1988

INTERNATIONAL TAX SUMMARIES

A Guide for Planning and Decisions

by Coopers & Lybrand International Tax Network

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INTRODUCTION

The 1988 edition of the *International Tax Summaries* presents an overview of the tax systems of 97 countries in which member and associated firms of Coopers & Lybrand (International) have practice offices or in which they have correspondent firms. The tax information, which features both individual and corporate income tax laws, has been provided by members of the Coopers & Lybrand International Tax Network. This edition of *International Tax Summaries* reflects the tax systems as of August 31, 1987 unless otherwise indicated. The tax summaries are updated annually.

To assist in the comparison of the tax systems of different countries and to provide a method of retrieving information quickly, the significant tax attributes of each of the 97 countries generally include and are ordered as follows:

INCOME TAXES ON CORPORATIONS

1. **Rates**
2. **Local Income Taxes**
3. **Capital Gains Taxes**
4. **Branch Profits Taxes**
5. **Foreign Tax Reliefs**
6. **Classification of Corporations**
7. **Payment of Taxes**
8. **Other Matters**

INCOME TAXES ON INDIVIDUALS

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11. **Capital Gains Taxes**
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SELECTION OF BUSINESS ENTITY BY NONRESIDENTS

SPECIMEN TAX COMPUTATION

The last two sections may be of particular interest. The best approaches for investing in 77 countries are discussed in the section entitled ''Selection of Business Entity by Nonresidents.'' Specimen tax computations that illustrate the information provided in the summaries have been prepared for 50 countries.

Of the countries included in this edition, those marked with an asterisk (*) do not impose income taxes.

Coopers & Lybrand
International Tax Network

INTERNATIONAL TAX SUMMARIES 1988

TAX INFORMATION SUMMARIES IN THIS EDITION

The individual members of the Coopers & Lybrand International Tax Network who provided the information about their respective countries are noted in most cases.

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* *Countries that do not impose income taxes.*

ARGENTINA

INCOME TAXES ON CORPORATIONS

1. Rates

The tax rate applicable to the taxable income of Argentine corporations is 33%. This rate also applies to stock-issuing partnerships.

The Source Principle. Argentine tax legislation is based on the "source" principle, under which it only taxes income from sources within Argentina (i.e., derived from capital, rights or property located, employed, or utilized in Argentina; stemming from trading activities carried out or personal services rendered in Argentina; and income earned by Argentine residents from occasional personal services abroad) and from assets and rights held in Argentina.

2. Local Income Taxes

None.

3. Capital Gains Taxes

Capital gains are added to other taxable income and taxed at the standard corporate rate.

4. Branch Profit Taxes

The income tax rate for branches and other permanent establishments belonging to foreign companies or nonresidents is 45% of their taxable income. There are no other differences between the tax treatment of branches and that of corporations.

5. Foreign Tax Reliefs

Argentine corporations are not granted any relief from Argentine income tax in connection with foreign taxes paid. Nevertheless, as Argentina's taxes are levied on the basis of the source principle (see item 1), profits obtained by Argentine corporations from sources outside Argentina are not taxed.

7. Payment of Taxes

Corporations are required to make three prepayments toward their annual tax liability, and to pay the balance upon filing their income tax returns. The prepayments fall due on the 15th of the 7th, 9th, and 11th month following the closing date, and are equivalent to 40%, 30%, and 20%, respectively, of the previous year's income tax liability, adjusted for inflation using indices published by the Tax Department. Certain collections of interest, rents, fees, etc., are subject to provisional income tax withholding of 3% or 7% in the case of registered taxpayers (the rates are increased to 7% and 25%, respectively, for nonregistered taxpayers). There are very stiff penalties for violation of the fiscal laws. These include default interest (currently 12% per month on tax liabilities up to two months in arrears, or 1% thereafter when tax liabilities have been adjusted for inflation), fines, and the arrest of taxpayers failing to comply with formal requirements within a specified time of being served with official notices, as well as imprisonment for terms ranging up to two years for taxpayers making misleading statements or filing fraudulent tax returns. In the case of companies or other legal entities, the imprisonment provisions include the directors, managers, and attorneys or other legal representatives.

INCOME TAXES ON INDIVIDUALS

9. Rates

Resident individuals are taxed at progressive rates, whose present level ranges from 7% on the first ₳ 1,327 to 45% on taxable income over ₳ 133,753 (August 1987 levels). The rungs of the tax scale are subject to monthly adjustments in the same way as the personal allowances. Individuals who have been resident in Argentina at least six months of the year may claim personal allowances, which are adjusted monthly for inflation. The August 1987 annual levels are:

Personal Allowances

Basic exemption	₳ 3,970
Earned income allowance	4,958
Spouse	1,983
Children and other dependents (each)	1,039

Individuals may also deduct their contributions to social security funds, medical plans and life insurance premiums (subject to a limitation). There is no provision for filing joint returns, so husband and wife must keep their incomes separate and file separate returns. Salaries and wages are subject to income tax withholding at source (P.A.Y.E.).

10. Local Income Taxes

None.

11. Capital Gains Taxes

Capital gains are not subject to income tax but are subject to a capital gains tax at the rate of 15%. For capital gains tax purposes, resident individual taxpayers are entitled to a basic annual nontaxable allowance which is adjusted monthly (₳ 3,279 in August 1987).

12. Foreign Tax Reliefs

Foreign taxes paid by Argentine residents on income from occasional activities abroad are deemed prepayments for Argentine income tax purposes, subject to certain limitations.

13. Tax Period

Individual taxpayers must file their returns on a calendar-year basis.

