

REGIME TO PROMOTE KNOWLEDGE ECONOMY

The National Congress approved the so called “Regime to Promote Knowledge Economy” aimed at promoting economic activities using knowledge as well as the digitalization of information and technologies for the purpose of obtaining goods, rendering services and/or to improve processes. The mentioned Regime will become into force from January 1, 2020 until December 31, 2029

Below, the main aspects of the regulation that governs this regime¹:

I. REQUIREMENTS TO ACCESS TO THE “REGIME TO PROMOTE KNOWLEDGE ECONOMY”

In order to benefit from this regime, companies must comply with the following requirements:

1. Performance of promoted activities

This requirement is considered fulfilled when at least seventy percent (70%) of the annual turnover of the company is generated in one (1) or with the sum of two (2) or more of the following activities:

- a) Services, development, implementation and the set-up of software and digital information services;
- b) Audiovisual and digital production and post-production;
- c) Biotechnology, bio-economy, biology, biochemistry, microbiology, bio-information technology, molecular biology, neuro-technology and genetic engineering, geo-engineering as well as their tests and analysis;
- d) Geological and drilling services as well as services related to electronics and communications;
- e) Export of professional services;
- f) Nanotechnology and nanoscience (precisely manipulation of molecules and atoms for the manufacture of micro-scale products);
- g) Aerospace and satellite industry;
- h) Engineering for nuclear industry;

¹ Law No. 27,506, Decree No. 708/2019 and Resolution No. 449/19 issued by the Secretary of Entrepreneurs and Small and Medium Companies (*Secretaría de Emprendedores y PYMES*).

- i) Manufacturing, set-up, maintenance of goods and services oriented to solutions, digital processes and production automatization, such as artificial intelligence, robotics, internet, sensors, etc.
- j) Activities related to engineering, exact and natural sciences, agricultural and livestock sciences and medical sciences focused on research tasks and experimental development.

2. Expenses related to Research, Development and Training

In order to comply with this requirement it is necessary that the company provides evidence of expenses related to the following activities:

- a) Research and development: they must represent a minimum of three percent (3%) of the total turnover of the company.
- b) Training for the employees: they must represent a minimum of eight percent (8%) of the total salary payroll. Special regimes such as fixed-term contracts, temporary and agricultural employees are not included.

3. Exports

This requirement will be considered complied with when the exports of goods and/or services caused by the development of any of the promoted activities represent at least a thirteen percent (13%) of the total turnover of the aforementioned activities.

4. Registration

In order to be registered in the National Registry of Beneficiaries of the Regime for the Promotion of Knowledge Economy ("the Registry"), companies must: a) submit the documentation requested by the relevant authority and evidence the compliance with the requirements explained above in points 1, 2 and 3 in the last six (6) months prior to the date of the application, and b) must have complied with its tax and social security obligations.

The competent authority will verify annually if companies registered continue to comply with the requirements in order to benefit from this Regime.

II. BENEFITS FOR BEING REGISTERED

Amongst other tax benefits, companies under the Regime to Promote the Knowledge Economy will receive the following benefits:

1. Reduced rate in Income Tax

The beneficiaries will be subject to a reduced rate of fifteen percent (15%) in the payment of Income Tax, provided that the company's personnel is maintained in a certain proportion. In this sense, applicable regulations requires that there is not a difference greater than ten per cent (10%) regarding the average of employees declared at the time of the application and the time the benefit is granted.

The level of employment will not be considered reduced when the termination of the employment relationships is due to any of the causes mentioned below:

- a) Termination during trial period;
- b) Mutual agreement;
- c) Expiration of the term in case of Fixed-term employment contracts;
- d) Compliance of the object or fulfillment of the work;
- e) Employee's resignation;
- f) Termination with fair cause;
- g) Employee's total disability to work;
- h) Retirement; and
- i) Employee's death.

However, in these cases, the company has the obligation of hiring new personnel within one hundred and eighty (180) calendar days since the reduction of personnel occurs.

The non-compliance with this obligation (maintaining personnel in payroll) will prevent the company from accessing the reduced rate for the fiscal year in which this requirement is not met.

2. Other fiscal benefits

- a) The beneficiaries of this promotion regime are entitled to a fiscal stability in connection with the activities subject to promotion as from the date of their

registration at the Registry, and therefore their total national tax burden would not be increased at the time of filing the application in the mentioned Registry.

- b) Employer's contributions: It is established a greater advantage than the one applicable to the rest of the companies.
- c) Additional incentive: The beneficiaries may obtain a fiscal credit bonus which is transferable only once.
- d) Withholdings: the beneficiaries of this regime will not be subject to withholdings related to the value added tax.

III. CONCLUSION

The potential of the knowledge industry may be highlighted mainly in the promotion of exports and the creation of skilled employment.

Nevertheless, investors and international companies that wishes to obtain the benefits granted by this regime, must take into account not only the requirements established by law for this specific regime but also the labor aspects involved. Foreign company must consider especially the protective nature of local labor regulations and the fact that the purpose of the referred to regime is to defend local employment and prevent their flowing to other countries that competes for the attraction of knowledge industries.