

If you are planning on [doing business in Argentina](#) knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track



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## Foreword

Grant Thornton in Argentina, a member firm within Grant Thornton International Ltd (Grant Thornton International) offers tangible solutions to its clients through a wide variety of specific services aimed at optimising their business's yield. The firm has a staff of 200+ professionals who have the right mix of skills and experience to help its clients to achieve success promptly and efficiently.

Grant Thornton's service is based on personalized assistance, commitment to clients, knowledge of their business and awareness of their needs, hence providing its clients with concrete solutions implemented with modern technology. In addition to these advantages, resources provided by Grant Thornton International include international-level specialists. Said specialists will give their clients tangible benefits and a profitable investment for the company's growth.

Among services provided are accounting and auditing, business and government advisory, taxation, and outsourcing.

Grant Thornton International is one of the world's leading organisations of independently owned and managed accounting and consulting firms. These firms provide assurance, tax and specialist advisory services to privately held businesses and public interest entities. Clients of member and correspondent firms can access the knowledge and experience of more than 2600 partners in over 100 countries and consistently receive a distinctive, high quality and personalised service wherever they choose to do business. Grant Thornton International strives to speak out on issues that matter to business and which are in the wider public interest and to be a bold and positive leader in its chosen markets and within the global accounting profession.

The strength of each local firm is reflected in the quality of the international organisation. All Grant Thornton International member firms share a commitment to providing the same high quality service to their clients wherever they choose to do business.

If you require any further information, please do not hesitate to contact your nearest Grant Thornton member firm.

This guide has been prepared for the assistance of those interested in doing business in Argentina. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Argentina and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of **April 2010**.

# Country Profile

## Summary

- stable government and growing economy
- dependence on exports
- educated workforce
- no racial or religious conflicts

## Basic data (2009 est. in 2009 US dollars)

Population	40,134,425
Area	2.8 million sq. Km (30% of Europe)
GDP (purchasing power parity)	US\$ 558 billion
GDP - per capita (PPP)	US\$ 13,800
Exports	US\$ 55.7 billion
Imports	US\$ 38.7 billion
Literacy rate	97%
Inhabitants per physician	332
Life expectancy	76 ys
Urban population	89%
Local currency	Argentine peso

## Geography and climate

Argentina is the 8th largest country in the world. Its topography is highly varied, ranging from fertile plains in the central region to mountains in the west and a semi-arid zone in the south. The climate varies from the subtropical to the sub-Antarctic. Between these two extremes lies a wide temperate belt well suited to agriculture.

## Social configuration

The population is mainly of Spanish and Italian descent, although it also includes people of many other national origins. Different ethnic and religious groups coexist peacefully. The middle class accounts for most of the population. The literacy rate is high, as well as the enrolment rate in primary, secondary and higher education. Labour is comparable in skills and aptitudes with that of most developed countries, especially at technical and professional levels.

## Language

Spanish is universally spoken and understood. Argentine Spanish is slightly different of that spoken in other Latin American countries or in Spain, due to Italian influence. However, this means no difficulties for any Spanish speaking visitors. Dates are written DDMMYY. A full stop is used to write long numbers (99.999.999) and decimal numbers are separated with a comma (9,99).

### Business hours/time zone

Business hours in the City of Buenos Aires and surroundings are in general from 8 or 9 am to 5 or 6 pm from Monday to Friday, or including half Saturday. Banks are generally open from 10 am to 3 pm. In the interior of the country, a long break after lunch is customary. In this case business starts earlier and concludes later in the day.

The whole of Argentina observes 3 Greenwich Mean Time.

### Public holidays

There are 11 public holidays in Argentina. Four of them are moved to the prior Monday if they fall on Tuesday or Wednesday or to the next Monday if they fall on Thursday or Friday (April 2, June 20, August 17, and October 12). Seven aren't moved (January 1, Good Friday, May 1, May 25, July 9, December 8 and December 25).

### Political and legal system

Argentina is a federal republic organized under a Constitution similar to that of the United States. It enjoys a democratic political system in which different parties actively compete. Moderate parties are dominant as the population provides steady support to sound economic policies.

### Privatizations

In the early 90's Argentina conducted one of the most intensive privatization programs in the world. The telephone company, airlines, most railroads, electric power production companies (including hydroelectric power plants), the Argentine oil company (YPF), steel mills, ports, TV stations and most public services were transferred in the last decade to the private sector. The combined value of privatized firms amounted to more than US\$ 30 billion. Many foreign firms have participated in this large scale privatization program.

### Economic system

Argentina has a free market economic system. During the 90's decade, in line with the privatization program and the very beneficial foreign investment legislation, the State had a very limited role in the economy. By the end of 2001 Argentina was suffering an unbearable debt load, a lack of competitiveness due to the fixed 1=1 peso-dollar exchange rate, and a high unemployment level, all combined resulting in the country's largest crisis ever.

The 2002 mega-devaluation turned the country very competitive and demand/prices of Argentine commodities that rose sharply in the international markets helped Argentina grow at a 9% rate during the period 2003-2007, allowing repayment of the country's debt with the International Monetary Fund, and the renegotiation of its foreign private debt. Short-term commitments with the World Bank were also complied with.

In more recent years, and especially during 2009 along the world's financial crisis, the government got much more involved through tight controls over prices, exports and imports.

### Cost of living

Government calculated inflation was 7.7% in 2009. Analysts consider that the actual inflation number could be closer to 15%. After the devaluation that occurred in early 2002, Argentina, which was one of the most expensive countries in the world, became very affordable, enjoying a flood of international tourists compelled by its attractive and diverse geographical areas.

