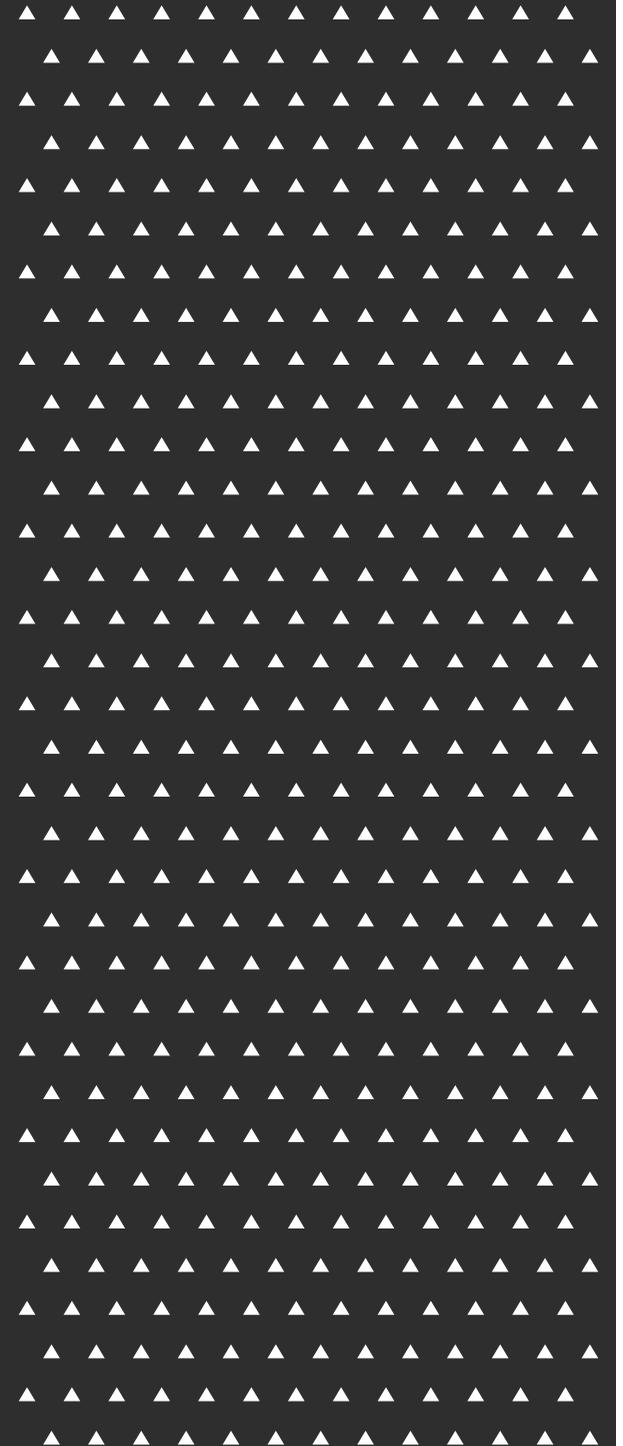


# Doing Business in Argentina

2022 onwards

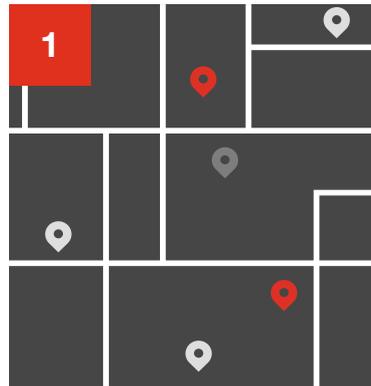


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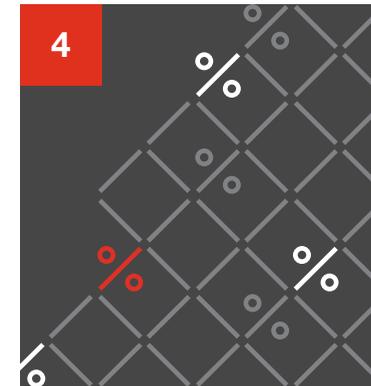
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# Geographical and Demographical Background



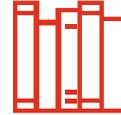


## Location

The Republic of Argentina is located in South America, between latitudes 23°S (Tropic of Capricorn) and 55°S (Cape Horn). The Andes separates the country from Chile to the west and Bolivia to the northwest; Paraguay lies directly to the north, with Brazil, Uruguay, and the South Atlantic Ocean to the east.



<sup>1</sup> Argentina has six major regions: Northwestern, Northeastern, Western (Cuyo), Central (Pampeana), Southern (Patagonia), and the Greater Buenos Aires metropolitan areas.



## Brief History of the Country

The history of Argentina began in 1776, with the creation of the Virreinato del Río de la Plata, the name given to the colonial territories of Spain. In 1810, Argentina initiated a process that led to independence in 1816, although for over sixty years, there were internal battles for control of income from Customs, monopolized by the Province of Buenos Aires. After this period of civil war, the country began a process of modernization in 1880, with the creation of new public institutions and efforts to build a foundation to incorporate the country into the international system of division of labor as an agricultural commodity producer. At the beginning of the twentieth century, Argentina followed an agro-export economic model which turned it into a leader in the world economy. This model was based on three pillars: a) high prices of commodities, b) the incorporation of extensive croplands to the production process, and c) the incorporation of hundreds of thousands of relatively highly-skilled immigrants to the labor market. Between 1930 and 1983, there was a period of institutional instability, characterized by

rotating civilian and military governments. In the thirties, the effects of the Great Depression severely affected the country, essentially due to a drop in trade and export volumes. From the beginning of the fifties into the seventies, Argentina changed its economic model to substitute imports, in an attempt to create an industrialized economy. In the seventies, under a new military regime, the country adopted an open economic model, eliminating mechanisms to protect industry. Once democracy returned in the early eighties, the country faltered in finding a clear path to growth. GDP was stagnant, as in most Latin American countries, with episodes of hyperinflation toward the end of the decade. At the beginning of the nineties, Argentina adopted a convertibility plan with a pegged exchange rate. Many of the country's public utility companies were privatized during this decade. After the 2001-2002 economic and social crisis, convertibility and the pegged exchange rate were abandoned and replaced with a controlled floating rate system. During the first decade of the twenty-first century, Argentina experienced

rapid growth driven mainly by commodity exports. During the period 2003-2011, the country's GDP grew at an average rate of almost 8%. As from 2012, the economy recorded a strong deceleration, with a 2012-2016 compound annual growth rate (CAGR) of 0.08%, always at constant prices. This drop was mainly caused by the growing imbalances in both the internal and external sectors. During Mauricio Macri's presidency, the country returned to the international stage, and in 2018 Argentina chaired the G20, which is a key international forum with other countries for discussing and decision-making on adopting concrete solutions for the chief challenges of the global agenda. However, in the last two years of his administration (2018-2019), the country went into a recession. In December 2019, Alberto Fernández took office as Argentina's new president. Thus, after the sharp decline in the world's economy in 2020, 2021 was expected to be a year of recovery.





## The Climate

The climate varies from subtropical in the north to sub-Antarctic in the south, featuring a wide temperate belt between these two extremes. The city of Buenos Aires and most of the other main cities and industrialized areas are situated in this temperate region, where maximum summer temperatures average between 27° C (81° F) and 32° C (90° F), with temperatures occasionally exceeding 38° C (100° F). Winters are relatively mild, with occasional frost. Snow and prolonged frost are rare, except in the western mountainous areas and in the south.



## Mineral and Energy Resources

Energy resources: oil & gas, holding the world's fourth and second largest non-conventional reserves, respectively, and electricity, including generation from renewable resources: gold, copper, lithium, lead, zinc, natural borates, bentonite, clays, and construction stone.



## Education in Argentina

Public education in Argentina is free; however, to encourage high rates of school attendance, it is mandatory from the age of 4 to 18. Over twelve million students attend public and private schools and universities.



## Prominent Industrial Sectors in the Major Cities

Petrochemicals, steel, foodstuffs, textiles, metalworking, cement, other construction materials, printing and publishing, glass, pharmaceuticals, industrial gases, agrichemicals, tires for vehicles, basic chemical products, and sugar. Though Agriculture is the productive sector with the main and most dynamic assets, the knowledge-based economy is also a strong and promising area Argentina is focused on.

<b>Area<sup>2</sup></b>	2.78 million km <sup>2</sup>
<b>Population</b>	45.80 million (estimated 2021)
<b>Population per km<sup>2</sup></b>	16.5
<b>Population growth per year</b>	1%
<b>Urban Population</b>	92%
<b>Form of Government</b>	Republican, Representative and Federal
<b>Language</b>	Spanish
<b>Currency</b>	Argentine peso (\$)
<b>Political division</b>	24 autonomous provinces with their own political, administrative and economic administrations (23 provinces and the City of Buenos Aires)
<b>Capital City</b>	City of Buenos Aires

Source: INDEC. Estimates and projections made based on the results of the National Population, Households and Dwellings Census 2010.

<sup>2</sup> Argentina is 2nd in territorial size in Latin America and 8th in the world.





## Political and Legal System

### Major government authorities since December 10, 2019:

<b>President<sup>3</sup></b>	Alberto Fernández
<b>Vice President</b>	Cristina Fernández de Kirchner
<b>Cabinet</b>	Cabinet appointed by the President

## Brief Description of the Legal Framework

Argentina is a federal republic. The federal government consists of an Executive Branch, headed by the President; a Legislative Branch in the form of a Congress, which is divided into two chambers: The Senate and the Chamber of Deputies; and a Judicial Branch. Provincial governments are generally organized along similar lines.

## Legislative Branch

The National Congress is made up of 72 seats in the Senate and 257 seats in the Chamber of Deputies. All members are elected by direct vote.<sup>4</sup>

<sup>3</sup> The President is both the Chief of State and Head of Government

<sup>4</sup> One-third of the members are elected every two years for a six- year term to the Senate, and one half of the members are elected every two years for a four-year term to the Chamber of Deputies.



## Economy

After the sharp decline affecting the world's economy in 2020, 2021 was expected to be a year of recovery. The progress of the vaccination process enabled to lift some of the restrictions that had been applied on population, thus reactivating activities. By virtue of this, together with expansive fiscal and monetary programs, by the second semester of 2021 many economies had regained pre-pandemic levels.

Argentina was no exception. In 2021, it managed to rebound from previous year drop by growing 10.3% year-on-year. The economic recovery of the period under analysis faced significant headwinds amid the second wave of COVID-19 infections, which spiraled during the second quarter of 2021 and brought about the reimposition of mobility restrictions, although much more lenient than those imposed during the previous year. As a result, activities experienced certain slowdown, mainly in April and May. Nevertheless, 14 of the 15 economic sectors surveyed by INDEC registered year-on-year growth during the fourth month of 2021. The pace of recovery varied across sectors; although the most affected ones, such as entertainment and tourism, managed to improve their results as against 2020 figures,

they still remain below 2019 levels. Having said that, other sectors -such as industry and construction- were already reaching the pre-pandemic dynamism.

