salary that the employee would receive during that period.

Notice must be served in writing and is effective as from the day following service of notice.

If termination of the employment contract took place without advance notice and the day termination occurred is other than the last day of the month, compensation in lieu of notice owed to the employee shall be made up of an amount equal to the salary for the remaining days up to the end of the month.

¹¹National Statistics and Censuses Institute.

Severance Pay – Compensation for Years of Service

If an employee or worker is dismissed, without having committed an act of gross misconduct or a criminal offense, severance pay is due, equivalent to one month's salary for each year of service or period higher than three months. For such purposes, the calculation basis is the highest monthly regular and habitual compensation received during the last year or during the length of service, if this period were shorter.

In conformity with the law in force, such basis shall not exceed the equivalent to three times the average monthly salary established by the respective collective bargaining agreement.

The minimum severance payment is equivalent to one month's salary currently received by the employee.

With regard to the already mentioned limit –three times the average monthly salary established by the respective collective bargaining agreement–, it should be noted that the Supreme Court of Justice (in re Vizzoti, Carlos Alberto vs. AMSA S.A.) stated that the application of the severance cap described above (i.e. three times the average monthly salary established by the applicable collective bargaining agreement) should not result in more than a 33 % reduction in the highest monthly compensation received by the employee during his

last year of service. Otherwise, the referred cap will be considered unconstitutional and the compensation will be calculated on the basis of an amount equivalent to 67 % of the employee's highest salary.

Compensation amounts may increase under special circumstances (e.g. dismissal of sick or injured employees, pregnant women, women with a newborn child, recently married employees, etc.).

Labor Union Organizations

Most office and industrial workers are unionized. However, the political influence of unions decreased during the 1990s but has increased in recent years.

Payroll Taxes

The main social security contributions are listed below. Other minor payments apply under certain circumstances, mainly according to collective bargaining agreements and provincial taxes.

Until January 2018, there were two different social security contributions' rates: 17% or 21%.

Please, take into consideration that the Tax reform (Law No. 24730) modifies some relevant Social security issues, as follows:

“

Expatriates may qualify for an exemption from pension fund contributions or for the benefits of a social security agreement”



a) Pension Fund

Employees of most industrial and commercial enterprises make contributions to the pension fund equivalent to 14 % of all their earnings in cash or in kind (such as schooling or housing) received as salaries, wages, commissions or profit sharing up to the limit established (since June 1, 2018: ARS 91,523.41)¹².

Employers contribute 12.01 % of their employees' compensation without any limit.

Service and commercial companies invoicing more than ARS 48,000,000 a year¹³ contribute 14.13 % of their employees' salaries without any limit.

b) Family Allowances

Employers contribute 4.57 % (5.48 % in case of commercial or service activities invoicing more than ARS 48,000,000¹⁴ a year) of all compensation to a family allowance fund.

In this respect, it should be noted that, as from November 2005, any person, whether an individual or an entity, from the private sector registered as an employer shall be directly included in the SUAF¹⁵. By virtue thereof, family allowances shall be paid directly by the National Social Security Administration (in Spanish, ANSES).

Allowances consist of gradual amounts depending on the employees' salaries, usually very small, paid for each child, for marriage and for the birth or adoption of a child.

However, there is no family allowance for employees whose salaries exceed ARS 47,393 or ARS 94,786 considering the family group since June 2018 (except for maternity and disabled children).

Allowances are adjusted periodically.

c) Unemployment Fund

Employers are required to contribute 0.92 % of all compensation to an unemployment fund. For service and commercial companies invoicing more than ARS 48,000,000¹⁶ a year, the contribution amounts to 1.09 % of their employees' remuneration.

d) Medical Care Contributions

Employees contribute 3 % of their earnings or the monthly limit of ARS 91,523.41 (since June 1, 2018)¹⁷ to medical care. The amounts paid are allocated to several organizations that provide healthcare assistance. The employer also contributes 6 % of employee earnings without limit since November 2008. The government, through a public fund named ANSSal, takes a percentage from medical care contributions and withholdings. This percentage varies from 10 % to 20 %, depending on the healthcare assistance category and the monthly salary.

e) Workers Compensation Insurance

In July 1996, a new Workers Compensation Insurance

Law became effective.