### National treatment for foreign investors

Foreign corporations participating in the capital of Argentine entities need to register themselves in Argentina before entering into the investment. Except for certain regulations or practical restrictions applicable to a few activities such as financial institutions, public media or fishing, foreign investors in general do not need to seek any kind of prior approval (although approval is required to benefit from the protections referred to in the following paragraph). They are also free to repatriate the full amount of their capital and earnings at any time. Foreign and domestic companies are treated equally. Under the law, they have access to all economic sectors and are eligible for incentive programs and state procurement.

Argentina adhered to the principles of the Organization for the Economic Co-operation and Development (OECD or OCDE). The country is a member of ICSID or CIADI and offers the protection of MIGA (Multilateral Investment Guarantee Agency and the Overseas Private Investment Corporation (requirements exist).

### Mercosur

Mercosur is the common market formed by Argentina, Brazil, Paraguay and Uruguay (negotiations were conducted to progressively include neighbouring countries Bolivia, Chile and Venezuela). The combined population of the four full member countries exceeds 270 million and the total GDP is approximately US\$ 2.65 trillion. Since January 1995, a common external tariff has been established, and most products enjoy total free trade inside Mercosur.

# Regulatory environment

## Specific legislation regarding foreign investments

Foreign investments are regulated by Law 21.382 and Decree 1853/93. Foreign investments have the same rights and obligations granted by the National Constitution and specific legislation to Argentine investors.

Investment of foreign capital means any paid-in capital and/or acquisition of shares in the capital of an existing local company performed by foreign investors.

A foreign investor is any individual or juridical person being domiciled outside the Argentine Republic and the local firms formed by foreign capital when they invest in other local firms.

Local firms formed by foreign capital are those domiciled in the country, in which foreign investors own, directly or indirectly, more than 49% of capital or have a sufficient majority of votes to impose their decisions on the stockholders meetings.

Foreign investment can be carried out in:

- foreign currency of free convertibility
- capital assets
- capitalization of external credits in foreign currency of free disposability
- intangible assets
- any other contributions.

Foreign investors are entitled to repatriate their investment and transfer abroad their realized liquid earnings.

Foreign investors can utilize any of the Corporate Structures recognized by the Argentine Law.

According to Res. IGJ 7/2003 foreign investors must demonstrate that the investing company has significant assets or interests in countries other than Argentina. Should this requirement not be met the Argentine Commercial Law (Ley 19550) would become the applicable legal framework for the foreign direct investing company.

Local Firms of Foreign Capital and domestic companies are treated equally under the law, including access to short, medium or long term domestic or foreign currency financing in the local market.

The juridical acts held between a local firm of foreign capital and its controlling entity directly or indirectly- or any other subsidiary of it, are considered, to all effects, as held between independent parties when normal market practices are followed. If they are related to technological transfer the legislation in force for this matter must be observed.

#### Legislation applicable to technology

This law governs all contracts whose principal or accessory object is the transfer, assignment or licensing of technology or trademarks by non resident individuals or juridical persons to individuals or public or private juridical persons domiciled in Argentina, when the contracts are to take effect in this country and are made for valuable consideration. According to the regulations, technology comprises patents, models and industrial designs, and all forms of technical knowledge for the manufacturing of a product or the rendering of a service.

Contracts covering the transfer of technology must be registered with the Instituto Nacional de Tecnología Industrial (I.N.T.I.) for statistical purposes.

According to Art. 9 of Law 22.426, failure to register these contracts does not turn them invalid. It simply prevents the payer from deducting the consideration paid as an expense for tax purposes, and the payee is taxed on the full amount of the consideration received.

The contracts must be submitted in Spanish or accompanied by a Spanish translation; either party may apply for and pursue the registration.

The tax withholdings to be applied on the payments deriving from these contracts are described in the Tax legislation section.

# Business entities

## Summary

Foreign investors are entitled to utilize any of the corporate structures recognized by Argentine Law. Foreign companies can participate as shareholders in the capital of domestic companies as well.

The forms of business organization legislated in the Business Association Law (N° 19.550) are as follows: Stock Company, Limited Liability Company, Limited Partnership (simple or through shares), General partnership Company and Capital and Industry Company.

The law also regulates local branches of foreign corporations as well as Joint Ventures and Management Cooperation (these last two juridical frames do not constitute companies nor are they subject to law).

The form of business organization most commonly adopted by foreign investors is that of Stock Company and the local branch of a Foreign Company.

The main characteristics of each are discussed below.

## Stock company

Equity is divided into shares of stock, nominative and not endorsable, which can be represented by titles of an x number of shares, or otherwise be implemented as records kept in shareholders accounts on a special register.

The company's capital must be totally subscribed. Integrations in cash must equal at a minimum 25% of amounts subscribed, with shareholders obliged to enter the remainder within two years of subscription date. Integrations in kind must be made available to the company in total. The initial minimum capital amounts to \$ar 12,000, which has to be commensurate with the entity's objectives.

The shareholders liability is limited to their respective shares of paid-in capital. The shareholders of the Company must be at least two.

The basic characteristics of the Company (objective, duration, closing date, administration, etc.) are established in the articles of incorporation which, once notarized, must be registered and approved by the Public Register of Commerce, and then published in the Official Bulletin.

The maximum authority of the Corporation is the Shareholders Meeting. The shareholders must hold an Ordinary Meeting within the four months following the closing of the fiscal period, with the objective of approving the financial statements, the profit distribution, and of electing the Board of Directors (the Company's Administrators) and the Statutory Auditors (Syndic). Extraordinary

Shareholders Meetings are called any time it is necessary for the shareholders to deal with other matters such as amendments of the Articles of Incorporation.