The third and fourth quarters were marked by the mid-term primary, open, simultaneous and mandatory election (PASO, for its acronym in Spanish), held on September 12. In the course of July, the dollarization of portfolios accelerated, with the gap between many alternative exchange rates and the official rate exceeding 80%. Further, the monetary authority increased its intervention in the secondary market (through the purchase and sale of treasury bonds) and resorted to selling reserves to control the so-called MEP exchange rate, while the purchase of foreign currency in the commercial channel recorded a negative balance. Although from the first business day of July to the last one of September the stock of reserves remained practically unchanged (USD 42.49 billion versus USD 42.91 billion), this was only possible thanks to the inflow of Special Drawing Rights (SDR) for USD 4.32 billion, transferred in August by the IMF to all its member countries to mitigate the negative effects of COVID-19 on local economies.

As a consequence of the adverse outcome of the PASO election for the ruling party, the Executive Branch implemented a series of expansionary spending policies, like a rise in the minimum wage (which in turn impacts on some government assistance plans), new Social Security Administration (ANSES) bonus, and Emergency Family Allowance, among others.

In the elections held on November 14, the ruling party suffered a setback but for a narrower margin than in the PASO, which configures a more balanced power scenario between governing and opposing parties (with the presence of new players that, although a minority, condition public debate) and also inside the ruling coalition.

As from September 2019, Argentina implemented an exchange control system, after the BCRA had faced the greatest reduction in reserves in a month (August) since the foreign currency exchange balance started to be recorded in 2003. In 2021, the central bank decided to implement a crawling peg regime that lagged behind inflation for much of the year. Between December 2021 and 2020, the official exchange rate devalued by 23.3% while prices rose by 50.9%.

The National Public Sector ended 2021 with a primary deficit of ARS 1.40 trillion, setting aside the SRDs for ARS 427.40 billion (3%

of GDP) and a financial deficit amounting to ARS 2.09 trillion (4.5% of GDP). This includes exceptional income from the Solidarity and Extraordinary Contribution, which at December 17, 2021, reached a total of ARS 247.50 billion, that is, 0.5% of GDP, according to the Ministry of Economy. In addition, the treasury received financing from the Argentine Central Bank through temporary advances and profit transfers accounting for 3.6% of GDP.

With regard to the economic activity, official data show that GDP rose by 10.3% in 2021 as against 2020. This increase affected all components of aggregate demand. Investments grew by 32.9% year-on-year, followed by private consumption (10.2%), exports of goods and services (9%), and public consumption (7.8%). In turn, imports of goods and services increased by 21.5% year-on-year. Likewise, when analyzing sectoral behavior, it may be noted that 15 out of the 16 economic sectors showed surges in 2021 compared with the previous year. Among them, other social and personal community services (29.4%), construction (27.1%), and hotels and restaurants (23.5%) showed the highest increases. The only activities showing a negative year-on-year variation were agriculture, livestock, hunting and forestry (0.3%).



As regards international trade, exports of goods totaled USD 77.93 billion in 2021, which accounted for a 42% rise in US dollars compared with 2020. They benefited from the rise in international commodity prices, triggered by the post-pandemic economic recovery and by China's restoration of its pigs stock, which boosted demand for feed grains. Imports reached USD 63.18 billion, up 49% as against the previous year, mainly due to the economic recovery mentioned above. This resulted in a trade surplus of USD 14.75 billion.

Late in the year, the monetary authority started to give signs of an accelerated devaluation of the official exchange rate for the US dollar. The week following the elections they stopped intervening the secondary market, which caused the MEP exchange rate to increase. The real exchange rate experienced a year-on-year appreciation of 17% compared to December 2020.

As for 2022, the world scenario appears more complex and uncertain. Certain inflation pressures, which were initially considered temporary, now seem to have increased their likelihood of becoming permanent. This may bring about that inflationary policies fade away and interest rates hike (the first sign came from the FED's March 2022 meeting where the monetary policy rate rose by 0.25%). Higher interest rates would push up

borrowing costs in our country, not only for the National State (access to which is pretty limited already) but for all economic players, especially the private sector.

Uncertainty is high and the escalating conflict between Russia and Ukraine is having an effect on commodity prices. In fact, the prices of the agricultural commodities Argentina exports are rising; as the two countries involved are major producers and exporters of wheat, corn and sunflower. This will benefit our exports, as we will be able to offset the drought-driven volumes decline expected for the 2022 season. However, since Russia is a key player in the oil and gas supply, energy prices will surely soar. Nowadays, Argentina is a net importer of gas; therefore, its price hike will put more pressure on the trade balance and the low Central Bank reserves, and will also make it even more difficult to adjust utility subsidies/prices. If there is no rise in utility prices, the cost of subsidies may jeopardize the fiscal target, while an increase in rates will have a direct impact on inflation, which is already highly inertial and at high levels.

The agreement reached with the IMF in March 2022 offers the country the opportunity to avoid a disruptive adjustment on its multiple macroeconomic imbalances; but the international landscape has become more uncertain and complex.



Year	Real GDP in Pesos	GDP growth
2005	528.056	8,9%
2006	570.549	8,0%
2007	621.943	9,0%
2008	647.176	4,1%
2009	608.873	-5,9%
2010	670.524	10,1%
2011	710.782	6,0%
2012	703.486	-1,0%
2013	720.407	2,4%
2014	702.306	-2,5%
2015	721.487	2,7%
2016	706.478	-2,1%
2017	726.390	2,8%
2018	707.377	-2,6%
2019	693.046	-2,0%
2020	624.468	-9,9%
2021	688.561	10,3%

Balance of Payments Estimates		2014	2015	2016	2017	2018	2019	2020	2021
Current Account	<b>Total</b>	-9.179	-17.622	-15.105	-31.151	-27.084	-3.710	3.313	6.800
	<b>Goods</b>	5.541	-785	4.416	-5.447	-743	18.228	14.631	18.696
	<b>Services</b>	-4.641	-5.815	-8.452	-9.695	-8.935	-4.865	-2.240	-3.476
	<b>Interests</b>	-11.614	-12.105	-12.192	-16.380	-18.650	-17.892	-10.197	-9.927
	<b>Current transfers</b>	1.535	1.083	1.123	371	1.245	819	1.119	1.508
Financial Account	<b>Total</b>	-9.321	-18.498	-13.964	-31.273	-28.036	-5.069	3.667	5.078
Net Errors and Omissions		-198	-928	775	-295	-1.063	-1.542	177	-1.955
Variation in International Reserves		1.195	-4.906	14.311	14.556	11.277	-21.375	-7.727	-106

Source: Based on data from the INDEC

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# Investment and Challenges in Argentina





## Investment Climate

Although Argentina's economy has begun to recover, with a growth in GDP of 10.3% in 2021, backed by strong retail sales and manufacturing, it is still below pre-pandemic levels. For the coming years, the OECD projects GDP growth of 2.5% in 2022 and 2.3% in 2023.

In early 2022, the National Senate signed into law the agreement between Argentina and the International Monetary Fund (IMF) to refinance the foreign debt (USD45 billion), aimed at stalling a solvency crisis until 2024. The Argentinian peso (ARS) has devalued substantially since the beginning of 2022. For the coming months, the current FX regime is expected to remain unchanged, making it harder to mitigate the high levels of inflation, currently standing above 50% y/y.

Regarding COVID-19, infections have declined substantially in recent months, with the number of deaths and hospitalizations under control. Vaccination campaign progress and the easing of COVID-19-

related restrictions generate optimism among the population in terms of the economic activity. Currently, Argentina is in the top 20 worldwide ranking of countries with the highest vaccination percentages, with 80% of its population fully vaccinated. Due to the weak political and economic performance, the current administration has lost credibility. Last year's primary legislative elections had an adverse outcome for the government, which lost power in the senate, and the 2023 presidential election will find the governing party in a difficult situation. The possibility of a change in government could generate optimism among the international business community.

Argentina has attractive investment projects capturing the interest of international investors, especially in sectors related to the natural resources which abound in the country. such as mining, agribusiness and energy (especially renewable energies and shale oil & gas production). Argentina also has a strong talent base, with a well-educated middle class, and an active



entrepreneurial business community that could allow for exponential growth if managed consistently.

There are always attractive investment opportunities, especially for investors with a long-term outlook. Many well-established companies – mainly international ones, with valuable assets, renowned brands and consolidated business activities are willing to relocate, selling their local business at a steep discount, and many companies and projects are in need of financial support, which cannot be easily accessed from local banks or financial institutions in the current conditions.



## Consumption

The COVID-19 pandemic, combined with high rates of inflation, resulted in a significant contraction in consumer spending in 2020, creating a low base for growth in 2021.

Consumption represents about three-quarters of Argentina's GDP, so growing it is crucial to underpin the economy's recovery in coming years.

During 2021, unemployment declined slightly to 9.6%, similar to 2019 levels, but labor participation and employment continue below pre-pandemic levels. People in general have a perception that it is a good time to buy durables with the aid of subsidized financing programs to safeguard the value of money. However, this is offset by a negative view of the macroeconomic environment.

A deceleration of inflation, and the country's positive vaccination program will boost confidence and consumer spending power, helping sustain the rise in private consumption that underpinned growth in 2021.

# Industry

## Highlights



### Oil & Gas and Mining

Argentina is self-sufficient in crude oil but relies on imports to satisfy its domestic demand for natural gas and oil derivatives.

The oil and gas sector's growth will be supported mainly by the development of unconventional hydrocarbon reserves in Vaca Muerta in the province of Neuquén and the construction of the infrastructure needed for their transport. By growing unconventional hydrocarbon output, thus reducing dependence on imports, the development of the oil and gas sector will also benefit from rising export volumes.

The country's technically recoverable reserves are estimated at 27Bbbl of tight oil and 801.5tcm of shale gas. Argentina has the second largest reserve of unconventional natural gas and the fourth largest crude oil resource, as per the latest available data from the US Energy Information Administration (EIA).

Argentina exports about 10% of total oil production. The increase in the price of the barrel of oil caused by Russia's invasion

of Ukraine generates local incentives to increase production, thus attracting investments in a more profitable scenario. However, this will generate negotiations relating to the internal price of fuels.

With regard to natural gas, the situation is not favorable because Argentina imports gas. The increase in the price of gas will generate a negative impact on the balance of trade.

Mining is another sector where Argentina holds interesting investment and growth opportunities thanks to its massive potential. The main products in this industry are gold, silver, copper, lead and zinc. In 2019, Argentina was world leader in lithium resources, with a total of 93 million tons of lithium equivalent including all projects, and had the largest potassium basin in Latin America, and one of the largest in the world, located in Cuenca Huitriniana (Mendoza and Neuquén).

