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NEWSLETTER. LAW AND BUSINESS IN ARGENTINA.

October 2007

BRIEF ON ARGENTINE TAX LAW

According to the Argentine federal organization, taxes are levied both at a federal as well as local level (Provinces and Municipalities).

Federal taxes

1. Income tax

This tax is levied on the worldwide income earned by Argentine residents, permanent establishments in Argentina of foreign companies and only on the Argentine-source income derived by non-residents.

A legal entity is deemed to be a resident in Argentina for tax purposes, and thus subject to tax on its worldwide income, if it has been incorporated in Argentina.

With respect to foreign persons, they are deemed to be residents and therefore subject to tax on their worldwide income, if they stay in Argentina with a permanent visa –for immigration purposes- or with a temporary visa for at least 12 months. In calculating the 12-month period, temporary absences of up to 90 days, consecutive or not, are disregarded. However, foreigners who stay in Argentina for working purposes for a maximum of a 5-year period are deemed not to be residents and thus only subject to tax on Argentine-source income

While for individuals the taxable base is only their recurring income -meaning income which may be derived on a periodic basis and which implies the permanence of the source producing it- and eligible gains, companies and permanent establishments must include any income or gains –other than exempted ones- in their taxable base.

Residents have the right to credit taxes of similar nature paid abroad against their income tax liability, to a maximum amount equal to the tax liability arising from such foreign-source income. Losses may be carried forward for a five-year period and a basket limitation applies for foreign source losses and for losses arising from the disposal of shares and other interests.

The progressive rates applicable to individuals range from 9% to 35%. The highest rate applies for taxable income in excess of \$ 120,000.

Companies and permanent establishments of non-residents in Argentina are subject to a flat 35% income tax rate.

For individual income tax purposes, the fiscal year matches the calendar year. The fiscal period for resident entities is the commercial period established in its by-laws.

Argentina adopts the arm's length principle applicable to transactions between related

parties and has developed detailed rules on transfer pricing, which require the making of a transfer pricing report, the submission of transfer pricing tax returns and the maintenance of the documentation thereof.

Payment of Argentine-source income to non-residents is subject to final withholding tax at the followings effective tax rates:

(i) Interest on inter-company loans: 35% effective tax rate. The rate is reduced to 15.05% in certain cases, such as when the lender is a financial entity –other than an off-shore one– in a jurisdiction not deemed to be a low-tax jurisdiction, or when the jurisdiction has concluded an information exchange agreement with Argentina and, according to its internal rules, no banking, capital markets or other secrecy systems apply.

(ii) Royalties, Patents, trademarks and know-how: 28% in general (other 35%);

(iii) Copyrights: 12.25% under certain conditions, if not met, 31.5%;

(iv) Motion pictures: 17.5%;

(v) Technical assistance: 21%, 28% and 35% effective tax rates;

(vi) Capital gains on movable or immovable property: generally 17.5% effective tax rate;

(vii) Rents of immovable property: 21% effective tax rate;

(viii) Rents of movable property: 14% effective tax rate;

In connection with shareholders' incomes, as a rule, dividends paid out of profits subject to income tax are not subject to any further tax. An equalization tax is applicable at a 35% rate on dividends paid either to residents or non-residents when the dividends that are payable in cash or in kind

exceed taxable profits accumulated at the end of the tax period preceding the distribution.

Capital gains on shares derived by non-residents are exempted from income tax. If the shareholder is a local entity (i.e. investment by means of an Argentine holding company), it should be noted that it will be subject to income tax at the regular 35% rate on those capital gains derived from the disposal of shares in other companies.

The following countries have entered into comprehensive double taxation treaties with Argentina which are currently in force: Australia, Austria, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom.

2. Minimum deemed income tax (“MDIT”)

This tax is levied on the value of assets located in Argentina and abroad belonging to, among others, companies domiciled in Argentina as well as permanent establishments of non-residents in Argentina, assessed at the closing of each fiscal period at the rate of 1%. Taxpayers with assets in the country the aggregate value of which do not exceed \$ 200,000 are exempted from the MDIT.

Shares and other participations in the capital of local companies are exempted from this tax.

The income tax paid for the fiscal year in which the MDIT is assessed may be credited against the MDIT liability for the same year. When the tax is levied on entities which are deemed transparent for income tax purposes, the relevant allocation must be applicable. The excess income tax vis-a-vis the MDIT of a given year does not trigger a credit to be

carried forward. If, however, the MDIT due exceeds the income tax due in the same period, this excess may be carried forward for 10 years, to be set off against the income tax liability of any of the following 10 years in which the income tax exceeds the MDIT due.

3. Value added tax (VAT)

This tax applies to all supplies of goods and services in Argentina as well as imports of goods and services into the country. The exemptions are very limited and they mostly refer to educational services and international transportation. Exports of goods and services are zero rated.

The general rate is 21%. Certain transactions are subject to a reduced rate of 10.5% (i.e. interest payable to local financial institutions and to foreign financial institutions located in any country, the Central Bank of which has adopted the international supervisory banking standards approved by the Basle Committee on banking regulations) and certain supplies are subject to a higher rate of 27% (i.e. certain gas, energy and water supplies).

The taxpayer has the right to credit tax amounts invoiced to him with respect to the prior purchase or lease of goods and services (including fixed assets) made in order to carry out taxable transactions or exports, against the amounts of VAT due, to a maximum amount equal to the highest rate to which they were subject. For the tax to be creditable, it is also necessary that the tax liability for the purchase, importation, lease or service from which the credit originates arise with respect to the seller, importer, lessor or supplier of the services.

4. Tax on bank accounts

This tax is levied mainly on credits and

debits generated in bank accounts registered with financial institutions, at the general rate of 0.6%. Certain fund transactions not executed through bank accounts are also subject to this tax at a 1.2% rate.

5. Tax on net wealth (Personal assets tax)

This tax is levied on individuals domiciled and estates located in Argentina with respect to their worldwide net wealth at the end of each calendar year. It is also levied on individuals domiciled and estates located abroad in relation to their net wealth located in Argentina at the end of each calendar year, provided certain requirements are met. Furthermore, non-residents are also subject to this net wealth tax with respect to shares held in Argentine companies. An ordinary foreign tax credit system is also available.

Individuals domiciled and estates located in Argentina are liable only on their net wealth in excess of \$ 102,300.

The tax is levied at a rate of 0.5% on taxable net wealth of up to \$ 200,000 and 0.75% on taxable wealth exceeding \$ 200,000. Whether the applicable rate is 0.5% or 0.75%, a tax-free amount equal to \$ 102,300 applies for either resident individuals or resident individuals and estates. For non-residents, the applicable rate is 0.75%.

With regards to shares and other interests held by non-residents in Argentine companies, the tax is payable by the issuing company at a flat rate of 0.5% on the pro-rata value of the securities according to the companies' net worth.

6. Excise taxes

This tax is levied on the transfer and importation of goods specified by law (i.e. tobacco, alcoholic and non-alcoholic beverages, extracts, cellular and satellite phone services, luxury objects and engines)

and on the rendering of specified services, in only one stage. Excise taxes are levied at ad valorem rates based on the price of goods and services.