

Global Tax Alert

News from Americas Tax Center

Argentine Executive Power proposes new comprehensive tax reform

EY Global Tax Alert Library

The EY Americas Tax Center brings together the experience and perspectives of over 10,000 tax professionals across the region to help clients address administrative, legislative and regulatory opportunities and challenges in the 33 countries that comprise the Americas region of the global EY organization.

Copy into your web browser:

<http://www.ey.com/US/en/Services/Tax/Americas-Tax-Center---borderless-client-service>

Executive summary

On 31 October 2017, Argentina's Ministry of the Treasury announced a comprehensive tax reform proposal that would amend the tax procedural law, criminal tax law, corporate income tax, personal income tax, value added tax (VAT), social security contributions, tax on debits and credits in bank accounts, turnover tax, stamp tax, excise tax, tax on fuels and tax on the transfer of real estate.

The tax reform proposal will have to be passed by Congress before it becomes law. A bill, however, has not been sent to the Argentine Congress.

Detailed discussion

Corporate income tax

The tax reform proposal would gradually reduce the corporate income tax rate applicable to non-distributed profits from the current 35% rate to a 25% rate. The rate would be gradually reduced as follows: 35% in 2018, 30% in 2019 and 2020, and 25% in 2021 and future years.

The tax reform proposal would establish an additional tax on dividends to reach a full 35% corporate income tax.

Additionally, the tax reform proposal would amend the current law to mitigate and reduce tax evasion, including modifications to the domestic anti-abuse regulations (e.g., thin capitalization rules, transfer pricing) and limitations on exempt activities and entities.

Personal income tax

The tax reform proposal would eliminate several exemptions currently in force on financial investments held by Argentine individuals. The income from the financial investments would be subject to income tax at reduced rates of 5% or 15%. The exemption on gains derived from the trading of securities listed in the Argentine Stock Exchange Market would be maintained.

The tax reform proposal would increase the income tax deduction for self-employed individuals. The tax reform proposal also would replace the tax on the transfer of real estate with a 15% capital gain income tax on the sale of real estate (except for housing).

VAT

The tax reform proposal would accelerate recovery of input VAT (VAT credit) derived from investments and would not allow it to be recovered against output VAT within six months of the investment.

The tax reform proposal would tax digital services provided by nonresidents, including downloading of digital content (music, games, among others). The tax would be collected by third parties in charge of paying the nonresidents.

Social security contributions

The tax reform proposal would gradually exempt approximately ARS12,000 of a taxpayer's gross salary from the social security tax.

The employer contributions would be unified to a single rate of 19.5%. The tax reform proposal would eliminate the reductions currently applicable based on geographic location. The tax reform proposal also would eliminate the cap on employees' contributions (currently ARS86,000, equivalent to US\$4,700) with regard to the social security tax.

Tax on debits and credits on Argentine bank accounts

The tax reform proposal would make the tax on debits and credits on Argentine bank accounts progressively fully creditable against income tax. Currently, only 34% of the tax paid for the "credits" side (average 17% on the total tax paid) is creditable.

Turnover tax and stamp tax

The tax reform proposal would allow the Executive Power to negotiate with the local jurisdictions (23 provinces and the City of Buenos Aires) to reduce the turnover tax and stamp tax.

Excise tax

The tax reform proposal would eliminate the excise tax on certain goods, including mobile phones, TVs and mid-range cars.

In addition, it would increase the excise tax on certain goods, including aircraft, vessels, wines, whiskeys, beers and soda.

Tax on fuels

The tax reform proposal would tax fuels (including liquid fuels, natural gas, coal and liquefied gas) based on the quantity of carbon dioxide emitted. The tax on fuels would be modified and simplified so that the price of petroleum would not affect the final price of fuels.

Other amendments to the tax system

The tax reform proposal would make different modifications to the tax procedural regulations (e.g., taxpayers' rights, electronic tax domicile). It also would implement the Mutual Agreement Procedure provided in income tax treaties and advance pricing agreements.

Implications

While there is no further information on the status of the tax reform project, the tax bill is expected to be submitted to Congress in the coming weeks. Regulations to implement the tax reform also are expected following the bill's enactment. Companies doing business and different stakeholders investing in Argentina should consider the potential consequences of the proposed changes and evaluate the effect on their current Argentine operations.

For additional information with respect to this Alert, please contact the following:

Pistrelli, Henry Martin & Asociados S.R.L., Buenos Aires

- ▶ Carlos Casanovas carlos.casanovas@ar.ey.com
- ▶ Gustavo Scravaglieri gustavo.scravaglieri@ar.ey.com
- ▶ Ariel Becher ariel.becher@ar.ey.com
- ▶ Pablo Baroffio pablo.baroffio@ar.ey.com
- ▶ Darío Corrente dario.corrente@ar.ey.com
- ▶ Juan Manuel Iglesias juan.iglesias@ar.ey.com

Ernst & Young LLP, Latin American Business Center, New York

- ▶ Pablo Wejcman pablo.wejcman@ey.com
- ▶ Ana Mingramm ana.mingramm@ey.com
- ▶ Enrique Perez Grovas enrique.perezgrovas@ey.com

Ernst & Young LLP (United Kingdom), Latin American Business Center, London

- ▶ Jose Padilla jpadilla@uk.ey.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

Americas Tax Center

© 2017 EYGM Limited.
All Rights Reserved.

EYG no. 06236-171Gbl

1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com