The Board of Directors consisting of one or more persons, who should at least be three in the case of Companies subject to permanent state controls, appointed annually by the Shareholders Meeting, is in charge of the Corporate Administration and representation of the Company. The absolute majority of the Directors has to have real domicile in Argentina.

Furthermore, the Stock Companies must have Syndics appointed by the Shareholders Meeting. This audit function, which under certain circumstances can be performed by one person or a committee the number of which must be odd (usually three), has to be carried out by attorneys or independent public accountants, or by a firm composed by these professionals. Syndics have to be domiciled in Argentina. Some Stock Companies, which are not subject to special governmental controls, can do without Syndics; given this case the stockholders are entitled to this control and the appointment of substitute Directors is compulsory.

Additionally, the Stock Companies can have a Surveillance Committee which can act jointly with the Syndic or replace him. The functions of this Committee are much wider than those of the Syndic.

Article 299 of the Business Association Law provides that Corporations encompassed in any of the following circumstances must be subject to permanent government supervision exercised by the appropriate control authority:

- those that offer their shares or debentures those that offer their shares or debentures to the public
- those whose corporate capital is above \$ar 10,000,000 -- (this limit is subject to adjustment by the Executive Power when deemed necessary)
- state-controlled corporations and mixed ownership companies (these differ from standard business corporations, but are subject to similar regulations in many respects)
- those engaging in capitalization or savings and loan operations, or otherwise soliciting funds or commercial papers from the public with the promise of future consideration or benefits
- those operating government concessions or public utilities
- any corporation that controls or is controlled by another that is comprised in one of the above-mentioned situations.

Certain types of corporations are subject to a permanent form of control by government or semi-official organizations other than the corporation control authorities: Those whose shares or debentures are publicly traded come under the National Securities Commission, banks and finance companies are monitored by the Argentine Central Bank, insurance companies by the National Insurance Superintendence, and cooperatives by the National Institute of Cooperative Action.

All other corporations are subject to government control by the Appropriate Control Authority. Said control is exercised by the Inspección General de Justicia (I.G.J.). The corporations are required to file their financial statements and other papers relating to annual stockholders meetings and to file annual dues.

### Argentine branch of a foreign company

If a foreign company desires to engage in regular business in Argentina, by setting up a branch, office or any other form of permanent representation, it should:

- show evidence of its existence under the laws of its country (i.e., by filing its bylaws or articles of incorporation and other related documents)
- register the articles of incorporation of the branch with the Public Register of Commerce, appoint a representative or manager and register them accordingly
- file accounting certification of the composition and value of the company assets, classified into current and non current, located outside Argentina; or any other elements that show reliable evidence that the main activity of the company is carried out abroad
- individualize their shareholders. The holders of shares listed on a stock exchange or securities market are exempt from this individualization, which is limited only to those who are within the internal control group and outside the rules for public offerings. If the individualization of the shareholders and the determination of their holdings with the required scope are described in the corporation's articles of incorporation or subsequent amendments thereof, reference may be made to such documents.

Broadly speaking, the Argentine Branches of foreign companies are subject to control by the Inspección General de Justicia (I.G.J.) and must comply with the same information requirements as established for the Stock Companies regarding all pertinent aspects. It is mandatory for foreign companies operating in Argentina to keep separate accounting records for their Argentine operations and annual financial statements must be filed with the controlling authority referred to above.

The administration and representation of the Branch falls on the legal representative with similar obligations and rights as those of the Director of a Corporation.

## Books and accounting records

Pursuant to Art 44 of the Commerce Code and Law N° 19550, all Corporations domiciled in Argentina must keep accounting records of their transactions. The mandatory books are two: A Journal and an Inventory and Balance Sheets Book. Said Books should be kept up to ten years subsequent to the cease of operations of the Company.

In compliance with Art 73 of Law N° 19550, a special book must also be kept to record the minutes of Company Meetings (i.e., Board of Directors, Shareholders, etc.). Additionally, Art 213 from Law N° 19550 establishes the obligation to keep a book: Register of shares, in which it will be transcribed, among other, the kind of shares, rights and obligations reflected, status of capital integration, the votes granted, etc. On the other hand, the stockholders or representatives who attend the meeting will sign the Attendance Book, certifying their addresses, identity card numbers, number of shares held and the corresponding number of votes.

The formal requirements are:

- these books must be bound and have pre-numbered pages, and be initialized by the appropriate Local Commercial Court. Must contain the name to whom they belong, the objective of the book and the number of pages
- it is not allowed to leave blanks, amend the records, alter their order or damage the pages in any way.

However, Corporations subject to control by the Inspección General de Justicia, or by the Securities Commission, may be authorized by these entities to use modern EDP or mechanized records to replace or supplement the Journal book. If so, the journal should be kept based on global entries that do not comprise periods longer than a month and provided the identification of the corresponding credit and debit accounts, and their verification must be made possible.

As per the Argentine Commerce Law, all "traders" (meaning whoever performs acts of commerce on a regular basis), are obliged to prepare, as of the closing of each fiscal period, their financial statements in accordance with the generally accepted accounting principles, which should be transcribed to the Inventory and Balance Sheets Book.

The filing date for the above-mentioned accounting statements varies depending on the controlling entity regulating the Company, with quarterly financial statements being mandatory in certain areas of activity.

In general, the filing should occur within the subsequent four months to the fiscal year closing, except for:

- financial entities, the filing occurs within 50 days (annual and quarterly financial statements)
- entities subject to the Surveillance of the National Securities Commission, within the 70 days for the annual financial statements and 42 days for the interim financial statements.

As per the rules established by the Inspección General de Justicia, the financial statements of all companies should be audited by Certified Public Accountants following the generally accepted accounting principles in Argentina.