Workers Compensation Law prescribes that a mandatory insurance policy be taken from an authorized Workers Compensation Insurance Company. The policy shall cover salaries, the cost of medical care, professional rehabilitation, prostheses and orthopedic elements, burial assistance and indemnities for partial or total disability and death as a consequence of occupational accidents and diseases.

Companies can directly afford (without taking out an insurance policy) the costs of these services and/or indemnities, provided that they periodically give evidence of their financial stability. It should be highlighted that, in general, companies take out insurance through insurance companies.

In principle, as explicitly provided for by the Workers Compensation Law, in the case of taking out an insurance policy, employers are exempt from any civil liability for their employees and their heirs.

The contribution to Workers Compensation Insurance Companies includes a fixed amount per employee and a variable percentage calculated on the amount of the salary applied as a calculation basis by the employer's contribution to Pension (without any cap) plus non-wage items (not including compensatory items in case of termination).

The insurance premium is calculated taking into consideration a percentage of the employees' remuneration and varies according to the company's activity, the amount of employees and the compliance with security standards.

The average range varies from 0.50 % to 17 % of the taxable salary of each employee.

Summary of Employer and Employee Contributions

The following table summarizes the main contributions (2018).

¹²This cap is updated every three months (March, June, September and December).

¹³This parameter is sustained by the Tax Authorities. Nevertheless, in the most recent years, taxpayers objected to the failure to adjust this amount. At present, there is case law against the Tax Authorities' position.

¹⁴Please refer to Note 9.

¹⁵Family Allowances System (in Spanish, Sistema Único de Asignaciones Familiares).

¹⁶Please refer to Note 10.

¹⁷Please refer to Note 9.

Type of payment	Employer (I) (%)	Employer (II) (%)	Employee (%)
Pension fund	10.47 (1)	12.53 (1)	11.00 (3)
Pensioners' healthcare fund	1.54 (1)	1.60 (1)	3.00 (3)
Family allowance fund	4.57 (1)	5.48 (1)	-
Unemployment fund	0.92 (1)	1.09 (1)	-
Private health insurance	6.00 (2)	6.00 (2)	3.00 (3)
	23.50	26.70	17.00

Ref.:

(I) Employers of all activities, except for commercial and service invoicing more than ARS 48,000,000 a year according to the restrictive nature of the AFIP's criterion. Based on case law, the amount indicated would be higher.

(II) Commercial and service activities invoicing more than ARS 48,000,000 a year according to the restrictive nature of the AFIP's criterion. Based on case law, the amount indicated would be higher.

(1) These percentages apply to the total remuneration without any limit

(2) In principle, these percentages apply to the total remuneration without any limit since November 2008

(3) These percentages apply to the total remuneration or to the monthly limit of ARS 91,523.41 –since June 1, 2018– (taxable monthly salary), whichever lower. This cap is updated every three months (March, June, September and December)

From such employer contribution, a percentage that varies depending on the geographical area where the employees are located can be computed as a VAT credit. For example, in the so called "Greater Buenos Aires" (which includes the city of Buenos Aires and some surrounding cities), the percentage computable as a VAT credit is 0 % on the same taxable basis used for contributions' calculation, whereas in Ushuaia it is 8.65 % and 1.90 % in Greater Córdoba.

The possibility of computing the employers' contributions as a tax credit for VAT purposes will be progressively reduced until final elimination in 2022 (Tax reform).

Special Regimes of Promotion of Registered Employment

Law No. 26940 established that companies hiring up to 80 employees, thus increasing the headcount, will benefit from a reduction in social security contributions per employee incorporated to the payroll for a period of 24 months.