#### Sources:

EMIS: Reports - EMIS Insights - Latin America Oil and Gas Regional Report 2022-2023  
<https://www.emis.com/>

[https://www.argentina.gob.ar/sites/default/files/mineria\\_argentina-primer\\_semestre\\_2020.pdf](https://www.argentina.gob.ar/sites/default/files/mineria_argentina-primer_semestre_2020.pdf)

<https://www.bloomberglinea.com/2022/02/25/crisis-rusia-ucrania-como-impacta-la-guerra-en-el-gas-y-el-petroleo-argentino/>





## Agribusiness

Argentina is a global leader in the production and export of several agricultural commodities, ranking among the world's top-10 producers of soybean, maize, wheat, sunflower, beef, and poultry meat. The agriculture sector plays a significant role in Argentina's economy.

The industry endured most of the adverse effects of the COVID-19 pandemic. The quarantine measures did not interrupt the operations of sector companies, such as agriculture, livestock breeding, and fisheries (classified as essential activities).

Therefore, President Fernandez's administration applied ad-valorem export tariffs and temporary export restrictions on these activities. In the 2020/2021 crop year, Argentine producers' profitability was adversely affected by droughts -in the case of wheat and soybean- and temporary export restrictions on maize. However, this was offset by higher international prices during the season. In addition, the Government applied export restrictions on beef in May 2021.

The conflict between Russia and Ukraine put the global financial markets on edge and triggered prices of commodities. In the short term, the value exported by Argentina could increase as a consequence of the rise in prices. However, the value of imports of fuels and agricultural supplies would also increase, negatively affecting the trade balance and limiting possible profits for producers from higher commodity prices.

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### Sources:

EMIS: Reports - Argentina Agribusiness Sector Report 2021-2022

<https://www.emis.com/>

<https://www.agrositio.com.ar/noticia/221535-ucrania-rusia-efectos-sobre-los-mercados-internacionales-y-el-agro-argentino>



## Tech

During the first year of the pandemic, ecommerce in Argentina made a great leap, adding more than 1 million new consumers. According to information from CACE (Cámara Argentina de Comercio Electrónico/ Argentine Chamber for E-Commerce), during 2021 e-commerce grew 68% compared to 2020, reaching total revenues of \$ 1.5 billion. The sector focused on developing greater technological, operational and organizational capabilities, allowing it to provide a high service level, with shorter and more accurate delivery times and digital payment methods. In the future, the challenge will be to satisfy more demanding and experienced users.

The fintech startup ecosystem in Argentina is one of the fastest growing in the region, despite the country's economic difficulties.

Until 2020, the Argentina fintech ecosystem was predominated by loan providers. This trend has changed and digital payments are currently the market leader. The digital payments industry is accelerating rapidly at a global level, as users and the market in general perceive the advantages of these new modalities over traditional payment systems. The main factors that prompted its growth locally include the increase in the use of digital channels in commerce, and some initiatives adopted by the BCRA to promote greater use of electronic payment methods.

There has also been a significant growth in the "Blockchain & Cryptoactive" segment.

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### Sources:

<https://camarafintech.org/>  
<https://www.cace.org.ar/estadisticas>





## Real Estate

Despite macroeconomic difficulties, real estate continues to be an industry with a lot of potential in Argentina. Developers are eager to move forward with their projects. The possibility of repealing the new Rental Law No. 27551, published in 2020, that modified several essential aspects of the real estate lease contract, brings optimism to the sector. Tenants, landlords and real estate brokers agree that the new law brought more difficulties than solutions and caused a drop in leases. The changes should be in line with accessible mortgage loans for the purchase or refurbishment of real estate, construction incentives and a new fiscal regime for the rental activity.

As a result of the pandemic, suburban areas, both in Argentina and worldwide, have been one of the winning markets in terms of growth. The lockdown made green open spaces the new luxury, and the arrival of COVID-19 accelerated decisions. A lot of people have already moved to the suburbs in the last two years.

Another sector that will continue growing is warehouse development, due to the increase in e-commerce and logistics efficiency. Multi-client parks are the most demanding format. These warehouse complexes allow operational and infrastructure synergies as users take advantage of quality construction, shared services efficiencies and compliance with international safety standards. Developers are working on smart logistics centers with a sustainable perspective and new technologies for operating-time efficiencies, as well as energy savings and environmental awareness.

### Sources:

<https://www.cronista.com/columnistas/nueva-ley-de-alquileres-2022-tres-soluciones-possibles-para-inquilinos-y-propietarios/>

<https://www.infobae.com/economia/2022/03/23/alquileres-la-oposicion-busca-derogar-la-ley-con-una-sesion-especial-y-hay-un-nuevo-proyecto-del-oficialismo/>



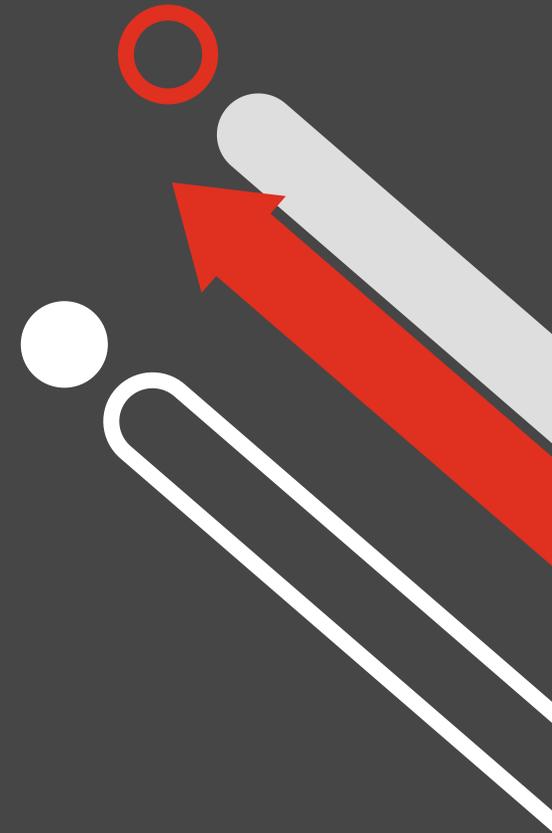
## Tourism

During 2021 and the first quarter of 2022, the sector underwent an improvement through the national initiative PreViaje, a tourist pre-sale program that refunds 50% of the value of travel in the form of credit, to travel and enjoy all the destinations in Argentina. The program benefited 4,500,000 tourists and vouchers were submitted for \$99,000 million.

Unlike previous years, when the pandemic forced restrictive measures to be taken, in 2022 international borders are open and the devaluation of the local peso can also act as a huge driver for those arriving with hard currencies.

### Sources:

<https://www.argentina.gob.ar/turismoydeportes/previaje>





## Private Equity (P/E)

The Private Equity industry in Argentina and LATAM is still underdeveloped. This means that there is great potential for growth and for P/E funds to play a key role in the economic development of the region.

During 2021, the effects of COVID-19, combined with a weak macroeconomic context, have impacted the M&A performance in Argentina. Approximately 50 M&A transactions were registered, a similar volume to the same period of 2020, but 50% lower compared with 2019 with a total deal value around USD 300 million, one of the lowest recorded in the last decade.

The M&A activity is expected to increase in the forthcoming years.

### Sources:

Informe de Fusiones & Adquisiciones de PwC Argentina 2021

PwC - informe-fusiones-adquisiciones-10-2021.pdf



## ESG

Driven by factors such as climate crisis, resource scarcity, social disparity and inequality, and accelerating technological development, organizations have taken on greater responsibilities related to sustainability; that is, the capacity to create long-term value through a comprehensive approach to environmental, social and governmental (ESG) factors.

Important players at the global level have assumed commitments to reduce CO2 emissions by 2030 and 2050, in line with the objectives of the Paris Agreement to limit global warming to 1.5 C, and to achieve Sustainable Development Goals. As a result, 73 countries have committed to net zero CO2 emissions by 2050.

### Sources:

<https://www.pwc.com.ar/es/publicaciones/incorporar-las-cuestiones-esg.html>

In this regard, the main stakeholders demand immediate responses from corporations, which include the management of environmental and social impacts.

Accordingly, 155 corporations (with a combined market capitalisation in excess of USD 2.4tn and over 5 million employees) have signed a statement urging governments around the world to align their COVID-19 economic aid and recovery efforts with the latest climate science and a coalition of over 70 pension funds and investment managers (with assets of \$16tn) have designed a “net zero” framework to cut emissions from their portfolios by 2050.

By working across all industries and with our network of specialists in topics relating to climate change, value chain, social, reporting and corporate governance risks, at PwC we include sustainability considerations in our advice to provide our clients with the best support.





## Venture Capital (VC)

Venture capital has been a key deal-making driver across Latin America amid a global push to apply new technologies in traditional industries and sharpen competitive edges via innovation. Despite the financial instability that Argentina has experienced for decades, the development of the startup and entrepreneurial capital ecosystem continues undeterred. The sector is regulated by Law No. 27349 on Entrepreneurship (April 2017), aimed at empowering Argentina to dominate the regional startup scene.

Seed and Early-Stage financing in Argentina showed a considerable volume in 2021. In the first nine months of 2021, there were at least 22 Fundraising operations involving Argentine groups, with an amount raised in excess of US\$1.85 billion – a record value. Operations were mostly linked to the technology category in sectors such as Fintech, Foodtech, Cybersecurity, among others.

Some of the main VC Funds investing in Argentina are NXTP Ventures, Kaszek Ventures, Draper Cygnus, Oikos and Patagonia Ventures. From the Corporate Venture side, Mercadolibre, Globant, Grupo Supervielle and Wayra are some of the key players.

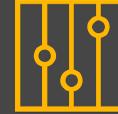
Venture Capital activity in Argentina is expected to grow in the forthcoming years, in line with global trends in technological advances, new consumer habits, and growing needs from traditional corporations to diversify and rethink their business models.

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### Sources:

Inversiones y M&A: perspectivas para el año 2022-Informe de PwC Argentina

<https://www.pwc.com.ar/es/publicaciones/fusiones-adquisiciones-perspectivas.html>



## Form of Foreign Investment /Structuring the Deal

In Argentina, both local and foreign investors enjoy extensive legal protection guaranteed by a range of national and international regulations to avoid double taxation and establish reciprocity. In fact, foreign investors follow the same procedures as domestic entities.

Foreign and domestic commercial entities in Argentina are regulated by Law 19550 which establishes the different types of commercial partnerships, the Argentina Civil and Commercial Code, and rules issued by the regulatory agencies. In addition, foreign investments are regulated by Law 21382 and entrepreneurs can benefit from Law 27349 and its amendments.

According to the latest World Bank information, in 2020 Foreign Direct Investment (FDI) in Argentina reached USD 4.1 billion, 1% of the national GDP. When analyzing the last two decades, FDI has grown 1.7x, and Argentina is only 0.2x below the regional\* average (1.9x). In terms of percentage of GDP, the regional average for the last decade is 3.8% and Argentina's average is 1.7%.

