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**Argentina – Lifting Foreign
Exchange Controls
Creates More Flexibility**

by KPMG, Buenos Aires,
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flash Alert

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The new government of Argentina, which took office on December 10, 2015, has adopted important measures to streamline and boost the country's economy, among which, eased controls on foreign currency transactions.

Why This Matters

According to new regulations¹, not only foreigners working in Argentina will be able to buy foreign currency and wire funds outside the country, but also foreign entities that make payments on behalf of the host location will be able to invoice to Argentina the reimbursement of expenses, etc. This easing of financial restrictions could impact the structure of assignee compensation and compensation arrangements (allocation of costs) between home country and host country entities.

Background

The former government had placed strict controls on currency and trade, and imposed heavy taxation beginning in November 2011, as means of protecting the country's low foreign currency reserves. (For prior coverage, see [Flash International Executive Alert 2012-139](#) (July 23, 2012).)

In a move that complicated assignments of foreigners to Argentina, Argentina's Central Bank issued a rule² that prohibited individuals and companies from purchasing foreign currency (with some exceptions).

Payments of compensation made on behalf of Argentine entities by foreign entities were also considered as financial debt with the consequence that funds were subject to mandatory settlement in the foreign exchange market.

KPMG Note

This was an issue between entities. If the foreign company had made payments, on behalf of the Argentine entity, the charge could not be allocated because if an invoice were received by the Argentine entity, not only could it not be paid, but, in addition, there would be an infringement of the law with respect to the funds tied to the financial debt in Argentina.

Furthermore, since payments representing expenses reimbursements were not allowed, foreign entities could not transfer costs into Argentina (allocation of costs were limited to only a few cases and specific situations).

What Is New?

Since coming into office just four weeks ago, the new government has eased the former government's strict controls on currency. Below we highlight some of the main measures that will impact international assignments.

- From December 17, 2015, a single exchange rate will apply to all cross-border transactions, allowing the Argentine peso to float (with the possible intervention of the Central Bank).
- Currency arising from new financial loans granted by nonresidents to Argentine residents can be kept abroad.
- The annual mandatory bank deposit in foreign currency that was applicable to 30 percent of the inflows of funds for a period of 365 days in an Argentine financial institution ("encaje") was eliminated.
- Argentine companies and individuals will be allowed to purchase the total amount of USD 2,000,000 per month to make direct and portfolio investments abroad as well as to keep such currency in a foreign or domestic bank account.
- The 35-percent tax applicable to Argentine residents on the purchase of goods / services made abroad using a credit / debit card, also applicable to purchases made online through portals or Web sites, and purchases of foreign travel services made through Argentine travel agencies (among others), no longer applies.

Footnotes:

- 1 Communication "A" 5850 issued by the Argentine Central Bank.
- 2 Communication "A" 5318 issued by the Argentine Central Bank.

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For further information or assistance, please contact your local GMS or People Services professional or Adriana Laurino (tel. +54 11 4316 5784 or e-mail: alaurino@kpmg.com.ar) with the KPMG International member firm in Argentina.

The information contained in this newsletter was submitted by the KPMG International member firm in Argentina.

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