Special regimes are explained below:

a) Permanent Regime of Social Security Contributions for Micro Employers

This benefit includes all natural persons, *de facto* corporations and limited liability companies, which hire up to 5 employees and have an annual invoicing which does not exceed a certain amount that will be established by the appropriate regulation. Such payroll might be raised up to 7 workers, if the employer increases the existing payroll as of the date of its inclusion in this regime.

The benefit consists of a partial reduction in contributions to the social security system equivalent to 50 % of the applicable rates in case of hiring full-time employees for an undetermined period. In case of part-time employees, the benefit consists of a partial reduction in contributions to the social security system equivalent to 25 % of the applicable rates.

b) Promotion Regime for the Recruitment of Registered Employment

In the case of employers that hire up to 15 workers, whenever the new employees represent an increase in the company's payroll, they will be entitled to a reduction in contributions to the social security system equivalent to 100 % of the applicable rates during the first 12 months of the labor relationship, whereas during the second period of 12 months, the reduction will be 75 % of such contributions.

For employers with a headcount between 16 and 80 employees, the benefit will consist of a reduction of 50 % in the abovementioned contributions during the first 24 months of the labor relationship.

The regulation sets forth the cases to which the reduction in social security contributions is not applicable; for example, the case where employees are hired within 12 months following termination for no cause of an employee under the general social security regime.

This law was regulated by Decree No. 1714/2014 and became effective on August 1, 2014.

The term to benefit from this regime has been set to 12 months since effective date (i.e. from August 2014 to July 2015). However, it was extended from August 2015 to July 2016 by means of Decree No. 1801/2015, and from August 2016 to July 2017 by means of Decree No. 946/2016.

It should be noted that only the Argentine Executive Branch is empowered to extend this regime for subsequent periods.

These benefits will be gradually eliminated during the next 2 years (Tax reform).

Self-Employed Individuals

Workers who do not have an employer are required to make a contribution to a specific pension fund. The assessment of the amount payable will depend on the activity and category established according to the laws in

force. This category is established based on the worker's activity and a taxable reference income.

In this respect, it should be noted that in the case of directors of corporations or legal representatives of foreign companies, the contribution to National System of Self-Employed Individuals (in Spanish, Régimen Nacional de Trabajadores Autónomos) ranges from ARS 3,003.84 to ARS 6,608.44 (since June 1, 2018)¹⁸, depending on the annual gross revenues.

Both directors of corporations and legal representatives shall contribute to the Social Security System as self-employed individuals, even if carrying out activities under a labor relationship. Contributions to the Social Security System as employees are not mandatory for them.

Scope of Benefits

Except for the case of certain multinational and local leading companies, in Argentina, it is not customary for companies to provide additional pension benefits to employees over and above the official pension payment.

Medical care benefits cover most of the employee's needs satisfactorily. In contrast, pension payments at retirement are very small, which has contributed to the increasing development of private pension plans.

Some measures have been taken in order to mitigate the effect of pension payments at retirement. Individuals older than 65 years are entitled to a guaranteed monthly payment of ARS 8,096.30¹⁹.

Social Security Agreements

Argentina has entered into reciprocal social security agreements with Mercosur countries (Brazil, Paraguay, Venezuela and Uruguay), the Ibero-American Convention on Social Security (Bolivia, Brazil, Chile, Ecuador, El Salvador, Spain, Paraguay, Peru, Portugal and Uruguay) as well as agreements with Chile, Slovenia, France, Greece, Italy, Peru, Colombia, Portugal, Belgium, Luxembourg, and Spain.

Whether the provisions of these agreements should apply, they shall be analyzed in each case, since many of the abovementioned agreements were signed prior to the amendments introduced to the pension system in force in each country.

Other Employee Benefits

Argentine labor laws are distinguished for the protection they provide to employees. Regulations cover labor contracts, forms of wage and salary payments, women and minors in employment, and many other matters. Some of the main regulations are detailed below.

Thirteenth month salary

Employers shall pay a supplementary annual bonus equal to an extra monthly salary. It shall be paid on June 30 and December 18 each year.