The generally accepted accounting principles are issued by the Argentine Federation of Professional Councils of Economic Sciences (FACPCE). This organism issues rules on accounting and auditing issues, which are approved by Professional Councils of Economic Sciences of each province. As of today the Technical Resolutions (TR) in force are as follows:

<b>TR N°</b>	<b>Topic</b>
6	Financial Statements in constant currency
7	Audit rules
8	General rules for accounting disclosure
9	Particular rules for accounting disclosure
11	Particular disclosure rules for non-for-profit organizations
14	Accounting information for Joint Ventures
15	Rules on the situation of the public accountant as company syndic
16	GAAP framework
17	General accounting policies
18	Specific accounting policies
19	Amendment of professional accounting policies
20	Derivatives and hedging transactions
21	Equity value. Consolidation of Financial statements. Related parties' information disclosures.
22	Agricultural activity
23	Post leave benefits to employees and other long term benefits

24	Particular aspects of accounting exposure and audit procedures for cooperative entities
25	Particular accounting exposure standards for not-for-profit entities
26	Adoption of International Financial Reporting Standards (IFRS) from the International Accounting Standards Board (IASB)
27	Professional Accounting Standards. Introduces changes to TRs: 6, 8, 9, 11, 14, 16, 17, 18, 21, 22, 23 and 24.

TR 26 is mandatory for entities included in the public offering regime. Entities excluded are those for which the National Securities Commission (Comisión Nacional de Valores – CNV) accepts the accounting standards of other regulatory bodies, such as banking entities. Also excluded are entities under the control of the CNV, such as SME panel, asset managers, mutual funds, futures and options markets, stock exchanges and securities markets. For the remaining entities the IFRS or TR will be applicable (TR 6, 7, 8, 9, 11, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24 and 25).

TR 26 provides details on the information requirements for the periods ended on December 31<sup>st</sup> 2009, 2010 and 2011.

To clarify certain aspects of the TR listed above, the following Interpretations were issued:

#### **INTERPRETATION N° Topic**

1	Transactions between related parties (financial, re-financing and other)
2	Cashflow statement and its equivalent
3	Income tax accounting
4	Implementation of Annex A from TRs 17 and 18

Furthermore, FACPCE issued significant resolutions 312/ 05 “Changes introduced to the standards by FACPCE”, and 297/ 03 “Discontinuation of the adjustment to account for inflation”. In respect to the latter, FACPCE will communicate when the conditions to re-estate the adjustment are met.

Additionally, the controlling organisms have specific regulating principles, which complement the above-mentioned resolutions (i.e. Central Bank, National Securities Commission, etc.).

The accounting principles generally accepted in Argentina are similar to the ones in the United States and to the IFRS (International Financial Reporting Standards), the main exception being inventories, where the referred accounting frameworks are based on the acquisition costs and the Argentine principles promote the application of current values and original cost adjusted by inflation as an alternative).

The generally accepted audit principles (TR 7) are compatible with the ISAs (International Statements on Auditing).

# Tax legislation

## Summary

In the Argentine System, taxes are burdened by the National Government, the Provinces and local Municipal authorities.

In the federal sphere, taxes are as follows:

- Income Tax (Corporate and Individual)
- Alternative Minimum Tax
- Tax on Personal Assets (Individuals as well as partnerships as substitute responsible)
- Value Added Tax
- Excise Tax (Specific Items)
- Tax on debits and credits on bank current accounts.

The A.F.I.P. (our IRS) is in charge of the application, collection and audit of taxes. This entity (A.F.I.P.) reports to the Undersecretarial of Public Finance which in turn reports to the Ministry of Economy.

Provincial taxes and those of the Federal District are administered directly by the Revenue Office of each Jurisdiction. These entities, in turn, are subordinated to the respective Provincial Ministries of Economy, and to the City of Buenos Aires Autonomous Government respectively.

The main provincial taxes are as follows:

- Turnover Tax
- Stamp Tax
- Real Estate Tax.

The revenues of the municipalities arise from the collection of charges and contributions in the respective jurisdictions by means of inspection rights, safety and hygiene, street illumination and cleaning and other specific rights.

## National taxes

### Income Tax (General characteristics)

Companies or Enterprises domiciled in Argentina, including the branches of foreign companies, are liable to income tax on a worldwide basis regardless where the source of the income or profit is (in the country or abroad).

Traditionally, Argentina Tax Law was based on the principle of taxation at source. A considerable reform of the tax system in April 1992 abandoned this principle by establishing the taxable transactions on an international basis. Thus the worldwide source criteria of income was recently adopted, abandoning the Argentine source one.

Notwithstanding the above-mentioned, in the case of income obtained abroad, taxpayers may take a tax credit for similar taxes paid outside Argentina on their foreign business activities up to the limit of the increase in tax liability caused by the inclusion of the foreign-source income.

Non-resident taxpayers, that is Companies, Enterprises and other foreign beneficiaries that operate temporarily in Argentina without setting up branches, affiliates, etc. will solely pay tax on their Argentine source income.

With reference to the tax on individuals said taxes are levied on revenues or enrichment periodical in nature, so that it implies the permanence of the producing source and its habilitation.

In the case of Companies or Enterprises, results of any operation or transaction fall within the tax scope, regardless whether they comply or not with the above-mentioned requirements.