\*Region: Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

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### Sources:

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# Foreign Trade and Customs Regulations



## Introduction

Since the restoration of the Foreign Exchange Control System in 2019, the Argentine Central Bank (BCRA) has continued to regulate all transactions carried out in the Foreign Exchange Market (“MLC” for its Spanish acronym), with the regulations in force placing a special focus on those transactions that imply an outflow of foreign currency.

In this sense, as from October 6, 2021, financial institutions must notify the BCRA of all details regarding any transaction involving an outflow of foreign currency exceeding USD 10,000 two days before it takes place. It is noteworthy that those transactions that imply an outflow of foreign currency and need prior formal approval from the BCRA are generally not authorized.

From a customs point of view, import licenses are still required to import goods, and duties are applicable to both the export and import of goods. However, since January 2022, duties on the export of services have been eliminated.

## New Regulations for all Outflows of Funds through the MLC

Financial institutions may give access to the MLC to individuals or legal entities (“Client”) when they verify compliance with the general and specific provisions established for the type of transaction to be performed.

Regarding the controls performed over outflows of funds in the MLC, in addition to complying with the requirements in force for each specific transaction, prior formal approval from the BCRA will be required, unless the Client submits a sworn statement evidencing that at the time of access to the MLC:

- all the Client’s foreign currency holdings in the country are deposited in accounts opened with financial institutions.
- the Client’s foreign liquid assets do not exceed an amount equivalent to USD 100,000 (this includes demand deposits in foreign financial institutions and other investments, such as investments in external public securities, crypto assets, etc.).
- the Client undertakes to bring into the country all funds received abroad from the collection of loans granted to third parties, the collection of a term deposit, or the proceeds from the sale of any type of asset, and to convert them to local currency in the MLC, within 5 (five) business days of their availability. This requirement is applicable if the asset has been acquired, the deposit created, or the loan granted after May 28, 2020.

Another sworn statement must also be filed by the Client on the day requesting access to the MLC, stating that it undertakes not to arrange in the country sales of securities issued by residents to be settled in foreign currency, or exchanges of securities issued by residents for foreign assets, or transfer of such securities to depositary entities abroad, or the acquisition in the country of securities issued by non-residents to be settled in pesos 90 days prior and 90 days after the performance of this type of transactions.

In addition, if the Client is a legal entity, it must report a detail of the individuals or legal entities who hold direct control over it. Additionally, another sworn statement must be filed indicating that on the day on which access to the market was requested and within 90 (ninety) calendar days before such date, no funds in local currency or other liquid local assets—except for funds in foreign currency deposited in local financial institutions – to any individual or legal entity that exercises direct control over it, except for those directly associated with regular transactions between residents for the acquisition of goods and/or services. If available, a sworn statement issued by the controllers must be filed in this regard.

This requirement will not apply to the repayment of loans in foreign currency granted by local financial institutions, including payments for consumptions in foreign currency made with credit or purchase cards.





## Financial Debts

Foreign currency derived from financial loans granted by non-residents does not have to be brought into the country and converted to local currency in the MLC, unless the Argentine resident intends to access the MLC in the future to repay principal and/or interest.

In the case of payment of principal maturities and interests, the Client must demonstrate that the amount of foreign currency was brought into the country and converted to local currency is equivalent to the nominal value of the indebtedness, except for those cases expressly provided for in the regulations (i.e., indebtedness disbursed before September 1, 2019).

Those companies with loans granted by non-related foreign parties and with principal maturities scheduled between October 15, 2020 and December 31, 2022 (exceeding USD 2 million per month) can pay 40% of such debt by accessing the MLC. For the remaining 60%, they must present a refinancing plan with an average life of, at least, two years.

Meanwhile, the BCRA's prior formal approval is required to pay the principal amount of loans granted by related foreign parties at their maturity date, , except when: i) the funds of the loan have been brought into the country and converted to local currency through MLC after October 2, 2020 and the debt has an average life of not less than two years; ii) the funds of the loan have been brought into the country and converted to local currency through the MLC after November 16, 2020 and the purpose of the loan is to finance projects of the "Plan to promote the production of Argentine natural gas", and it has an average life of not less than two years; iii) the company has a "Certification of increased exports of goods"; and iv) the amount of principal and interest may be paid at maturity by applying the amounts collected from the export of goods or services, if the requirements set forth in the regulation are met.

Finally, payment of interests is allowed whether the loan was granted by a related or a non-related foreign company, if the conditions stipulated in the regulations are met.



## Direct Investment System

There is no obligation for direct investment funds to be brought into the country and converted to local currency in the MLC. Repatriations of direct investments made by non-residents in companies holding no controlling interests in local financial institutions shall not require the BCRA's prior approval, if the capital contribution is brought into the country and converted into local currency in the MLC from October 2, 2020 onwards and at least 2 (two) years after being brought into the country.

If these conditions are not met, prior formal approval from the BCRA will be required.



## Payment of Dividends

Financial institutions may allow access to the MLC for the payment of profits and dividends to non-resident shareholders to the extent that the following conditions set out in exchange regulations are met:

- Profits and dividends correspond to closed and audited financial statements.
- The total amount paid to non-resident

shareholders, including the amount being transferred, does not exceed the amount in local currency determined by the shareholders' meeting.

- The debt has been reported in the Survey of Foreign Assets and Liabilities, if applicable.
- The Client meets any of the following conditions and fulfils all applicable requirements:
  - a. It registers direct investment contributions settled since January 17, 2020. In this case, only an amount equivalent to 30% of that contribution can be paid.
  - b. Profits are generated in project related to the "Plan to promote the production of Argentine natural gas".
  - c. The company has a "Certification of increased exports of goods".

If the conditions set in the foreign exchange regulations are not met, prior formal approval from the BCRA will be required to access the MLC to pay for profits and dividends.



## Import of Goods

Current foreign exchange regulations set out the guidelines and requirements to be met to access the MLC to pay for the import of goods. In principle, current foreign exchange regulations set forth that debts arising from the import of goods can only be paid upon expiration, and in the event advance payment is required, prior formal approval from the BCRA must be requested.

Before giving the importer access to the MLC to pay debts arising from the import of goods, the financial institution must verify that the importer has complied with the Customs declaration requirement for the goods to be paid, and that this information is consistent with the related commercial invoice and the shipping document, among other requirements.

In addition, as from July 2020, a “quota system” has been devised for accessing the MLC for the payment of imports of goods. Accordingly, depending on the import payment to be made (e.g., shipments until July 1, 2020 or advance payments), a quota system will be applicable. In each case,

a specific calculation should be made to determine whether the company may access the exchange market or not.

The specific quota allocated to any company may be increased if it complies with certain requirements, for example, bringing into the country and converting to local currency in the MLC advances for exports or pre-financing of exports obtained abroad with a minimum term of 180 days.

The specific quota allocated to any company may be increased if the latter complies with certain requirements, such as making advance payments from the collection of funds originated in the export of goods, among others.

Restrictions are less severe in the case of certain health-related imports, such as medicines, goods for production, and medical care supplies.

To access the MLC to make advance payments of imports, it is necessary to provide the financial institution with documentation including a detail of the goods to be imported, the agreed purchase conditions, and the delivery and payment terms and conditions. If the foreign supplier is a related company, then, prior formal approval from the BCRA will be required to access the MLC to make the advance

payment of imports.

Whenever an advance payment is made, the Customs Declaration validating the entry of capital goods must be submitted to the financial institution within 270 (two hundred and seventy) calendar days from the date of access to the MLC. For all other goods, the term will be 90 (ninety) calendar days from the date of access to the MLC.

From a Customs point of view, as a rule applicable to all transactions involving final imports of goods, importers must register the information relating to the goods to be imported in the Integral Monitoring System for Imports (“SIMI”) for every import for consumption (or final import). The SIMI must also be used to process import licenses: Automatic Import Licenses (“AL”) must be obtained for all goods included in the tariff positions of the Mercosur Common Nomenclature (“MCN”) for final imports, except for certain tariff codes specifically listed, for which a Non-Automatic Import License (“NAL”) must be obtained. It is worth highlighting that the list of NAL is dynamic and may be modified based on the needs of each sector involved.

In this regard, as of March 4, 2022, SIMIs will be classified as A, B, or C. While SIMIs A are subject to an annual limit depending mostly on the previous levels of goods imported,

they must be paid within the agreed term. SIMIs B, in turn, must be paid after 180 days from the date of customs clearance, except for: capital goods; certain tariff codes relating to COVID-19 testing kits and other health-related goods; goods subject to non-automatic licenses; and imports of goods carried out by the public sector and business organizations where the National State has a significant participation.

Finally SIMIs C, for which there is also an annual limit, may be paid within the agreed term, if the following conditions are met: i) they correspond to certain tariff codes (mainly cacao, tea, certain minerals, certain fuels, certain plastics, among others); ii) the client presents an external auditor certificate stating that, if the operation is completed, the stock of raw materials and/or intermediate or final goods made from them will not exceed the levels required for its normal activity; iii) the importer has filed a sworn statement saying that in those cases where they and their economic group have been summoned to a price agreement by the National Government, they have not refused to participate in such agreement nor have they breached the agreed provisions in case of having a program in force.



## Import of Services

Debts originated from the import of services can only be paid at maturity. Payment in advance will be subject to prior formal approval from the BCRA. Payments to foreign related companies originated in the import of services will also be subject to prior formal approval from the BCRA, with some exceptions.

On January 2022, a new system to control payments, the “Integral Monitoring System for Payments Abroad” (“SIMPES” for its acronym in Spanish) has been implemented. Clients must file certain information relating to the payment to be made and once approved, must present it to the financial institution.

To be approved, the tax authorities will analyze the information and the Client’s economic financial capacity.



## Exports of Goods

Amounts in foreign currency relating to exports of goods performed from September 2, 2019 onwards must be brought into the country and converted to local currency in the MLC within 15, 30, 60 or 180 (fifteen, thirty, sixty or one hundred and eighty) business days from the date stated in the shipping permit, depending on the tariff code of the exported good.

Foreign currency from exports to related companies must be brought into the country and converted to local currency in the MLC within 60 (sixty) business days from the date of issue of the shipping permit. In addition, a 365-day period from said shipping permit date is set for transactions by courier under the “Simplified Export” system.

Notwithstanding the foregoing, amounts in foreign currency relating to the export of goods should be brought into the country and converted to local currency in the MLC within 5 (five) business days from the date of collection.

Export duties can vary from 0% to 33%, with a significant temporal reduction applicable to certain commodities.



## Exports of Services

Amounts in foreign currency relating to the export of services must be brought into the country and converted to local currency in the MLC within 5 (five) business days from the date of collection abroad or in the country, or from the date of crediting to foreign bank accounts.