It amounts to one-half of the highest monthly salary paid to the employee during the previous semi-annual period.

Paid Vacation

Providing an annual paid vacation is compulsory. The vacation period ranges from 14 to 35 consecutive days, depending on the number of years of service. To be entitled to a vacation period, an employee must have worked at least half of the working days in the calendar year. Employees hired during the second half of the calendar year are entitled to one day of vacation for every 20 days of effective work.

Vacations shall be taken and cannot be exchanged for cash payments, for which employees may be penalized.

Illness

The payment of remuneration shall be maintained in case of illness or accident (not labor related) for 3-6 months, if the employee has been providing services to the company up to 5 years or more. These periods will double if the employee has dependants.

Life Insurance

It is mandatory for employers to take out insurance coverage of ARS 44,330 per employee (as from March 2017).

Unemployment

Industrial and office workers are included in a government system of compensation for unemployment. Under certain conditions, they are entitled to receive monthly payments for a period from 2 to 12 months on the basis of variable percentages of the highest monthly salary earned in the 6-month period prior to unemployment. Such payments derive from a fund formed with a portion of social security contributions.

Unemployed individuals are also entitled to receive medical care for three months.

Overtime

A 48-hour working week is the norm, with a limit of 9 hours per day (6 hours per day for hazardous occupations). Office working hours are usually less. Twelve hours must elapse between consecutive working days. Night work is limited to a seven-hour shift.

Overtime work is permitted with certain restrictions. Overtime on weekdays and Saturday mornings is paid at time-and-a-half. Double time is paid for Saturday afternoons, Sundays and holidays.

¹⁸TPlease refer to Note 9.

¹⁹Please refer to Note 9.

Overtime is typically limited to personnel subject to collective bargaining agreements. It is mandatory for salaried workers.

Decree 484/2000 established a limit of 200 hours overtime per year and 30 hours overtime per month.

Minimum Wage

A single general minimum wage is established for all industrial and office workers. It amounts to approximately ARS 9,500 as from January 2018 for monthly salaries, and ARS 47.50 for hourly salaries²⁰. Actual salaries, however, are higher.

Collective bargaining agreements establish more realistic minimum salary tables, which are generally used.

Labor Contracts

Labor law allows for unwritten contracts for an indefinite term of time (traditional contracts).

In accordance with Argentine laws, employment contracts are for unspecified terms to promote the permanence principle.

This principle ceases to be applicable if a) the term of the contract has been set in writing, and b) the activity justifies the exception.

Employment contracts for unspecified terms are understood to have been entered into on a trial basis for the first three months.

During the probationary period either party may terminate the relationship without specifying the cause but by giving notice. This termination will not give right to payment of indemnity.

Other types of contracts are part-time contracts (working hours are less than two thirds of the normal working day) and seasonal contracts (when the relationship between the parties generated by the normal course of business or exploitation is limited to certain months of the year, subject to repetition in each business cycle as a result of the nature of the activity).

Other hiring methods accepted by Argentine labor legislation, which are exceptions to the general unspecified term principle, include fixed term contracts and temporary employment contracts.

As these are exceptions to the general principle, their applicability shall be analyzed taking into account the provisions of the Employment Contract Law on a case-by-case basis.

a) Fixed Term Contracts

These contracts require that the term be stated explicitly and in writing. In addition, there should be justified reasons to choose this contracting method based on the type of business or activity.

The contract is in effect until the end of the term agreed, which must not exceed five years.

Use of successive contracts exceeding the above term turns them into contracts for unspecified term.

The parties must give notice of termination; otherwise, the contract will become an unspecified term contract.

If the contract is fulfilled and notice is given, and the duration of the contract is less than one year, severance pay will not be required. However, if the contract term exceeds one year, the worker is entitled to claim severance pay equivalent to half the amount established for ordinary termination by the employer for no cause included in the general regime.