There are four basic types of taxpayers, as follows:

- corporations domiciled in Argentina -including Limited Partnerships- or branches of foreign business enterprises are taxed at 35% of their taxable income. The later remittance of dividends and/or distribution of profit are not subject to any withholding nor are taxes burdened on its beneficiaries. Nevertheless, for those cases that profit distributed exceeds the recorded profit in order to determine the tax, said excess is subject to a withholding of 35%, as unique definite payment.
- associations of persons excluding the Limited Liability Partnership-, which are not direct taxpayers, but determine tax result to be assigned to and disclosed by their partners.
- physical individuals domiciled in Argentina, burdened with a progressive rate according to a scale (9% to 35%), with personal deductions.
- foreign beneficiaries (companies domiciled abroad or individuals with no residence in Argentina), who are levied with different effective rates (35% on presumed net profit) as follows:

Description	Effective tax rate
Technical assistance, engineering or consulting unavailable in the country	21%
Assignment of rights or license under patents, etc.	28%
Exploitation of copyrights in the country	12.25%

Interests arising from vendor's financing of imports of amortizable movable goods, except automobiles	15.05%
Interests arising from loans obtained abroad when the borrower is a financial entity or a bank which is included on the list of countries following the banking supervision rules Established by the Basel Bank Committee	15.05%
Interest originated in deposits with financial entities ruled by Law N°21526	15.05%
Other Interests	35%
Salaries, fees and other compensations to persons working transitorily in the country	24.50%
Movable goods Leases	14%
Real Estate Leases	21%
Transference of property situated, placed and/or used in Argentina	17.50%
Other	31.50%

The tax is determined annually by the taxpayer (company or individual in the country) through the filing of a tax return where the tax result (profit or loss) is established according to rules set by the corresponding legislation on taxable income, appropriation method of the profit to the fiscal period, costs and deductible expenses, exemptions and personal deductions, inventory and credit valuation methods, loss carryforwards, etc.

New rules have been included in the tax law regulating transfer prices of goods and services between related companies in Argentina and abroad.

Simultaneously, limitations were introduced to the deduction of certain interests in those cases of corporation thin capitalization. In accordance with said rules, the possibility to deduct interests is being conditioned to the compliance on the part of the company with certain ratios (debt to equity and interests to net taxable result).

The beneficiaries in Argentina file an annual tax return and compute advance payments against the final annual tax.

Corporations should file such tax return within the 5<sup>o</sup> month after the closing of the fiscal / financial statements and must pay 10 advance payments. The first one is equivalent to 25% of the tax determined the prior year, and each of the remaining 9 equals to 8.33% of the same basis.

Those that receive revenues on account of personal services rendered in the capacity of an employee are not obliged to file a tax return or to pay advances, as long as the employer has performed the corresponding withholdings.

Foreign beneficiaries do not file a tax return and the tax must be withheld as a unique and definite payment in the source by that who makes the corresponding payment. For those cases when the withholding agent of the country takes charge of bearing the tax, a grossing up of the income should be done, increasing the above-mentioned effective rates.

#### Alternative Minimum Tax

The corporations domiciled in Argentina, the branches and establishments belonging to foreign taxpayers, and in general other local companies, are burdened with a tax on presumed profit. The applicable rate is of 1% on the assets values -excluding stock and other corporate participation-, determined in accordance with the guidelines established by the law, which in their majority tend to approximate to their market value.

The amount paid as Income Tax on the part of corporations, branches, etc. for the same fiscal period is considered as an advance payment for this tax.

If the amount to be paid for the Alternative Minimum Tax exceeds the Income Tax determined in any given year, such excess can be applied to absorb reverse differences between the two taxes, corresponding to the ten fiscal periods immediately subsequent to said year, up to the total utilization of the amount paid in excess.

They are also burdened with this tax physical individuals and/or undivided inheritances, who own rural property, in respect to it.

#### Tax on Personal Assets

It levies with rates between 0,5% and 1,25% the property situated in the country and abroad belonging to individuals residing in Argentina. This tax only applies when the respective assets exceed \$ar 305,000.

The tax is levied on financial investments in Argentina, government securities and company stock. Government securities are valued at their listing price or at their nominal value plus the corresponding accrued interests whether they are listed on the stock exchange or not, respectively. Company stock is valued at its listing price or at its tax based proportional equity value under the same conditions as those described above in this paragraph.

The tax is also levied on property in Argentina belonging to foreign individuals, obliging the individuals in the country having the availability or holding of said property to submit the tax as the substitute responsible for the foreign individual (tax rate 1.25%).

Changes introduced to this tax by Law 25585 (year 2002) establish that, in addition to individuals and undivided inheritances domiciled in the country, corporations and any other ideal person domiciled abroad who own shares or any kind of interest in the stock of corporations regulated by the Commercial Corporations Law 19950, will also be subject to the tax. The law assumes, without admitting proof to the contrary, that indirect ownership of such shares or interests pertain to foreign physical persons.

Corporations regulated by the Commercial Corporations Law 19950 issuers of the above referred shares will act as substitute responsible for the determination and payment of the tax, applying a

0,50% rate over the proportional equity value resulting from the balance sheet for the latest period ended December 31.

#### Value Added Tax

The range of application of the V.A.T. in our country is wide and is levied on:

- sales of movable goods
- contracts for the construction of movable assets
- construction works on property belonging to third parties
- construction and sale of property (real estate)
- rendering of services
- rendering of financial services
- definitive imports of movable assets
- renderings of financial services, etc. performed abroad the use of which is carried out in Argentina, as long as the renders are taxpayers for other taxable events. Thus they are levied on by the tax, the interest from loans granted abroad, fees for technical assistance, etc. The renderers will be responsible of entering the tax.

There are no significant exemptions, neither of an objective nor subjective nature, from a macro-economic point of view.