Decree 99/2019, which had imposed a 5% (five percent) duty on the export of services rendered in the country to be effectively used or exploited abroad, has not been extended; hence, the application of these duties is no longer in force since January 1, 2022.





## Build-Up of Foreign Assets

Legal entities, local governments, mutual funds, and trusts established in the country must obtain prior formal approval from the BCRA to access the MLC to acquire foreign currency, as well as to provide all types of guarantees relating to the coordination of derivative transactions.

Resident individuals may access the MLC to acquire foreign currency, send remittances abroad for family assistance, and provide guarantees relating to the coordination of derivative transactions for an amount of up to USD 200 (two hundred US dollars) per month, through all financial institutions authorized to operate in the foreign exchange market. To access the MLC for higher amounts, prior formal approval from the BCRA is required.

Consumptions made abroad with debit cards in pesos and consumptions in foreign currency with credit cards as of September 2020 will be deducted from the individual's quota of USD 200. If the amount of these transactions is higher than the monthly

limit of USD 200, the deduction will be transferred to the quotas of subsequent months until completing the amount spent (it is to note that there are no limits as regards consumption abroad with debit or credit cards linked to a bank account in pesos).

This monthly quota is not allowed for individuals who are beneficiaries of special financing of credit cards and/or have had a freezing of mortgage loan installments while the financing or the benefit remains. These individuals are also prevented from selling securities in the country to be settled in foreign currency (MEP dollar) or transferring them abroad (contado con liquidación). Additionally, the 30% (thirty percent) Tax for an Inclusive and Supportive Argentina (PAIS tax) established by the Federal Public Revenue Agency (AFIP) is imposed on this type of transactions.

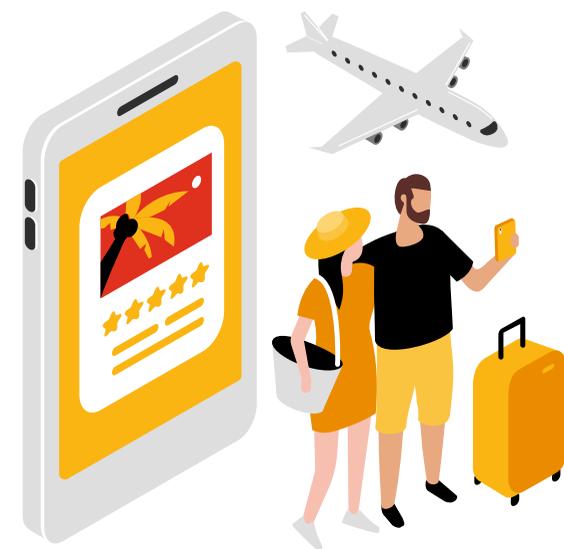


## Travel and Tourism

The 30% PAIS Tax will also be applied to the following operations relating to travel and tourism:

1. When financial institutions must access the MLC to pay with foreign currency the following operations, provided that their resident clients, as end users, used their credit, purchase and/or debit cards for these transactions:
  - a. purchases of goods or services rendered abroad;
  - b. withdrawals or cash advances made abroad;
  - c. purchases in foreign currency made through portals or virtual sites (remote purchases).
2. Purchase of services abroad contracted from travel and tourism agencies of the country –wholesalers and/or retailers.
3. Acquisition of land, air and water transport services for passengers travelling abroad.

Individuals or legal entities residing in the country, as end users of the above-mentioned goods or services, are liable for the payment of the PAIS Tax.





## Report of Foreign Assets and Liabilities

Before granting access to the MLC to settle all commercial or financial debts in foreign currency, financial institutions shall first verify that the operation has been reported, if applicable, in the latest “Report of Foreign Assets and Liabilities” to be filed with the BCRA.

This report must be filed on a quarterly basis and must be completed by all legal entities or individuals holding liabilities in foreign currency at the end of any calendar quarter, or by those who have settled them during that quarter. The due date to file the quarterly report is 45 calendar days after the end of the calendar quarter.

Those individuals/legal entities for whom the balance of foreign assets and liabilities at the end of each year reaches or exceeds an

amount equivalent to USD 50 million, must submit, in addition to the quarterly filings, an annual statement (which will supplement, ratify and/or rectify the quarterly filings). This annual statement is optional for any legal entity or individual below that threshold. The due date to file this annual statement is 180 calendar days after the end of the calendar year.

Although the certificate stating that the Report has been updated is a requirement that must be met by all those who want to pay a commercial or financial debt, such updated certificate is mandatory for all entities with liabilities in foreign currency, regardless of whether they intend to access the MLC.



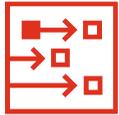
## Certificate of Increased Exports of Goods

Companies with a “Certificate of Increased Exports of Goods in 2021” or “Certificate of Increased Exports of Goods in 2022” (hereinafter, the “Certificate”) will be exempted from the requirement of prior BCRA formal approval to access the MLC in those operations in which such requirement is needed.

To obtain this Certificate, the company must prove that it complies with the requirements prescribed by the regulations.

In fact, if the Client has a Certificate, they will be able to access the MLC for the payment of the following debts (for the amount stated in the Certificate):

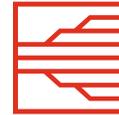
- debts of imports of services provided by related foreign companies
- principal amount of loans granted by third parties. The Certificate allows the Company to access the MLC for a higher percentage than 40%.
- principal maturities of loans granted by foreign related companies
- debts of profits and dividends
- debts of imports of goods that were imported prior to July 1, 2020. The Certificate allows the Company to obtain a higher result of its balance to make these payments.



## Access with Certificate of Entry of New Financial Indebtedness Abroad

Clients who register settlements of new foreign financial indebtedness and have a certificate issued by an entity regarding compliance with the requirements stated by the regulations may access the exchange market to pay: i) imports of goods without requiring any prior consent; and ii) services to related counterparties without the prior approval of the BCRA, to the extent that the payment is made on maturity of an obligation for services rendered at least 180 calendar days before accessing the MLC or derived from a contract signed with a similar advance period.

In all cases, compliance with the remaining general and specific requirements must be proven, regarding the operation under the current exchange regulations.



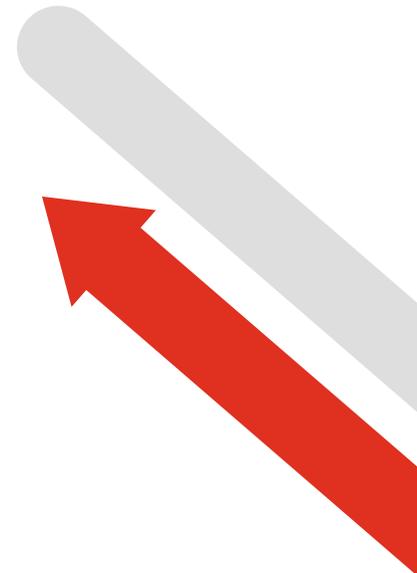
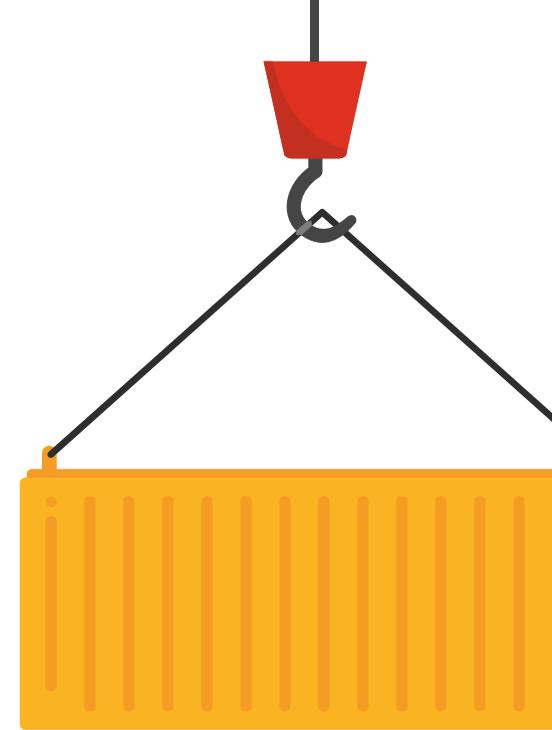
## The Investment Promotion Regime for Exports

Decree No. 234/21 allows for the possibility that residents and non-residents may submit an “Investment Project for Exports” for certain productive sectors (forest, mining, hydrocarbon, manufacturing, and agro-industrial activities), which represents a direct investment in foreign currency for a minimum amount equivalent to USD 100 million. Under this Decree, up to 20% of the foreign currency obtained from the exports of goods of the projects under the Regime may be applied to the payment of:

- principal and interest on debts for the import of goods and services.
- principal and interest on foreign financial indebtedness.
- profits and dividends of closed and audited financial statements.
- repatriation of non-residents’ direct investments.

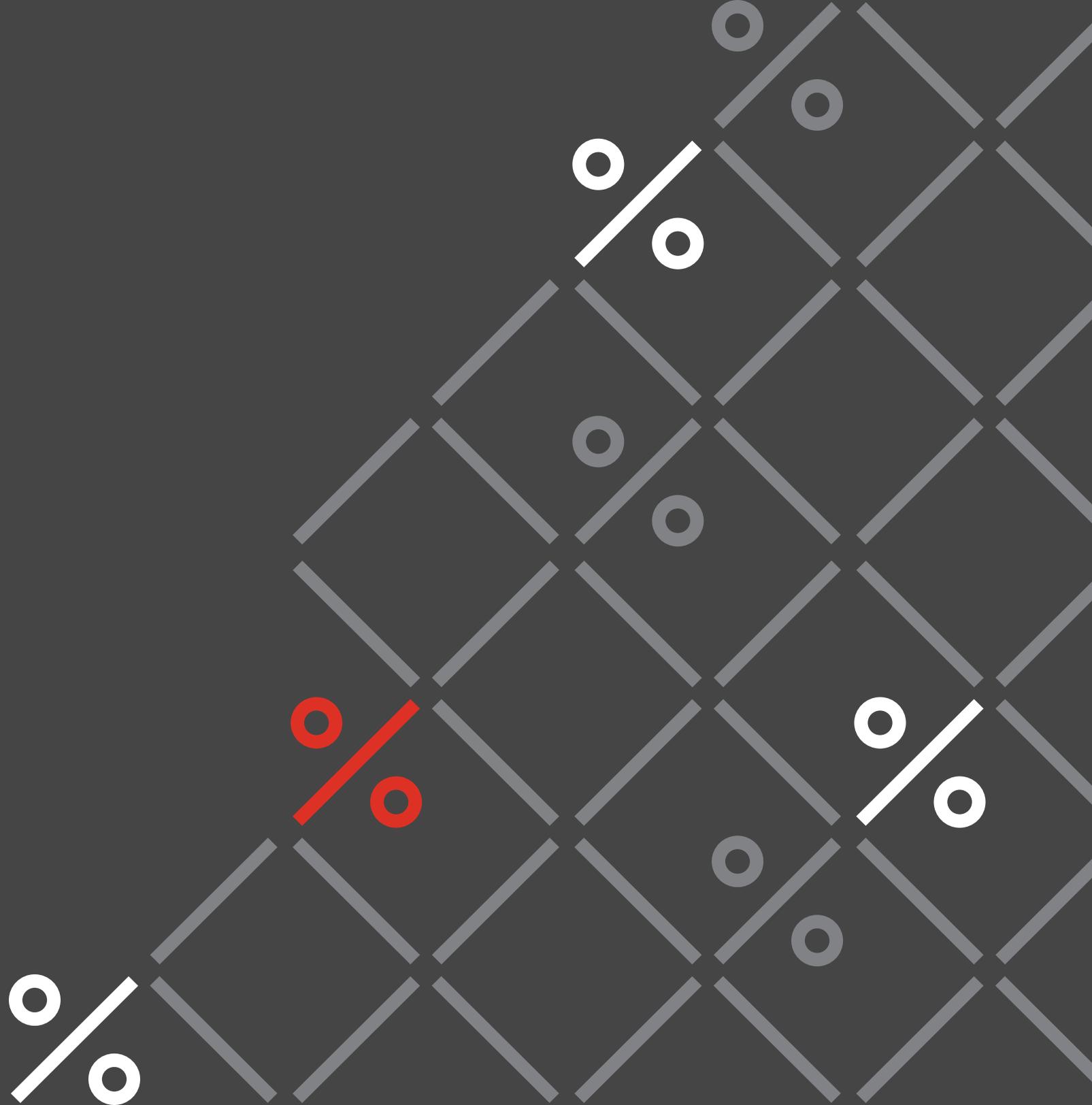
To perform the above-mentioned operations, certain requirements must be met. This benefit has an annual cap equivalent to 25% of the gross amount of the foreign currency the company has brought into the country and converted to pesos through the MLC to finance the development of the project that generates the applied exports. For projects included in the Regime with investments greater than USD 500 million, the beneficiaries may choose to access to an extended benefit for each calendar year in which no use was made of the intended benefit.

