The local tax authorities in the Argentine Province of Córdoba have issued regulations (Resolutions No. 56/2017 and 128/2017) necessary to implement a “Turnover Tax” withholding system applicable to nonresidents. While the withholding system was established in 2015, the regulations necessary for its implementation were issued in 2017. Thus, the withholding may apply, in principle, to payments performed as of May 2017.

**Background**

“Turnover Tax” is an indirect provincial tax imposed by the tax authorities in each of the 24 jurisdictions in Argentina (including 23 provinces and the City of Buenos Aires). The tax is levied on the regular performance of activities for a valuable consideration within a given jurisdiction. Each jurisdiction provides different tax rules in relation to the taxable base (deductions, expenses, etc.), rates, exemptions and promotional regimes applicable to each activity. The rates typically vary from 3% to 5% for the sale of goods and services.

In the past, foreign entities with no permanent establishment in the country (for instance, through a branch or subsidiary) were not subject to this tax. Through the issuance of several recent laws, decrees and resolutions, however, some provinces have established Turnover Tax withholding systems applicable to nonresidents. For instance, the City of Buenos Aires has established a Turnover...
Tax withholding system for nonresidents for revenue derived from internet use (which never became effective because it has been indefinitely suspended), while the Province of Buenos Aires has established initial provisions implementing a Turnover Tax withholding system for nonresidents.

Province of Córdoba

Through Decree No. 1205/2015 (the Decree), the Province of Córdoba established a Turnover Tax withholding regime on nonresidents who perform taxable activities in the Province and are not registered for Turnover Tax purposes in the Province. Under the Decree, the withholding should be performed by residents in the Province who are recipients or beneficiaries of services provided by nonresidents with respect to services “exploited or utilized” within the Province.

The withholding should be performed at the time of payment and will be considered as a single and definitive payment. The withholding tax should be determined by applying the tax rate – which may vary from 1.5% to 10.5% - provided for the respective activity to the amount paid to the nonresident. Certain transactions are expressly exempted from withholding.

By virtue of the Resolutions No. 56/2017 and 128/2017, the local tax authorities have issued the required regulations to implement and enforce the withholding regime. In this regard, Resolution No. 128/2017 states that the local residents shall inform and remit to the tax authorities the amounts withheld within seven business days after the payment to the nonresident.

Implications

The Province of Córdoba’s adoption of a Turnover Tax withholding system applicable to nonresidents could suggest a new trend in the provincial taxation of cross-border transactions. Although the particular system described herein applies only in the Province of Córdoba and only to certain activities, it is possible that other provinces may start following similar paths.

The legitimacy of this rule could be a controversial issue. Nonetheless, foreign companies involved in the provision of services to Argentine residents, as well as local residents acting as recipients of those services, should monitor the developments in this area.

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