The standard rate of this tax is 21%. There also exist special rates:

- a 27%, applicable to the sale of natural gas, electric power and running water regulated by measurers, and telecommunications
- a 10.5%, applied to certain taxable activities related to the construction of property (houses), renderings and sales related to certain products of animal and plant origin, health insurance services, long range and mid range public transportation, and interests and commissions for loans granted by financial entities in Argentina or abroad. In this last case, when the entity complies with international standards of banking supervision established by the regulations. This special rate also applies to the acquisition and importation of certain durable goods to be used in productive activities.

The mechanism for the calculation of this tax is based on the following: V.A.T. charged by a Company on sales or services is called a V.A.T. Debit. V.A.T. borne by a Company on purchases of goods or services is called a V.A.T. Credit. The tax borne on the acquisition of fixed assets, including buildings and constructions may also be creditable. In general, an entity deducts its V.A.T. credit from its V.A.T. debit each month, files a tax return and pays the difference, (V.A.T. debit excess) if any.

Finally, it is worth mentioning that the exports of movable property and services are not subject to tax. Exporters may obtain a refund on the tax credit for V.A.T. billed to them for the goods exported (exemption rate 0). Whereas, the renderings of services performed in the country whose economic use is carried out abroad, are not subject to tax.

#### Excise taxes

These nationwide indirect federal taxes are levied at different rates- on consumer goods (spirits, tobacco, cigarettes, soft drinks, motor vehicles, luxury goods, etc.)

#### Tax on debits and credits on bank current accounts

This tax levies on debits and credits performed on bank accounts opened in entities regulated by the Financial Entities Law.

It also levies on payments performed outside the formal banking circuit, including cash payments performed under an organized modality whose intent is to replace the use of bank accounts.

The general rate of this tax is 0.6% on each debit or credit performed on the above mentioned accounts.

34% of the Tax on credits is considered as payment in advance, applicable to Income Tax or Alternative Minimum Tax.

#### Provincial taxes

##### Turnover Tax

This is a provincial tax levied on revenue obtained from the habitual exercise of activity carried out in the different jurisdictions.

The net revenues arising from the activity (sales net of discounts, devolutions or bonus) compose its taxing base. Given the case of Financing Entities the taxing base is composed by the difference between the credit balances of the profit and loss accounts and the interests accrued by third parties, also existing special taxing bases for other kind of activities. (Insurance Companies-Intermediation Activities-Publishing Agencies-Retirements and Pension Funds Administrators, etc).

At present, exemptions exist for the manufacturing, primary activities, construction and mining industries. Since it is a local tax (there are 24 provincial jurisdictions with taxing empowerment in this matter) it is difficult to reflect a global panorama being necessary to analyze specifically each particular situation of each industry in each jurisdiction to assess the effective incidence of this tax.

For the jurisdictions in which this tax is in force or for which there exist no exemptions, the following rates could be considered on an indicative exemplifying level:

Primary Activity	1 %
Industrial Activity	1.5%
Commerce and Services	3 %
Construction Sector	1.5%

Financing Activity and others 6.0%

### Stamp tax

This is a local tax, for which the City of Buenos Aires and each province establish their own legislation.

In the City of Buenos Aires, this tax was applied only to the transfer of real estate, ships (as long as they won't be used commercially), yachts, sailing crafts and aircrafts, at a 2.5% rate, except for real estate sales to be used as duelling units. Commercial lease contracts on real estate are taxed at a 0.5% rate.

In 2008, changes were introduced to the Law, broadening the scope of this tax to all profit-oriented acts, contracts and transactions formalized in the City of Buenos Aires through public deeds or private agreements. This tax is also applied to monetary operations, calculated over the interests paid or charged by the financial entities. The severed tax rate is 0.8% over the face value of the contracts.

In the Buenos Aires Province real estate transfers are taxed at a 3.0% rate, and are also covered all profit oriented acts, contracts and transactions formalized in its territory through a public deed or a private agreement (in the latter case a 1.0% rate would apply). Provincial law exempts from the stamp tax all acts or credit transactions, including mortgage assignments, for the acquisition, construction or expansion of duelling units used as single, permanent residency of a family, obtained through financial entities included under the law 21526. As long as the fiscal valuation does not exceed certain amount, the subsequent transfer of this type of real estate property is also exempted.

The rest of the provinces provide for a similar treatment of the stamp tax to that of the Buenos Aires province, with each province establishing their own tax rates.

### Contributions on Real Estate Property

These contributions of provincial characteristics are applied on the assigned fiscal value to the real estate property located within each jurisdiction.

### International treaties to avoid double taxation

At present, there are 53 Bilateral Investment Treaties (BITs) in force in Argentina to protect investments and avoid or lessen double taxation in the international sphere. Such treaties are held with: Australia, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, North Ireland, Spain, Sweden, Switzerland, The Netherlands, and the United Kingdom.

Likewise, there exist special agreements on reciprocal taxing exemption related to transactions of international transport.

The taxing treatment of the different types of revenues summarized and outlined throughout this brief description can be partially modified by clauses of these treaties, since they generally establish benefits or preferred treatment for corporations or residents of the signing states.

Some types of revenues of Argentine source (including interests, royalties, dividends and capital profits) can be levied at reduced rates. Additionally, the ordinary revenue from Foreign Enterprises is totally exempt from Income Tax in Argentina unless such income could be attributed to a permanent establishment domiciled and settled down in our country.

Likewise, these treaties use to contain special clauses that cover the taxing deduction of expenses incurred abroad on account of the beneficiary of the permanent establishment situated in our country (including management expenses and general administrative expenses) and of no discrimination for the natives of the signing states with relation to different taxes of any type or description. All the treaties bear clauses that prevent double taxation, granting exemptions and/or tax credits according to different types of cases and revenues.

# Labour legislation

## Summary

Labour Law N° 20744 and its amendments are applicable to all workers performing their tasks in an employee capacity in Argentina, except for:

- public administration employees
- household service employees
- agricultural employees.