The projects approved will benefit from regulatory stability as to foreign exchange matters for a term of 15 years from the date of approval of the project submitted, meaning that future foreign exchange regulations will not affect the benefits granted under the regime herein analyzed.



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# Tax System





## Taxes on Corporate Income

### Corporate Income Tax

As from FYs starting on or after Jan 1, 2021, a Corporate Income Tax rate applicable to net taxable business profits from 25% to 35% is to be introduced. Legal entities residing in Argentina are subject to tax on Argentine and foreign-source income and are able to claim any similar taxes actually paid abroad on foreign-source income as a tax credit.

The same rate applies to net taxable Argentine-source business profits and to profits from business activities performed abroad by branches of foreign entities. See additional comments below.

### Corporate Residence

Corporate residence is primarily determined on the basis of place of incorporation although centers of activities or place of management approach may prevail in case of companies set up abroad and developing activities / functions in Argentina. Centers of activity in Argentina of non-Argentine corporations are treated as permanent establishments (PE).

As part of the 2017 tax reform, a PE definition has been introduced into the Income Tax Law. Such a definition is generally aligned with the one included in the OECD Model Tax Convention for the Elimination of Double Taxation, although it is broader, as it includes the performance of services by a nonresident provider, including services rendered by consultants within the National Territory for a total period greater than six (months) within any 12-month period.



## Other Taxes

### Value Added Tax (VAT)

The current general rate of 21% is applied to the sales value of products and services (including professional services), with a few specific exceptions. This tax is applicable to the import of goods and services.

Certain goods are taxed at a reduced rate of 10.5%, while some services, at a rate of 27%. The export of goods and services is taxed at a rate of 0%. Nevertheless, input VAT relating to exports may either be used as a credit against output VAT or refunded pursuant to a special procedure. VAT paid on purchases, final imports and rental of automobiles, not considered inventory, may not be computed by the purchaser as a credit. The same tax treatment applies to other services, such as those provided by restaurants, hotels and garages. The above-mentioned restrictions do not apply when these services are hired for a conference, congress, convention or any other similar event directly associated with the specific activity of the contracting party.

As a result of the 2017 tax reform, VAT legislation currently includes as a taxable event "digital transactions" (e.g. digital services, hosting, on-line technical support, software services, Internet services) provided from abroad. Hence, these types of services are now subject to VAT at a 21% rate if they are provided by a nonresident entity to an Argentine customer, on condition that they are actually used in Argentina.

### — **Turnover Tax**

Each of the 24 jurisdictions into which Argentina is divided imposes a tax on gross revenues from the sale of goods and services. The export of goods is exempt from this tax. Rates, rules and assessment procedures are determined locally. On average, rates for trade and services range from 3% to 5%. In case of industrial activities, rates are generally lower (ranging from 0% to 2%).

### — **Wealth Tax**

Wealth Tax is payable by Argentine companies on all shares/units issued by them and owned either by individuals, regardless of residence, or by companies residing abroad. It shall be assessed and paid directly by the local company as a full and final payment on behalf of the shareholders/members (the issuing company has the right to recover the tax paid from the shareholder/member).

The applicable tax rate is currently 0.50% of the value of the ownership interest, which is generally calculated as the difference between assets and liabilities arising from the financial statements at December 31 of each year, or during the fiscal year at issue. According to case law issued by the Argentine Supreme Court of Justice, branches of foreign entities may claim an exemption from this tax.

### — **Excise Taxes**

A wide variety of items, such as automotive and diesel motors, tobacco, alcoholic beverages (including wine, champagne and beer), insurance, cellular and satellite telephone services, recreational or sport boats, aircraft, luxury goods, and non-alcoholic beverages with caffeine and taurine, among others, are taxed at varying rates.

### — **Tax on Financial Transactions**

This tax is levied at a rate of 0.6% on the amounts credited to or debited from the taxpayer's bank accounts.

Transactions made in banks without using a bank account and any disposition of one's own funds or the funds of a third party are subject to a tax rate of 1.2%.

One third (33%) of the Tax on Financial Transactions actually paid on bank account transactions (0.6%) and movements of funds (1.2%) is creditable against Income Tax and/or the related tax prepayments.

### — **Stamp Duty**

This local tax is levied on documents or agreements that evidence acts or transactions for valuable consideration (usually referred to as taxable documents). The average tax rate is 1% and is applicable to the economic value of the agreement.

### — **Import & Export duties**

Import duties currently range from 0% to 35%, except in cases where a specific minimum duty is applied, or which involve goods subject to a specific treatment. In general, goods from LAIA and MERCOSUR countries are entitled to a preferential duty treatment.

Export duties rates can vary from 0% to 33%, with a significant temporal reduction applicable to certain commodities as well as to the mining industry.



## Social Security Taxes

Social Security Taxes Law No. 24241 (Argentine Integrated Pension Fund System Law) establishes the territoriality principle, under which Argentina's Social Security System covers all persons providing services under a permanent or temporary employment contract within the national territory. Each month, local employers must pay employer contributions jointly with employee withholdings to the National Social Security System and the National Health Care System.

Social Security Tax is payable by employer on the employee's total monthly salary and is not subject to any cap amount. The total employer contribution rate is 26.4% for companies mainly engaged in the provision of services or trade, provided their annual sales exceed the amount established by the regulation that is updated annually (as from April 1, 2022: ARS 1,438,900,000 for services and ARS 5,495,450,000 for trade), and 24% for the rest of companies.

Argentine employers are exempt from paying social security contributions for the first ARS 7,003.68 per employee per month- for some activities; the non-taxable amount increases to ARS 17,509.20.

The employee social security withholdings, which include pension fund, health care and social services, are payable on the monthly salary, up to a monthly cap of ARS 357,166.98 (as from March 2022), except for June and December, when the cap increases by 50% due to the 13th month salary. This salary cap is index-adjusted in March, June, September and December of each year. The total employee Social Security Tax rate is 17%, which consists of contributions of 11% to the pension fund, 3% to health care and 3% to social services.

Should any employee serve as Director of the same company, the social security liability shall be limited to the contributions made as a self-employed individual for the management duties performed. The employee's enrollment in the Social Security System will be voluntary regarding his/her salary as an employee. Thus, if the Director opts not to pay these contributions, the company is under no obligation to pay any employer contributions.

## Significant Developments

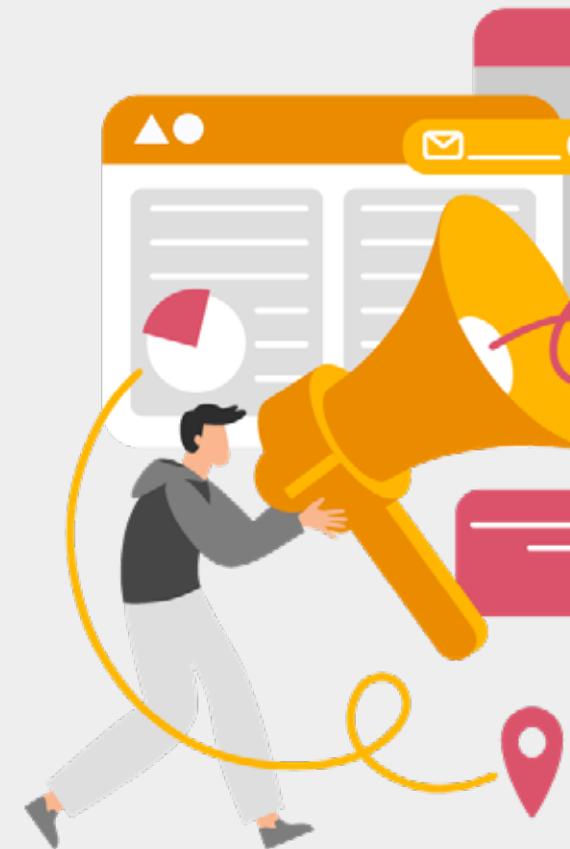
### Amendments to the Corporate Income Tax rate

On June 16, 2021, Law No. 27630, which introduced amendments to the corporate income tax law, entered into force. The most relevant changes introduced by Law No. 27630 are the following:

#### Corporate Income Tax rate

Under prior law, the corporate income tax (CIT) rate was 25%. As per the new law applicable to fiscal years starting on or after January 1, 2021, corporate income will be subject to tax at progressive rates ranging from 25% to 35% as follows (amounts are in Argentine Pesos):

- Taxable income from ARS S 0 to ARS 5,000,000: 25%
- Taxable income exceeding ARS 5,000,000 and up to ARS 50,000,000: ARS 1,250,000 + 30% on the amount that exceeds ARS 5,000,000.
- Taxable income exceeding ARS 50,000,000: ARS 14,750,000 + 35%



on the amount that exceeds \$50M. Starting in January 2022, these brackets will be annually adjusted to account for inflation, as per the consumer price index (IPC), published by the relevant governmental agency (INDEC).

