

Mendoza **A** INVEST

*Investment Promotion Agency
Government of Mendoza*



TAX SYSTEM

MENDOZA
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THE TAX SYSTEM IN ARGENTINA

Taxes in Argentina are levied by the national, provincial and municipal authorities, and they are mainly imposed on income, assets and consumption.

At the national level, it is the *AFIP* (Federal Administration of Public Revenue), a self-governed entity under the jurisdiction of the Ministry of Economy and Public Finances, which is in charge of tax application, collection and control. The main national taxes are: income tax, value added tax, minimum presumptive income tax, domestic excise taxes, personal property tax and taxes on bank credits and debits and other transactions.

At the provincial level, taxes are managed and collected by provincial revenue offices reporting to the respective provincial ministries of economy or equivalent bodies. The Mendoza revenue office is called *ATM* (Mendoza Tax Administration) and the main provincial taxes are the gross income tax, stamp tax, real property tax and motor vehicle tax.

Finally, at the municipal level, revenue is raised from the collection of local taxes, fees and contributions.

NATIONAL TAXES

Income Tax

All types of income, including capital gains, are taxable. Companies residing in Argentina pay taxes on their worldwide income, and they can include, on account of their income tax, payments made by way of similar taxes on their activities abroad up to the limit of the tax liabilities increased by incorporating the income earned abroad.

Those considered residents include: individuals born in Argentina or nationalized foreigners, foreigners with permanent residence in the Argentine Republic or who have legally resided in the country for at least twelve months, the undivided estate of deceased persons who were Argentine residents on the date of their death, and corporations (*sociedades anónimas* or *SAs*) or other types of business organizations (sole traders, civil associations, foundations, etc.) organized in Argentina. Local branches of companies established abroad are considered as resident entities and are, therefore, subject to the tax.

The applicable rate both for resident companies and branches established in Argentina belonging to non-resident companies is 35%.

Non-resident companies which do not have a branch or any other type of permanent establishment in the country are only subject to taxes on income and capital gains originating in Argentina. The tax is withheld by the paying agent in Argentina at different effective rates depending on the type of income. The amount to be paid is determined by applying a 35% levy on the presumptive income as set forth by the Income Tax Act. As in most countries, the income taxpayer submits a yearly report in

which the tax is determined according to a series of rules established by the pertinent legislation on taxable earnings, exemptions and special and personal allowances, etc.

Double Taxation Agreements

Argentina has signed broad agreements with several countries in order to avoid double taxation in relation to income, capital and/or assets.

DOUBLE TAXATION AGREEMENTS SIGNED BY ARGENTINA

COUNTRY	DATE SIGNED (month/day/year)	ACT No. / DATE (month/day/year)	EFFECTIVE DATE (month/day/year)
1. Australia	08/27/1999	28238 – 12/31/99	12/30/1999
2. Belgium	06/12/1996	24850 – 07/22/97	07/22/1999
3. Bolivia	10/30/1976	21780 – 04/25/78	06/04/1979
4. Brazil	05/17/1980	22575 – 11/17/82	12/07/1982
5. Canada	04/29/1993	24398 – 12/13/94	12/30/1994
6. Denmark	12/12/1995	24838 – 07/24/97	09/03/1997
7. Finland	12/13/1994	24654 – 07/10/96	12/05/1996
8. France	04/04/1979	22357 – 12/30/80	03/01/1981
*Protocol	06/15/2001	28276 – 08/13/07	10/01/2007
9. Germany	07/13/1978	22025 – 07/23/79	07/23/1979
*Protocol	09/16/1996	25332 – 11/14/00	06/30/2001
10. Italy	11/15/1979	22747 – 02/24/83	12/15/1983
*Protocol	12/03/1997	25396 – 01/15/01	03/14/2001
11. Netherlands	12/27/1996	24833 – 01/15/98	02/11/1998
12. Norway	10/08/1997	25451 – 09/13/01	12/30/2001
13. United Kingdom	01/03/1995	24727 – 12/04/96	08/01/1997
14. Russia**	01/03/2007	26185	11/29/2006
15. Sweden	05/31/1995	24795 – 04/14/97	05/10/1997

* Protocol amending the respective original treaty.

** Not ratified by the Russian Parliament.

Source: TREATY BUREAU, MINISTRY OF FOREIGN RELATIONS AND WORSHIP.

Value Added Tax

The value added tax (VAT) is applied on the sales price of goods and services at each stage of the production and sale process. Nevertheless, sums paid by way of VAT when purchasing goods or services in previous stages may be taken as payment on account.

The general VAT rate is 21%, and the differential VAT rate is half the general rate, that is to say, 10.5%. The following goods and services are entitled to the differential rate: the sale of capital goods; the sale of fruit, vegetables, meats and pulses; transport (except for international travel); the sale of newspapers, magazines, brochures and periodical publications; pre-paid health care programs; and interest on loans granted by local and foreign banks. Finally, a 27% VAT rate is applied on telecommunications and the supply of services such as electricity, natural gas and water, for units used for purposes other than housing. VAT is also charged on imports with the same rates applied to local goods and services.

