

This report provides helpful information on the current business environment in Argentina. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

Report on Argentina

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RBC Royal Bank®



Important to Know

Official language

› Spanish

Currency

› Peso (ARS)

Bank holidays

2010	
January	1
March	24
April	1, 2
May	1, 25
June	21
July	9
August	16
October	11
November	6
December	8, 25

Source: www.goodbusinessday.com.

Types of Business Structure

Under Argentinian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public limited liability company (corporation)

SA (*Sociedad Anónima*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum share capital of ARS 12,000, 25% of which must be paid up at the time the business is established.

Private limited liability company

SRL (*Sociedad de Responsabilidad Limitada*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires no minimum share capital, but it must be fully subscribed, and at least 25% must be paid up at the time the business is established and fully paid within two years. An SRL cannot have fewer than two and more than 50 partners. It is open to domestic and foreign companies and individuals. Corporations cannot be partners.

General partnership

Sociedad colectiva / sociedad civil. In a general partnership, all partners have full and joint liability. This requires no minimum share capital. A *sociedad colectiva* conducts commercial activities while a *sociedad civil* does not.

Limited partnership

SCS (*Sociedad en Comandita Simple*). In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Partnership limited by shares

SCA (*Sociedad en Comandita por Acciones*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. The shareholders can sell their shares to third parties. This requires no minimum share capital.

Cooperatives

There are numerous cooperatives (*cooperativas*) in Argentina for various sectors. Generally, a minimum of ten persons is necessary to form a cooperative. Each member has one vote and enjoys limited liability.

Branches

Non-Argentinian companies are entitled to establish a branch office in Argentina. A branch's activities are subject to Argentinian company law, although it is considered part of the company's head office and therefore not a separate legal entity. Branches require no minimum share capital. To open a branch a company must file a number of documents in Spanish, including head office articles of incorporation. Branches are primarily used for sales operations.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated in Argentina. Non-Argentinian companies with their centre of activity in Argentina can form permanent establishments, which can be deemed resident.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (ARS) accounts outside Argentina and foreign currency accounts both within and outside Argentina.

Non-residents are permitted to hold local currency and foreign currency accounts in Argentina.

Local currency accounts are not convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the account holder.
- › Financial institutions must also take “reasonable measures” to identify beneficial owners.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at July 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Argentinian law, banking and financial services are subject to VAT at a rate of 21%. A reduced rate of 10.5% applies to interest from loans granted by banks. In addition, a financial transaction tax (usually of 0.6%) is levied on debits and credits in current accounts, and on other specific transactions. Exemptions to this tax include payroll payments, funds transfers between accounts in the name of the same individual or entity, and certain financial trusts.

Payment and Collection Instruments

Cheques are the most common payment instrument for domestic cashless payments in Argentina, and there are five different types: ordinary, deferred payment and certified cheques, *cheques cancelatorios*, and financial payment cheques. Non-urgent credit transfers are increasingly used as a payment method used to make payroll payments and business-to-business transactions. Card payments are more commonly used for consumer transactions than in most other countries in South America, with debit cards and credit cards both used. Use of pre-authorized direct debits is limited, as most consumers still prefer to pay bills in cash, by credit card or via Internet banking. Cash is still an important payment medium.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (USD billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	94.02	95.21	1.27	173.46	192.51	10.98
Low-value credit transfers	8.62	10.47	21.46	15.35	20.19	31.53
High-value electronic funds transfers	1.42	1.45	2.11	827.64	975.27	17.84

Source: Banco Central de la República Argentina, April 2009.

International Payments

International payments are processed through SWIFT connectivity, same-bank branch networks, traditional correspondent banking techniques and payment clubs. Funds transfers can be made between accounts held with the Central Bank of Argentina and USD accounts in New York held by Argentinian banks via MEP, the Argentinian high-value RTGS payment system.

Payment Processing Times

Transactions processed (ARS -denominated)	Value dating rules	Cut-off time(s) in local Argentina Time (ART)
High-value and urgent domestic transfers	Settlement in real time with immediate finality on a same-day basis	17:00 ART
Non-urgent, low-value domestic consumer payments	Settlement times vary according to payment type. Payroll payments are usually settled on a next-day basis, whereas other credit transfers (e.g., supplier payments) are settled on a three-day cycle. Cheque payments are usually settled on a three-day cycle, although this depends on the location of the remitting and beneficiary banks, as cheque clearing can take up to seven days. Direct debits are settled on a four-day cycle.	17:00 ART

Central Bank Reporting

The Banco Central de la República Argentina (BCRA) monitors cross-border transactions for balance of payments statistics, which are collated by the Dirección Nacional de Cuentas Internacionales.

The National Institute of Statistics and Census uses customs documentation to collate statistics on foreign trade.

Exchange Arrangements and Controls

Argentina applies currency exchange controls.