### Withholding on dividend distributions

Under prior law, distribution of earnings attributable to FY 2021 were subject to withholding tax (WHT) at a 13% rate. The WHT rate was tied to the prior CIT rate (25%). Law No. 27630 reduced the WHT rate on dividend distributions to non-residents from earnings obtained as from FY 2021 to 7%.

## Income Determination

### Inventory Valuation

Inventory valuation is based on the latest purchase. Thus, LIFO may not be chosen for tax purposes. Conformity between book and tax reporting is not required.

### Capital Gains

Capital gains and losses attract normal profit tax treatment, except for those losses from the sale of shares, units, bonds and other securities that may be offset only against the same type of income.

### Intercompany Dividends

These dividends are not included in the tax base of an Argentine entity (the recipient) if distributed by another Argentine company. However, tax is levied if the dividends are distributed by a foreign company.

### Foreign Income

Foreign income earned by resident entities is subject to tax. Note that an Argentine taxpayer is immediately taxed on passive income generated by a "Controlled Foreign Corporation" (CFC) that is directly or indirectly held by the Argentine taxpayer, to the extent that more than 50% of that CFC's income is passive and is actually subject to tax at a rate that is lower than 75% of the applicable Argentine income tax rate. Tax losses from a foreign source may only be offset against income from a foreign source.

### Transfer Pricing Rules

The transfer pricing regulations governing intercompany transactions, which were introduced into the Income Tax Law by Law No. 25063, as amended by Laws Nos. 25239 and 25784, adopt principles similar

to those of the Organization for Economic Cooperation and Development (OECD), pursuant to which companies must comply with the arm's length principle to determine the value of goods and services in their transactions with foreign-related companies.

## Deductions

### Depreciation and Depletion

Depreciation is generally computed on a straight-line basis over the technically estimated useful life of the assets or, alternatively, over their standard useful lives (e.g., machinery and equipment, ten years; furniture, ten years). Depreciation of buildings and other construction on real estate is 2% per annum on cost (on a straight-line basis), unless it can be proven that useful life is less than 50 years.

Depreciation of automobiles with an original cost in excess of ARS 20,000 is

not deductible. Related expenses (gasoline vouchers, insurance, rentals, repairs and maintenance, etc.) are deductible for up to ARS 7,200 per car per year. Conformity between book and tax depreciation is not required.

Percentage depletion is available for natural resources (mines, quarries, forests).

### Net Operating Losses

Income Tax losses may be deducted over a five-year term.

### Payments to Foreign Affiliates

Transactions between related parties should comply with the arm's length principle. This principle was included in the transfer pricing rules and was extended to transactions with companies located in non-cooperative jurisdictions or low or zero tax jurisdictions. The tax authorities will determine income by applying one of six methodologies: comparable uncontrolled price, resale price, cost plus, profit split, residual profit split, and transactional net margin. Payments to foreign



affiliates or related parties and companies located in low or zero tax jurisdictions that represent Argentine-source income are tax deductible, provided they are paid before the due date for filing the tax return and the related withholding is paid to the tax authorities.

## Other Significant Items

1. Donations: when made to companies and associations expressly exempt from assessment of Income Tax, donations up to a maximum of 5% of the donor's net taxable income are admissible deductions, provided certain requirements are met.
2. Representation expenses: if adequately documented, representation expenses are admissible deductions up to 1.5% of the amount of salaries accrued during the fiscal year.
3. Directors' fees: Amounts equivalent to 25% of after-tax income or ARS 12,500 per individual, increased by 40% to 60% when paid to women or trans people, whichever is higher, are deductible in the

fiscal year to which they apply, provided they are approved and available for the director before the tax return is due, or in a later year of payment.

4. Thin capitalization: except for financial institutions governed by Law No. 21526 and leasing companies, interest and foreign exchange losses incurred by an Argentine resident on loans granted by a related party - whether local or foreign - would be deductible up to a limit equivalent to the higher between ARS 1,000,000 or 30% of the taxpayer's taxable income before deducting interest, foreign exchange losses and depreciation. The portion of non-deductible interest will be carried forward for up to five years. Any deductibility capacity can also be carried forward for up to three years.

Certain exemptions to thin capitalization rules may be available (i.e., interest that was subject to tax - WHT - at the recipient's hands or FX losses in years where, following tax rules, inflation recognition is allowed may

not be subject to this limitation).

## Tax Incentives

### Mining Activity

Law No. 24196 created an investment scheme for the mining activity that is applicable to individuals and legal entities.

Mining ventures included within this scheme enjoy fiscal stability (i.e., tax rates will remain basically the same) for a term of 30 years, except for VAT, which will adjust to the general scheme. Furthermore, the scheme grants incentives for Income Tax, Tax on Assets, Import Duties, and any other tax on the introduction of certain assets. Additionally, among other benefits, the possibility to obtain a VAT reimbursement during the exploration stage, as indicated in Law No. 24196, has been regulated by General Resolution No. 1641/2004.

### Forestry

Law No. 25080 established an investment scheme for forests plantation, protection and maintenance, and granted tax incentives similar to those offered to the mining industry.

### Knowledge-Based Activities

By virtue of Law No. 27506 (as amended by Law No. 27570), the Government created new tax incentives intended to promote certain knowledge-based activities through the end of 2029. Taxpayers that comply with all requirements must apply and register in order to benefit from the new law.

The new system aims at encouraging the creation, design, production, and



implementation or adaptation of products and services (and the associated technical documentation) relating to, among others, the following ‘Promotional Activities’:

- software
- computing and digital services
- audio-visual production and post-production activities
- certain scientific and engineering activities
- geological and prospecting services
- activities related to the industrial sector using ‘4.0 technologies,’ and
- the export of professional services.

#### **Incentives under the new system include:**

Corporate income tax rate reductions depending on the taxpayer’s size. Large taxpayers would benefit from a 20% cut; while micro and small businesses, and medium-sized enterprises would enjoy a 60% and 40% cut, respectively. This reduction would apply to both Argentine- and foreign-source income.

Reduction of export duty applicable to exports of promoted services to 0% (currently not applicable for general

taxpayers).

Non-transferable tax credit certificate of up to 70% of social security contributions paid by the employer with respect to employees engaged in Promotional Activities, which can be applied to the payment of certain taxes, such as VAT (excluding CIT). This bonus certificate will increase to up to 80% of the social security contributions of new hires considered included in special interest groups (including women, LGBT, people with disabilities, and residents in unfavorable areas). Exporters may request the use of the certificate to offset CIT liabilities.

Tax stability with respect to the new system’s benefits (available until December 31, 2029). The incentives will become effective for income tax purposes starting in the fiscal year following that in which taxpayers receive approval. However, they become effective for all other tax purposes as of the date the relevant governmental institution approves the registration. Furthermore, incentives apply retrospectively to January 1, 2020 for taxpayers that benefited under the software incentive system, which expired on December 31, 2019.

#### **Tierra del Fuego**

Although subject to certain limitations in the case of new projects, companies established in this province enjoy a

general tax exemption as well as important customs-related benefits, based on the system established by Law No. 19640 and supplementary regulations.

#### **Renewable Energy**

Companies engaged in the production of energy through renewable sources are entitled to certain tax benefits, such as early refund of VAT or accelerated depreciation of capital goods for Income Tax purposes, among others.

#### **Biotechnology**

Law No. 26270 established a promotion system for the development and production of biotechnology, and grants 29 benefits for tax and social security contributions that may be claimed if specific requirements are met.

#### **Small and Medium-sized Enterprises (Law No. 27264)**

Law No. 27264 (passed in August 2016) established a special tax system for small and medium-sized enterprises (SMEs) and for Infrastructure Investments conducted by SMEs. The most relevant benefits include the following:

- Full exemption from Minimum Notional

Income Tax starting January 2017 (this tax was abolished for fiscal years starting on or after January 1, 2019).

- Full credit (against Income Tax and its prepayments) on Tax on Financial Transactions paid by micro- and small-sized enterprises. A 50% credit on the tax paid by medium-sized manufacturing entities.
- Deferral of due date for VAT balance payable.
- Fiscal stability (from July 2016 to December 2018) for SMEs that invest in Infrastructure projects and/or capital goods.
- Income Tax credit for an amount equivalent to 10% of the amounts invested in infrastructure projects and capital goods.
- Tax bond (creditable against federal taxes) for the Input VAT credit balances resulting from infrastructure investments.



The regulatory authority would be in charge of keeping a registry of companies that are considered SMEs and are, therefore, entitled to the benefit.

### Export Incentives

The export of goods and services is exempt from Value Added and Excise Taxes. The temporary import of raw materials and intermediate and packaging goods for the manufacturing of export products is duty-free, with the obligation to offer sufficient guarantees for the import. A reimbursement system is in place for VAT credits paid to suppliers in relation to export activity.

### Withholding Taxes

Dividend distributions and branch profit remittances paid out of profits generated in fiscal years beginning on or after January 1, 2018 are subject to a 7% Withholding Tax in Argentina. Although the Equalization Tax is no longer in force due to the amendment introduced by Law No. 27430, it still remains applicable to dividend and branch profit distributions made out of profits accumulated in FYs starting prior to January 1, 2018, and which were in excess of tax profits as of the year-end prior to the relevant distribution.

Furthermore, in the case of nonresidents, gains on the sale of non-listed shares, share certificates and units of Argentine entities would be subject to a 13.5% tax on gross profits or, alternatively, 15% on actual profits (duly supported).

Similar rates would apply in the case of transfers of bonds, digital currency and other Argentine securities denominated in foreign currency. For securities denominated in pesos, rates would be reduced to 4.5% on gross profits, or 5% on net gain.



## Other Payments to Residents and Nonresidents

Recipient	WHT (%)	
	Interest (1)	Royalties (1, 2)
Resident legal entities	6/28 (3)	6 (4)
Resident individuals	6/28 (3)	6 (4)
<b>Nonresident legal entities and individuals:</b>		
Non-treaty:	15.05/35	21/28
<b>Treaty:</b>		
Austria (10)	12	3/5/10/15
Australia	12	10/15
Belgium	0/12 (5)	3/5/10/15
Bolivia	15.05/35	21/28
Brazil	15	10/15
Canada	12.5	3/5/10/15
Chile	4/12/15	3/10/15
China (14)	12	3/5/7/10
Denmark	12 (5)	3/5/10/15
Finland	15	3/5/10/15
France (13)	15.05/20 (6)	18
Germany	10/15 (7)	15
Italy	15.05/20 (5)	10/18
Japan (11)	12	3/5/10
Luxembourg (12)	12	3/5/10
Mexico	12	10/15
Netherlands	12	3/5/10/15
Norway	12.5 (8)	3/5/10/15
Qatar	12	10
Russia	15	15
Spain	12	3/5/10/15
Sweden	12.5	3/5/10/15
Switzerland	12	3/5/10/15
Turkey (9))	12	3/5/10
United Arab Emirates	12	10
United Kingdom	12 (5)	3/5/10/15

### Notes

1. Withholdings from payments of interest and royalties to non-residents are based on a flat rate of 35% applied to an assumed percentage gross profit margin. This margin is not contestable, but the resultant rate may be limited by bilateral treaty. Under the 1998 tax reform, the general margin for interest paid on credits obtained abroad is 100%. However, a margin of 43% is applicable: (i) if the debtor is a local bank; (ii) if the creditor is a foreign financial institution located in a country not considered as a low or no tax jurisdiction, or in countries that have signed an agreement with Argentina for exchange of information and have no bank secrecy laws, which are under the supervision of the respective central bank; (iii) if the interest is paid on a loan for the purchase of tangible assets other than cars; (iv) if the interest is paid on debt certificates (private bonds) issued by local companies and registered in certain countries that have signed an agreement with Argentina for the protection of investments; and (v) on interest paid on time deposits with local banks.