The three above-mentioned cases are ruled by their own agreements and bylaws.

## Working day

The extension of the working day is homogeneous for all the country and it is established by Law N° 11544, the most significant points being as follows:

- working day will not have to exceed eight hours a day or 48 hours a week
- the night-shift (period between 9.00 p.m. and 6 a.m. of the following day) cannot exceed seven hours
- when the job is performed in unhealthy places, the duration of the work will not exceed 36 hours a week or 6 hours per day
- the employer should pay the employee rendering services in supplementary hours an overcharge of fifty per cent (50%) of the normal salary should it be on ordinary days, or a one hundred per cent overcharge (100%) if it were on Saturdays after 1.00 p.m., Sundays and holidays
- decree 484/00 establishes that in no circumstances will overtime exceed 30 hours a month or 200 hours during one year.

The employee is entitled to a resting period not less than 12 hours among worked days. The employee is not obliged to render services over time except in cases of danger or accidents, occurred or imminent.

## Salary / remuneration

It is understood by remuneration the amount that the worker should obtain as a consequence of the labour agreement. Said remuneration, in no case, could be lower than the minimum vital and mobile

salary (\$ar 1500 by April 2010) and can be cancelled in currency, in kind (up to 20%), lodging, food or through the opportunity of obtaining benefits or profits.

The employer will fix a monthly salary (gross salary) that the employee will receive for the services rendered, from which the corresponding Social Security (17%) and the Income Tax withholdings if any will be deducted.

The liquid amount of money that the employee will collect arises from the amount that the employer fixes as gross salary less the corresponding deductions/withholdings.

The employers will be obliged to keep a special book of salaries, registered and officially sealed before the "Labour and Social Security Ministry."

### Annual Complementary Salary

The annual complementary salary will be calculated based on the 50% of the largest remuneration collected by the worker in the half year periods ended in June and December each year. Payment will be proportional to the actual time worked by the employee during each half year.

### Vacations

Every employee will benefit from a minimum and continued period of remunerated annual rest (vacations) of:

- 14 running days, when seniority on the job does not exceed 5 years
- 21 running days, when seniority is over 5 years, not exceeding 10 years
- 28 running days when seniority is over 10 years, not exceeding 20 years
- 35 running days when seniority is over 20 years.

Collective agreements regulating each activity can establish larger benefits.

### Sickness

Each involuntary illness or accident that an employee suffers and which causes the impossibility to render the service, will not affect the right of said employee to collect his/her salary during a period of three months if his/her seniority in the job were less than 5 years, and of 6 months if it were longer.

In those cases in which the employee has family dependents and for the same circumstances he/she will not be able to work, the periods during which he/she will be entitled to collect his/her salary will be extended to 6 months and 12 months respectively.

### Family charges

Those employees whose salaries were lower than \$ar 4,800 will be entitled to collect a bonus for his/her family charges, being the main renderings as follows:

- bonus for child

- bonus for disabled child
- bonus for pre-birth
- bonus for annual school help for the basic and polimodal education
- bonus for maternity
- bonus for birth, adoption or marriage.

Salary limit corresponds to the gross salary earned in each month –overtime included–, excluding the annual complementary salary.

It should be noted that the bonuses for maternity and disabled child will be collected independently from the amount of the employee's salary.

### Dismissal pay

The expiration of the labour agreement could be caused by different reasons. In the cases of dismissal decided by the employer without due cause, the employer will be obliged to pay the employee a series of dismissal payments, which in their great majority are based on the seniority and the gross salary of said employee.

The most usual dismissal payments relate to seniority, non-benefited vacations and substitute for pre-notice. The seniority dismissal payment is based on one gross salary for each year or fraction over three months that was laboured by the employee. According to applicable labour law the amount to be used in this calculation should be taken from the general wage scales negotiated by the unions. However, recent jurisprudence stated that the salary calculated in such a way should not be less than 67% of the dismissed person's remuneration. The labour agreement could not be dissolved at one of the parties' will without previous notice or otherwise dismissal pay for this concept.

The pre-notice, when the parties do not settle it in a longer term, should be given for the following advance:

- by the employee, of 15 days
- by the employer, of 15 days when the employee had a seniority in the job up to 3 months, of 1 month when the employee's seniority is over 3 months and does not exceed 5 years and 2 months when it is longer.

It is also possible that the discontinuation of the agreement were produced by employee's resignation. In both cases, resignation and dismissal, the discontinuity of the agreement should be communicated by written notice.

### Social Security

The employer will have the obligation to make a monthly contribution for all the workers in the Company to the Argentinean Integrated System of Retirements (S.I.P.A.).

The main social security rates levied in Argentina are:

	<b>Employer Contributions</b>	<b>Employee Withholdings</b>
Pension Fund	10.17%	11% (1)
Family Subsidy Fund	4.44%	----
Health Scheme	6%	3%
Pension Institute	1.50%	3%
National Employment Fund	0.89%	----
Total	23%	17%

(1) Up to a maximum variable amount that in fact acts as a cap on the highest salaries only.

The legal social security withholdings of 17 % for which the employee is affected on his/her salary are deposited by the employer through the Integrated System of Retirements and Pensions.

In addition, the employer should hire labour risk insurance and he should pay per each of the employees a certain amount. Each Labour Risk Insurance Company establishes the percentage on the salary and the fixed value per capita (per person) in accordance with the risk and the level where the insurer categorizes the Company. The employer should also pay for each of the employees a compulsory collective life insurance.