All inward transfers above USD 50,000 in value require notification to the tax authorities. Prior approval from the BCRA is necessary for exports of foreign currency in excess of USD 10,000.

Foreign investors must have a USD-denominated, non-interest-bearing and non-transferable fixed time deposit cash reserve equal to 30% of the value of inward funds into Argentina through the foreign exchange market under specific transactions for a period of one year. (Initial public offerings, foreign direct investment and trade finance are exempted.)

Foreign investment in real estate requires prior authorization from the Border Superintendency of the Ministry of Defence.

Institutional investors are permitted to hold 25% of their mutual fund portfolios abroad, excluding Chile or the Mercosur* countries. At least 75% of any mutual fund's securities must be issued or traded in Argentina. Pension funds cannot have more than 10% of their assets in foreign companies' securities.

*Mercosur is a regional trade agreement originally signed in 1991 by Argentina, Brazil, Paraguay and Uruguay, which has since expanded to include a number of other Latin American countries as associate members.

Residents must gain approval from the BCRA for foreign securities purchases of greater than USD 2 million per month.

Financial credits from residents to non-residents cannot be greater than USD 2 million for certain cases and are only payable after one year. Repayment of the principal of external loans generally requires prior notification to the BCRA.

Supporting documents for payments of royalties and other fees must be submitted to the BCRA.

Full repatriation or sale in the foreign exchange market of export proceeds must be made within 60–360 days, depending on the type of goods or services exported. An extension of 120 days may be permitted for completion of the foreign exchange conversion, or longer for certain exports, including technological goods. Full repatriation or sale in the foreign exchange market of proceeds from invisible transactions and current transfers must be made within 135 business days.

The number of days that funds must stay within Argentina before the deposited currencies may be transferred out of the market was extended by Resolution 292/2005 to 365 days from the date of settlement of the foreign currency. (The regulation excludes foreign trade operations or direct foreign investments.)

Cash and Liquidity Management

Liquidity management structures are not commonly implemented in Argentina because of tax and legal constraints, though some alternatives can help make collections more efficient. Special collection accounts (*cuentas recaudadora*) are employed to consolidate customer payments in a single account. Banks can also provide custody services to companies for the collection of large-volume, post-dated cheques.

Physical Cash Concentration

Physical cash concentration is available in Argentina. However, the financial transaction tax of 0.6% on debits and credits for bank accounts effectively discourages the use of such techniques. Payroll payments and funds transfers between accounts opened under the same tax identification number are exempted from the transaction tax, which does allow for some ability to practice cash concentration within single entities.

Notional Cash Pooling

Notional cash pooling is not permitted.

Short-term Investment

Bank instruments

Interest-bearing bank accounts are generally available. Banks offer time deposits in a range of currencies as well as USD-denominated demand deposits. Banks also issue fixed-rate certificates of deposit (CDs) for several maturities, though two months or less is most common.

Non-bank instruments

Some Argentinian companies issue commercial paper in ARS and USD, usually for maturities ranging from three months to two years.

The BCRA issues central bank bills for periods up to three years. These can be denominated in ARS.

Argentinian companies have access to some short-term mutual investment funds.

Short-term Borrowing

Bank

Overdrafts and bank lines of credit have been limited in availability since the banking credit crisis of 2001–2002. Bank loans are available, usually at a margin over the prime lending rate for facilities denominated in ARS and USD.

Non-bank

Some companies issue commercial paper denominated in both ARS and USD, though the market is limited. Issues are traded on the stock exchange.

Trade bills are commonly discounted, as are deferred cheques. Factoring is available, but only to very creditworthy customers.

Taxation

Corporate Taxation

- › Resident companies are subject to taxation on their Argentinian and worldwide income.
- › Any corporation taxes paid abroad on foreign-sourced income are available as a tax credit, restricted to the increase in the tax liability that is produced by such foreign-sourced income.
- › Non-resident companies with a permanent establishment in Argentina are taxed on their worldwide income, and those that do not have a permanent establishment are subject to tax on their Argentinian-sourced income.
- › The general corporate income tax rate is 35%.
- › Tax losses can be carried forward for five years. Losses may not be carried back.

Advance Tax Ruling Availability

- › Taxpayers can obtain advance confirmation from the tax authorities regarding how the law shall be applied to a particular situation or operation that has not yet had any effect from a taxation point of view. From January 1, 2005, the Advance Ruling Commission has operated as an autonomous public office within the Federal Ministry of Finance.
- › The advance tax ruling procedure applies to all federal taxes. It may also relate to the regional taxes collected by the federal state, such as the withholding tax on immovable property income.