Royalties include a variety of concepts. All rates disclosed in this column relate specifically to services derived from agreements ruled by the Foreign Technology Law, as follows:

- Technical assistance, technology, and engineering not obtainable in Argentina: 21% (35% on assumed profit of 60%).
- Cessation of rights or licenses for invention patents exploitation and technical assistance obtainable in Argentina: 28% (35% on assumed profit of 80%). In case of non-registered agreements, the rate is 31.5% (profit of 90% is assumed) or 35% (profit of 100% is assumed), depending on the case.

Several other concepts of 'royalties' are subject to rates that, in turn, may be limited by treaty. A broad sample of these concepts and the non treaty effective rates are set forth in Note 2.

2. Payments to non-residents (only) for 'royalties', rentals, fees, commissions, and so on, in respect of the following, are subject to withholding at the rates indicated below on the basis of assumed gross profit margins (Note 1) unless limited by treaty. The treaty concerned should be consulted to determine any limitation in each case.

Payment	WHT (%)
Freight and passenger bookings (other than those covered by special treaties), news and feature services, insurance underwriting	3.50
Containers	7.00
Copyright	12.25
Rental of movable assets	14.00
Motion picture, video, and sound tape rentals and royalties; radio, television, telex and telefax transmissions; any other means for projection, reproduction, transmission, or diffusion of image or sound; sale of assets located in Argentina	17.50
Rental of real estate	21.00
Any other Argentine-source income (unless the nonresident is or was temporarily resident)	31.50

3. The higher tax rate is applicable on non registered taxpayers. In case of interest paid to corporations by financial entities or stock exchange/open market brokers, income tax must be withheld at 3% (10% if not registered); individuals are tax exempt.

4. Resident corporations and individuals who are registered for tax purposes are subject to 6% withholding (28% if not registered).

5. Interest is exempt if paid on credit sales of machinery or other equipment, specific bank loans at preferential rate or loans by public entities.

6. Current wording of the treaty limits taxation of interest to 20% (registered). See #13

7. A 10% rate is applicable to interest on credit sales of capital equipment, any bank loan, or any financing of public works; otherwise, 15%.

8. Interest paid on loans with guarantee of the Norwegian Institute for Credit Guarantees or paid in relation to imports of industrial equipment is tax exempt.

9. Treaty signed in April 2018. Still pending ratification by Argentina.

10. Treaty signed in December 2019. Still pending ratification by both countries.

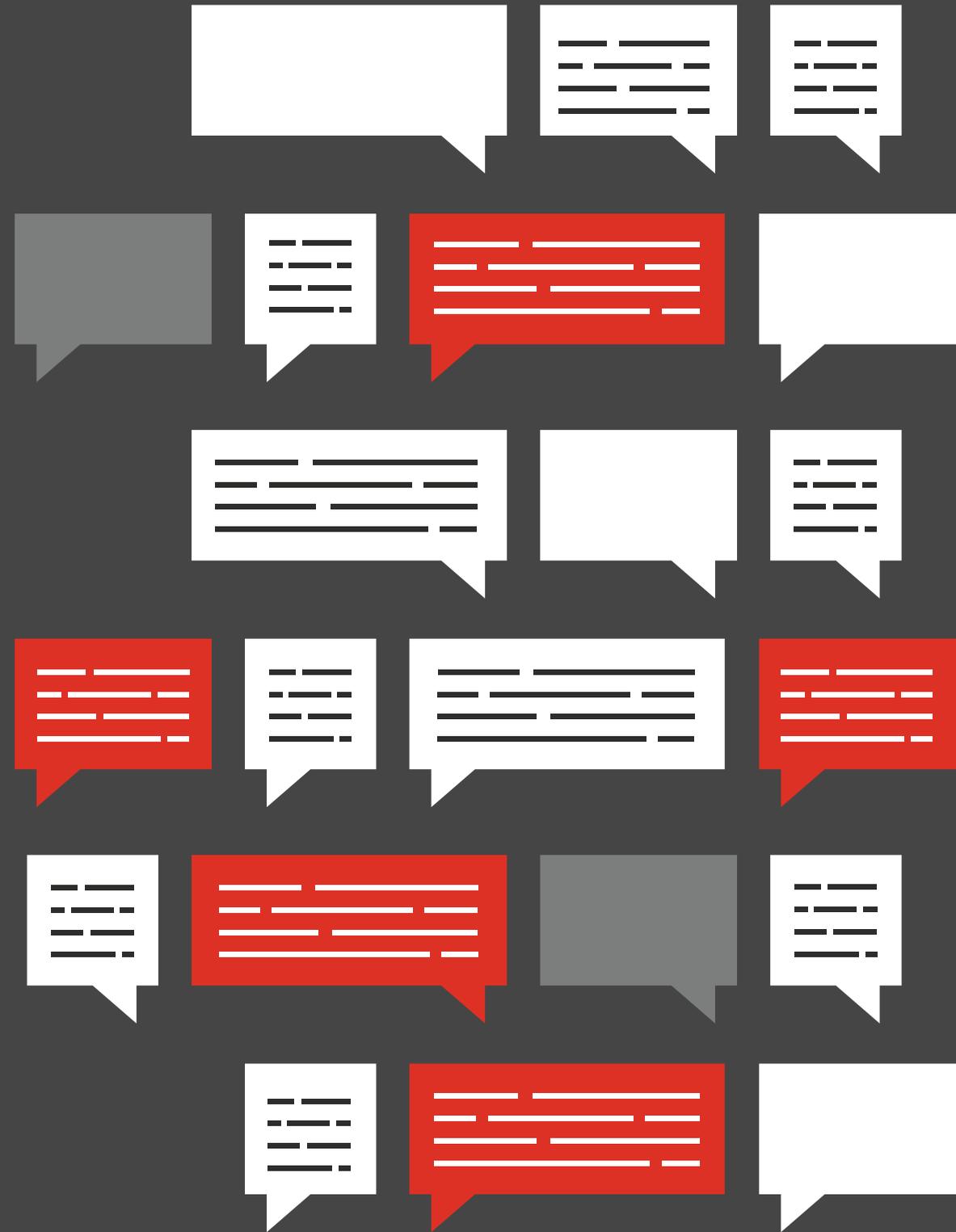
11. Treaty signed in June 2019. Still pending ratification by both countries.

12. Treaty signed in April 2019. Still pending ratification by both countries.

13. An amending Protocol has been signed in December 2019 that is still pending ratification by Argentina. Once in force it will introduce a reduction on interest WHT (12%) and on royalty WHT (3/5/10%).

14. Treaty signed in December 2018, still pending ratification by Argentina.

# Reference Information





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It all adds up to The New Equation.

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## Reference Information

**General statistics on cost/expense, i.e., average labor costs, office rental and utilities necessary for doing business locally.**

- Ministry of Economy:  
[www.argentina.gob.ar/economia](http://www.argentina.gob.ar/economia)
- National Institute of Statistics and Census:  
[www.indec.gob.ar](http://www.indec.gob.ar)

### Local Government Agencies

- Ministry of Labor and Social Security:  
[www.argentina.gob.ar/trabajo](http://www.argentina.gob.ar/trabajo)
- Ministry of Environment and Sustainable Development:  
[www.argentina.gob.ar/ambiente](http://www.argentina.gob.ar/ambiente)
- Federal Administration of Public Revenue:  
[www.afip.gob.ar](http://www.afip.gob.ar)
- National Social Security Administration:  
[www.anses.gob.ar](http://www.anses.gob.ar)
- Ministry of Foreign Affairs and Worship  
<https://www.argentina.gob.ar/cancilleria>
- Ministry of Public Works:  
[www.argentina.gob.ar/obras-publicas](http://www.argentina.gob.ar/obras-publicas)
- Ministry of Tourism and Sports:  
[www.argentina.gob.ar/turismoydeportes](http://www.argentina.gob.ar/turismoydeportes)

### Tips for Business Visitors

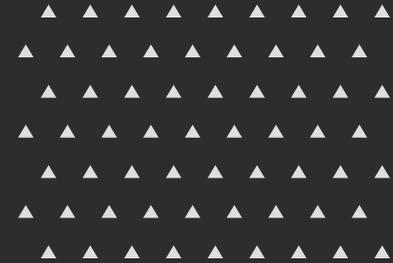
- Requirements for visitors' visas
- Argentine time zone is GMT -03

Source: <https://www.argentina.gob.ar/organismos>

- **Banks and exchange houses:**  
Monday through Friday, from 10 a.m. to 3 p.m.
- **Business offices:**  
Generally, from 9 a.m. to 6 p.m.
- **Stores:**  
In large cities, from 9 a.m. to 8 p.m., although in the interior, they usually close at mid-day. On Saturday, many stores open from 9 a.m. to 1 p.m. only.
- **Cafés, bars and pizza parlors:**  
Open almost around the clock, some closing between 2 a.m. and 6 a.m.
- **Restaurants:**  
Lunch is served from 12.30 p.m. and dinner from 8.30 p.m. Many establishments offer fast food at all times.
- **Trading currency in the country:**  
Argentina's legal tender is the peso. Although the US dollar and the euro are widely accepted, exchange for local currency is performed at banks and authorized exchange houses. The most commonly accepted credit cards are American Express, VISA, Diners and MasterCard. It may be difficult to exchange travelers' checks outside of Buenos Aires.
- **Climate:**  
Argentina enjoys a wide range of climates: temperate and humid on the plains of the Pampas; cold and humid in the extreme west of Patagonia; subtropical in the north of Mesopotamia; and warm in the north east of the country. From November to March, the average temperature is 23° C, and from June to September, 12° C.
- **Weights and measures:**  
Weight: kilo (k); Measurement: meters (m)
- **Format of dates:**  
DD/MM/YY (date/month/year)
- **Numbers:**  
Thousands are separated by a point, decimals, by a comma.

### Covid-19 epidemiological update in Argentina

<https://www.argentina.gob.ar/salud/coronavirus-COVID-19>



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