### Foreigners

Regarding foreign professionals who work in Argentina for a period which does not exceed two years, their remunerations are exempted from the above-mentioned contributions and withholdings, as long as they do not have permanent residence in the country and that they are covered against the contingency caused by elder age, disability and death in their country of permanent residence. The social security exemption should be requested from the Application Authority by the interested individual or by his/her employer. When the exemption is granted, it is applied as from the registered date.

### Hiring methods

The main modalities for hiring in accordance with the Labour Law N° 20744 are as follows:

- a for indefinite time
- b on a fixed term
- c for partial time
- d seasonal

e eventual.

Indefinite time duration: a) c) and d)

Definite time duration: b) and e)

Trial period: a) c) and d).

Indefinite time employment contracts will be considered to be celebrated on a trial basis for the first three months. Both parts are obligated to perform the Social Security contributions / withholdings during the trial period. A trial period is not contemplated to exist in fixed term and in eventual employment agreements.

Special remuneration book: must exist in all modalities.

# Foreign Direct Investment Act

Argentine Foreign Investment Act – As codified September 8th, 1993 by Executive Order 1853

## Article 1

Foreign Investors who invest capital in the country, using any of the forms established in Article 3 for the promotion of economic activities or expansion or enhancement of existing ones, will have the same rights and duties that the Constitution and the laws accord to domestic investors, subject to the terms of this law and special or promotional regimes.

## Article 2

The following definitions will be used in this law:

### 2 **Foreign capital investment:**

- a all capital contributions belonging to foreign investors used in economic activities carried out within the country
- b the acquisition of all or part of the capital of an existing domestic company by foreign investors.

3 **Foreign investor:** all natural and legal persons domiciled outside the national territory; the holder of a foreign capital investment; and domestic companies of foreign capital as defined in the next section of this article, when investing in other domestic companies.

4 **Domestic company of foreign capital:** all companies domiciled within the territory of the Republic, in which natural or legal persons domiciled outside of the Republic directly or indirectly own more than 49% of the capital, or directly or indirectly control the number of votes necessary to prevail in stockholders or partners meetings.

5 **Domestic company of domestic capital:** all companies domiciled within the territory of the Republic, in which natural or legal persons also domiciled within the Republic directly or indirectly own less than 51% of the capital and directly or indirectly control the number of votes necessary to prevail in stockholders or partners meetings.

6 **Domicile:** as defined in detail in Articles 89 and 90 of the Civil Code.

## Article 3

Foreign investments can be in:

- 1 freely convertible foreign currency
- 2 capital goods, their parts and accessories
- 3 earnings or capital in domestic currency belonging to foreign investors, whenever lawfully transferable abroad
- 4 capitalization of foreign credits in freely convertible foreign currency
- 5 intangible assets, in accordance with specific laws
- 6 other types of contributions established in special or promotional regimes.

#### Article 4

Regulations pursuant to this law will be issued by an administrative agency within the Ministry of Economy and Public Works and Services, with a rank not inferior to Undersecretariat which, acting as the Enforcement Authority, will establish its structure, functions and faculties.

#### Article 5

Foreign investors are entitled to remit abroad earnings realized as a result of their investments, as well as to repatriate their capital.

#### Article 6

Foreign investors are entitled to utilize any of the corporate structures recognized by national laws.

#### Article 7

Domestic companies of foreign capital may access the domestic credit market with the same rights and conditions as domestic companies of domestic capital.

#### Article 8

Temporary contributions of foreign capital made pursuant to contracts for the provision of goods, works, services or other activities are not subject to this law and will be governed by the terms of the respective contracts in accordance with applicable laws, notwithstanding which the owners of such contributions may choose to have their investment governed by the terms of this law.

#### Article 9

Legal Deeds entered into between a domestic company of foreign capital and the company that directly or indirectly controls it or another subsidiary of the latter will be considered, for all purposes, to have been reached between independent parties when their terms and conditions conform to normal market practices among independent entities.

#### Article 10

Prior laws relating to foreign investment and general rules issued pursuant to them are hereby repealed. This law will apply to all proceeding spending under the laws repealed hereby.

Executive Order 1853 of September 8, 1993, codifying the Foreign Investment Act of September 8, 1993

Article 1

The codified text of the Foreign Investment Act as revised by the Economic and Administrative Reform Act is hereby approved as enclosed with this executive order.

Article 2

Foreign investors may invest in the country without prior approval, under the same conditions as investors domiciled within the country.

Article 3

The legal definition of foreign investor also includes Argentine natural or legal persons domiciled outside of national territory.

Article 4

Economic or productive activities include all industrial, mining, agricultural, commercial, financial, service, and other activities related to the production or exchange of goods and services.

Article 5

The right of foreign investors to repatriate their capital and to remit their capital and to remit their earnings abroad may be exercised at any time.

Article 6

Except for the legally required reserve, the portion of voluntarily or statutorily constituted reserves owned by foreign investors in a domestic company, or those resulting from reappraisals or accounting updates, will not be considered as reinvestments of foreign capital.

Article 7

The prior approval required by the Technology Transfer Act is hereby repealed.

Article 8

For purposes of the Technology Act, all legal deeds entered into between independent companies as well as those reached between a domestic company of foreign capital and the company that directly or indirectly controls it, or any other subsidiary of the latter, must register for information purposes with the National Institute for Industrial Technology.

Article 9

The Secretariat of Commerce and Investment within the Ministry of Economy and Public Works and Services will be the Enforcement Authority of this law.

Article 10

The duties of the Enforcement Authority will be:

- to gather statistical information on foreign investments
- to issue general interpretative rule and to take other actions necessary to enforce the Foreign Investment Act (as codified September 8, 1993) and the rules approved herein.

Article 11

Executive Order 1225 on foreign investment of November 14, 1989 is hereby repealed.

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