Exports are not levied with VAT and exporters may obtain reimbursement for VAT paid on purchases made. Services provided within the country but effectively used abroad are not subject to VAT.

The difference between the VAT that has been paid and the VAT that has been collected must be paid monthly.

Minimum Presumptive Income Tax

The minimum presumptive income tax (MPIT) is paid by Argentine companies at an annual rate of 1% calculated on the total amount of their assets located both in Argentina and abroad. It is also applicable to assets located in Argentina owned by permanently established foreign individuals or entities.

The amount paid by way of income tax is considered a payment on account of this tax. If the income tax payable is higher than the MPIT, then only the former is paid. If, on the other hand, the MPIT is higher than the income tax

payable, the excess may be carried forward and credited against any excess amounts in the income tax over the MPIT in the course of the next 10 years.

A credit may be taken for similar taxes paid abroad on assets located outside the country. Likewise, pre-payments should be credited on account of tax liabilities eventually corresponding to each fiscal year.

Personal Property Tax

The personal property tax is a tax on personal wealth levied on the personal assets owned by individuals and undivided estates as of December 31 of each year. Argentine residents must pay an annual sum equivalent to 0.5% of personal assets valued between ARS 305,000 and ARS 750,000. If valued between ARS 750,000 and ARS 2,000,000, the personal property tax rate is 0.75% (applicable to the total value of the taxable assets). Between ARS 2,000,000 and ARS 5,000,000, the rate is 1% (also applicable to the total value of the taxable assets), and 1.25% if the assets are valued above ARS 5,000,000. Natural or legal persons domiciled in the country are taxed on assets located in Argentina and abroad.

Those domiciled abroad are only taxed on their assets located in Argentina. The tax is paid through the substitute taxpayer regime at the rate of 1.25%.

As from 2002, shareholdings and/or interests in Argentine companies owned by any type of legal entities (whether companies, permanent establishments, trusts or operating companies) domiciled, based or located abroad are presumed to be indirectly held by individuals or undivided estates residing abroad, against all evidence to the contrary. Also, since then, Argentine companies are required to assess and report the tax levied on

shareholdings and/or interests in Argentine companies in the capacity of substitute taxpayers, at a rate of 0.5% on the value of the shares and/or interests (the Argentine company's equity as of December 31, with certain exceptions).

Domestic Excise Taxes

Excise taxes are domestic taxes on the consumption of specific products levied at different rates and under different tax filing and payment requirements. In general, these taxes reach manufacturers or importers when they sell their product (alcoholic drinks, tobacco, luxury items, etc.).

Tax on Bank Credits and Debits and Other Transactions

Credits and debits in bank accounts of any type held in entities governed by the Financial Institutions Act are subject to a general tax rate of 0.6%.

Additionally, all money transactions are taxed at a rate of 1.2% if payment systems replacing the use of current bank accounts are used. There are certain differential rates and exemptions which may be applied to specific transactions.

PROVINCIAL TAXES

Gross Income Tax

All Argentine jurisdictions, including the Province of Mendoza, levy this tax on the gross income of any company performing commercial, industrial, agricultural, financial or professional activities.

The tax is applied on each commercial transaction, and no fiscal credit is obtained for the taxes paid in previous instances. Gross income tax rates depend on the type of activity and the laws of each jurisdiction. In Mendoza, they range between 2% and 6%. It is based on a calendar year period with monthly or bimonthly payments, as determined by each jurisdiction.

Stamp Tax

The stamp tax is a provincial tax in force in all Argentine provinces, including Mendoza. It is levied, in general, on agreements and transactions made for valuable consideration and executed through public or private instruments. The general rate is 1.5% but it may vary depending on the type of agreement or transaction and the jurisdiction in which the said agreement or transaction will produce effects. In the Province of Mendoza, the stamp tax is levied on the transfer of real property, lease and sublease agreements, and also on instruments of accession to systems of capitalization operations, accumulation funds, capital formation and special purpose saving. The onerous transfer of ownership of new vehicles is also taxed.

Real Property Tax

This is an annual tax that real property owners are required to pay to the taxing authority of the jurisdiction in which the property is located. The rates are determined based on the assessed value of the land, free of any improvements, and of the improvements to the land.

The real property tax is a non-personal tax based on the value of land and buildings regardless of the taxpayer's financial situation. It is calculated according to the tax legislation of each fiscal period which establishes the valuation scales and rates to be applied on the taxable base according to the real property type.

MUNICIPAL TAXES

Municipal tax authorities levy taxes and fees for the provision of services such as industrial safety, street lighting and cleaning, etcetera, which are established according to zones or other fixed parameters like number of employees or motor power capacity, among others.