Dismissal for no cause before the end of the contract term entitles the worker to claim damages in addition to the compensation due to contract termination.

b) Temporary Employment Contract

The Employment Contract Law establishes that this method is adopted in connection with extraordinary services or extraordinary and temporary needs of a company, without a specified termination date.

If the purpose of the contract is to supply extraordinary market demand, the duration of the cause giving rise to the contract cannot exceed six months a year and up to one year every three years. The cause giving rise to the contract must be accurately stated.

If the contract is terminated for the same reason for which it was entered into (conclusion of works or task assigned or cessation of the cause giving rise to the contract), no compensation will be paid. Otherwise, the regulations established by the general regime will be applicable.

c) Other

The law currently in force provides for the possibility of recruiting personnel through internship systems for a definite period. The main objective of this system is training the intern. The amount paid under the internship system is not subject to social security contributions.

Special Requirements for Foreign Nationals

In principle, there would be no restrictions on employment of foreign nationals, nor are quotas established.

In general, no particular employee functions are required to be performed solely by Argentines. However, the reasons for hiring an expatriate in lieu of a local employee must be given by the local employer in a presentation to the Immigration Authorities at the time the expatriate files an application for a temporary visa.

Compliance with Immigration Law is required.

²⁰It amounts to approximately ARS 10,000 as from July 2018 for monthly salaries, and ARS 50.00 for hourly salaries.

Expatriates may qualify for an exemption from pension fund contributions or for the benefits of a social security agreement.

They can also receive various fringe benefits in addition to salaries, which are usually collected in their home country. Foreign companies usually provide such benefits in accordance with the parent company's policies. Employers are used to grant employer-provided automobiles, housing and bonuses.

For each case, the social security, labor and tax treatment to be given to the abovementioned benefits shall be analyzed taking into consideration the current laws in force since, under certain circumstances, the whole package of benefits is taxable in our country.

Public Registry of Employers with Labor Sanctions (in Spanish, REPSAL) – Law 26940

The REPSAL was created by the Ministry of Work, Employment and Social Security (in Spanish, MTEySS). Such Registry will include the final sanctions imposed by the MTEySS, the AFIP, the provincial authorities as well as the authorities of the city of Buenos Aires, the National Registry of Agribusiness Workers (in Spanish, RENATEA), the Workers Compensation Insurance Regulator (in Spanish, SRT) and the National Labor Courts on employers who fail to register or report employees in compliance with all the formal requirements set forth by the applicable laws.

The REPSAL will be a public, fee-free registry that will be regularly updated by the MTEySS.

Non-complying employers will remain registered in such registry for a maximum period of 3 years; and they will be removed from it once they have paid the related fine, remedied the situation for which they were sanctioned, and once the applicable term has lapsed, which will depend on when the fine is paid and on when the undue registration or report of employees is remedied (with a minimum 60-day term).

Consequences for employers registered in the REPSAL:

- ✓ They are not eligible for national government programs, aid or stimulus plans, benefits or subsidies.
- ✓ They are not eligible for credit lines offered by banking institutions.
- ✓ They are not eligible for the benefits set forth by this law.

In case of recidivism within a 3-year term considered as from the date on which the first sanction imposed becomes final, employers who are registered in the Simplified Regime for Small Taxpayers will be excluded from such regime by operation of law.

In addition, taxpayers registered in the General Tax Regime may not deduct personnel-related expenses from income tax as long as they remain registered in the REPSAL for recidivism.

This law was regulated by Decree No. 1714/2014 and became effective on September 1, 2014.



Argentina has signed a number of international bilateral agreements with capital exporting countries”





For further information:

KPMG

Bouchard 710, 1st floor
C1106ABL Buenos Aires – Argentina
54 (11) 4316-5700
54 (11) 4316-5800
contactenos@kpmg.com.ar

kpmg.com.ar

-  [@KPMGArgentina](https://twitter.com/KPMGArgentina)
-  [KPMG Argentina](https://www.linkedin.com/company/kpmg-argentina)
-  [KPMG Argentina](https://www.youtube.com/channel/UCkpmg-argentina)
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