Withholding Tax (subject to tax treaties and other exemptions)

- › Withholding tax is levied on the amount of dividends paid in excess of accumulated taxable earnings determined under the general provisions of the Income Tax Act.
- › For recipients who are registered taxpayers, the applicable rate is 6%. Otherwise the rate of 28% applies. The 28% withholding rate applies to resident persons who are not registered as taxpayers in Argentina, and is designed as a penalty for those who have not registered with the tax office.
- › For interest paid to non-residents, the lower rate of 15.05% applies only in certain circumstances when the lender is a bank which is not located in a tax haven. Interest paid by entities governed by the Argentina Financial Institutions Act are always subject to the 15.05% rate.
- › The rate of withholding tax on royalties and fees varies with the nature of services provided.

Capital Gains Tax

- › Capital gains are subject to normal corporate income tax. There is no distinction between short and long-term gains.

Stamp Duty

- › The provinces and the federal district levy ad valorem stamp duties on legal documents, contracts and agreements at various rates, 1% being the most common. From 2009, the federal district also levies stamp duties on loan and borrowing transactions recorded by financial institutions at the annual rate of 0.8% on the principal.

Thin Capitalization

- › Thin capitalization rules restrict deductibility of interest on certain qualifying loans. Loans qualify for thin capitalization provisions when the following circumstances are met:
 - › when the debtor is a domestic company, excluding the entities governed by the Argentine Financial Institutions Act;
 - › when the creditor is a non-resident controlling entity; and
 - › when the loan is subject to a withholding tax lower than 35%.
- › Interest on the portion of qualifying loans exceeding a 2:1 debt-to-equity ratio will not be deductible. Any non-deductible interest is treated as a dividend or profit distribution, which may be liable to withholding tax.

Transfer Pricing

- › Transfer pricing rules apply to transactions between related parties, which must be carried out at arm's length.
- › The tax authorities determine income using six methods: uncontrolled price, resale price, added cost, profit distribution, transaction's net margin, and a special method for export of commodities through intermediaries.

Sales Taxes / VAT

- › Sales taxes are levied by all provinces and some municipalities on the sale of goods and services.
- › The tax rate varies depending on the type of activity and the law of each jurisdiction. The most common rates are:
 - › industrial activities, 0–3.0%;
 - › commercial activities, 3.0%; and
 - › primary/construction, 1–1.5%.
- › Multiple taxation between provinces is avoided by way of a multilateral agreement entered into by the provinces.
- › VAT is levied at all levels on the sale of goods and the provision of services performed at all stages through to retailing. The standard VAT rate is 21%.
- › Education and books are exempt from VAT. Exports are also exempt, and companies are allowed to recover VAT credits associated with their cost.

- › Capital goods, interest from financing granted by banks and other various activities are subjected to VAT at a reduced rate of 10.5%.

Payroll and Social Security Taxes

- › Social security taxes are paid on a company's payroll. Both employers and employees must contribute to the system. The tax base is the gross salary earned by the employee plus certain fringe benefits.
- › The total employer contribution is 17% or 21% on gross payroll, depending on the nature of the activities of the company, plus 6% for Medicare assistance.
- › Employee contributions are 14%, subject to a monthly earnings cap of ARS 8,711.82 per employee, plus 3% in respect of Medicare assistance, subject to a monthly cap of ARS 8,711.82 per employee.

Deemed Minimum Income Tax

- › This tax applies to resident companies, at a rate of 1% on assets.
- › The starting point in determining the taxable base is the total assets as per the financial statements, which are then adjusted to make them compliant with tax criteria (e.g., by adding assets that, for accounting purposes, were not considered assets, or to comply with tax-specific valuation criteria). Entities governed by the Argentina Financial Institutions Act are allowed to compute 20% of their taxable base.
- › Certain assets are exempt, such as shares held in companies which pay this tax, and depreciable new movable assets (except automobiles). The latter are only exempt for the first two fiscal years from when the asset was acquired or the investment made.
- › Income tax for the same tax year can be credited against this tax. If the company is carrying forward losses, the minimum income tax paid becomes a tax credit against income tax for the next ten years.

Tax on Debits and Credits in Chequing Accounts

- › This tax is levied upon debits and credits in chequing accounts and other transactions that are specifically mentioned in the text of the relevant Act where a chequing account is not used.

- › The overall tax rate is 0.6% on both debits and credits, but there are certain transactions and businesses for which lower tax rates have been established.
- › Transactions exempt from this tax include those related to the payment of payroll salaries, fund transfers when they are destined to be deposited in other chequing accounts open in the name of the individual or entity that instructed such transfers to be made, and those financial trusts that meet the requirements laid down in current legislation.

Personal Property Tax

- › Stockholdings in Argentinian companies held by resident individuals and non-resident persons, both individuals and legal entities, are subject to a 0.5% personal property tax. The tax is payable by the company, rather than the shareholders, and the company is then entitled to seek reimbursements of the tax actually paid from its shareholders.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at April 1, 2009.

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