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Knowledge-Economy Promotional Regime

Act 27506 (June 10, 2019)

MAIN ASPECTS

- This Regime provides tax benefits on certain promoted activities.
- To enjoy the benefits, beneficiaries must register with the "National Register of Beneficiaries of the Regime for the Promotion of the Knowledge Economy".
- The Regime will become effective on January 1, 2020 and will be effective for a term of 10 years.
- The Regime is governed by Act 27506 and will be regulated by the enforcing authorities (Ministry of Production and Labor).
- Beneficiaries of the Software Promotional Regime under Act 25922 expiring on December 31, 2019 will continue to be benefitted by this new Regime.
- Provincial governments and the city of Buenos Aires must adhere to this Regime by issuing additional local benefits. (Pending)



PROMOTED ACTIVITIES

Creation, design, development, production and implementation or adaptation of products and services in the following fields:

- 1) Software, computer and digital services;
- 2) Audiovisual production and post-production;
- 3) Biotechnology, bio-economy, biology, biochemistry, microbiology, bioinformatics, molecular biology, neuro-technology and genetic engineering, geoengineering and their testing and analysis;
- 4) Geological and prospecting services and services related to electronics and communications;
- 5) Professional services as long as they are exported;
- 6) Nanotechnology and nanoscience;
- 7) Aerospace and satellite industry, space technologies;
- 8) Nuclear industrial engineering;
- 9) Manufacturing, commissioning, maintenance and introduction of goods and services oriented to solutions, digital processes and automation in production, such as artificial intelligence, robotics and industrial internet, internet of things, sensors, additive manufacturing, augmented reality and virtual, simulation considered in such cases exclusively associated with industry 4.0.
- 10) Engineering, exact and natural sciences, agricultural and medical sciences, and research and development oriented medical sciences.

REQUIREMENTS

Argentine corporate tax payers can qualify for the benefits of the Regime if they develop any of the above mentioned activities in the country.

Additionally, potential beneficiaries must:

- 1) Be a legal person pursuant to paragraph a) of section 49 LIG (Argentinean companies that pay income tax on their own name);
- 2) Perform any of the promoted activities mentioned above;
- 3) Register with the "National Register of Beneficiaries of the Regime for the Promotion of the Knowledge Economy" and
- 4) Prove that they comply with at least two of the requirements provided for in the Law, to wit:
 - a. Beneficiaries must prove the accomplishment of continuous improvements in the quality of their services, products and/or processes;
 - b. Evidence expenditures in research and development activities for at least 3 % of the total revenue and/or training of employees assigned to the performance of the promoted activities for at least 8 % of the total payroll; and/or
 - c. Evidence the exports of goods and/or services resulting from the development of any of the promoted activities for at least 13% of the total turnover corresponding to such activities. Such amount shall be increased to 70% in the case of the activities set forth in paragraph 5. (Special terms apply to small-size companies).

BENEFITS

- 1) **Fiscal stability:** Taxes, rates and import and export duties will not be increased for a term of 10 years, both at a national and provincial level.
- 2) **Employer social security contributions:** Beneficiaries will be able to deduct from their employer social security contributions of each registered employee an amount equal to the maximum amount provided for in section 4 of Executive Order 814/2001, as amended.
- 3) **Transferable Fiscal Credit:** Beneficiaries may obtain a one-time transferrable tax credit bond, which can be used for paying advances and/ or balances of income tax and/or VAT. The bond is equal to 1.6 to 2 times the amount of the employer's social security contributions deducted by the beneficiary due to the benefit set forth in the preceding paragraph.
- 4) **Income Tax:** Beneficiaries' income tax rate is reduced to 15% to the extent that the beneficiaries maintain their payroll.
- 5) **VAT Collections and Withholdings:** Beneficiaries will be permanently exempted from VAT withholding and collection obligations.
- 6) **Fiscal Credit:** Beneficiaries will be allowed to deduct a tax credit derived from any payment or withholding of foreign taxes even if the taxed income constitutes an Argentine source of income.

COSTS AND PENALTIES

COSTS

1) **Verification and Control Fee:** Beneficiaries will pay a maximum fee of 4% of the total amount of the fiscal benefits obtained under this Regime.

2) **Financing Contribution:** Each beneficiary will have to pay a 1.5% contribution of the total amount of the fiscal benefits granted by the Regime.

PENALTIES (Additional to those provided by tax and criminal laws)

1) 3-month to 1 year suspension of the benefits;

2) Revocation of registration.

3) Deregistration and loss of benefits as from the date of commencement of beneficiary's activities.

4) Fines equivalent to 100% of the amounts of the benefits.

Av. del Libertador 498. 9th Floor
City of Buenos Aires.
Buenos Aires. Argentina
(+54 11) 2034.4000
www.mcewan.com.ar