INCOME TAXES ON NONRESIDENTS

15. Liability to Tax

As stated in item 1, the source principle also applies to nonresidents; that is, only income from Argentine sources is taxable.

16. Rates

Dividends paid to nonresident shareholders in cash or in kind (except for fully paid stock dividends and capital distributions stemming from accounting revaluations) by companies or stock-issuing partnerships are subject to income tax withholding at the flat rate of 17.5%. The remittance of profits by branches, or other permanent establishments belonging to foreign companies, is not taxed, but the branch is taxed on its profits at 45% (item 4). The nonresident shareholders' portion of the profits of limited liability companies and those allocable to the stock capital of stock-issuing partnerships is subject to a flat withholding of 17.5%, either upon their distribution or five months after the fiscal closing date, whichever occurs first.

Any other Argentine source profits paid to nonresident beneficiaries (including those collected in Argentina before the beneficiaries have established permanent residence in Argentina) are subject to a flat 45% income tax withholding if the profits are not covered by any other special provision (item 17).

17. Withholding Tax Rates

Under the special provisions covering payments to nonresident beneficiaries, royalties covering technical assistance, engineering, or consulting services actually rendered in Argentina but not otherwise available in Argentina are subject to an effective withholding tax rate of 27%, provided the underlying contracts fulfill the requirements of the technological transfer law. Royalties for operating patents and other types of consideration covered by contracts fulfilling the requirements of the technological transfer law are subject to an effective withholding rate of 36%. Royalties paid to nonresidents under copyrights registered with the National Copyright Board and interest payments to nonresidents are taxed at the effective rate of 11.25%. Interest paid on credits to finance imports of depreciable movable assets except automobiles, or the parts, materials, or accessories needed to construct them in Argentina, is exempt from the tax.

There are special rules that establish the taxable portion of income deemed to be of Argentine source (without allowing any proof to the contrary). This applies to payments to nonresident individuals working temporarily in Argentina, and payments for international freight services, container services, international news services, underwriting premiums, and license fees for the use of films.

Subject to the specific provisions of tax treaties, the withholding tax percentages on outward remittances may be summarized as follows:

	Dividends	Interest	Royalties for Services Not Available in Argentina (5)	Other Royalties (5)
Nontreaty countries	17.5%	11.25%	27%	36%
Treaty countries:				
Austria	15	12.5	15	15
Bolivia	(1)	(1)	(1)	(1)
Brazil	(1)	(1)	(1)	(1)
Chile	(1)	(1)	(1)	(1)
France	15	(2)	18	18
Italy	15	(2)	18 (3)	18 (3)
Sweden	(1)	(1)	15	15
West Germany	15	15 (4)	15	15

Notes:

(1) The rates for nontreaty countries apply because the source principle is recognized for purposes of the treaty.

(2) The rates for nontreaty countries apply because the maximum rate set by the treaty is higher.

(3) Reduced to 10% for copyrights.

(4) Reduced to 10% in cases involving credits for equipment sales, bank loans, and financing of public works.

(5) Provided the related royalty agreement has been registered with the National Institute of Industrial Technology.

Negotiations are under way for signing treaties for avoiding double taxation with Belgium, Canada, Finland, Japan, Rumania, Soviet Union, Spain, and the United States.

20. Other Matters

Tax on Profits Remitted Abroad. Profit remittances to nonresidents in cash or in kind (with the exception of fully paid stock dividends) in respect of registered foreign capital investments are subject to a special excess profits tax. This tax is levied on annual profit remittances in excess of 12% of registered capital as follows:

Profits Remitted	Tax
Between 12% and 15% (tax on amount over 12%)	15%
Between 15% and 20% (tax on amount over 15%)	20%
Over 20% (tax on amount over 20%)	25%

Profit remittances corresponding to registered foreign investments in the consulting, engineering, and technical advisory service fields pay the "excess profits tax" at a straight 10% rate, regardless of the percentage of the investment they represent.

OTHER SIGNIFICANT TAXES

21. Sales (Value Added)

VAT was introduced in 1975 and amended significantly in October 1980 and August 1986. It has a very broad scope, as it is levied at all stages of production and trading, including retailing, as well as on a wide range of services. The standard rate is 18%. Housing construction is taxed at 9%. Some sale transactions are exempt, such as those involving livestock, certain grains, unprocessed meat, fruit, flour, butter, noodles, sugar, salt, bread, milk, coffee, tea and cheese; crude oil, gasoline and certain other liquid fuels with controlled prices that include a fuel tax; unprocessed and processed tobacco (subject to excise tax); certain sales to the armed forces; the first sale of certain kinds of produce when no processing has taken place; and so forth.

Exports are not subject to VAT and may, in addition, recognize a tax credit for the VAT billed on the goods exported. Imports are subject to VAT at the rates corresponding to the items involved.

Tax payments are determined monthly by deducting the fiscal credits billed by suppliers of inputs connected with taxable revenue, from the fiscal debits (computed on taxable revenue at the applicable tax rate). In the case of fixed asset purchases, the tax credits are deferred over three years. The deadline for paying the net tax liability arising from each monthly position computation is approximately 20 days after the end of the month.

22. Inheritance and Gift Taxes

Gift and estate taxes are still levied by some of the provinces; they have been eliminated at the Federal level (City of Buenos Aires, Tierra del Fuego, and Antarctic

Territory) and by most of the provinces, and replaced by the annual taxes on business capital and net worth.

23. Taxes on Payrolls (Social Security)

The main social security rates levied in Argentina are:

	Employer Contributions	Employee Withholdings
Pension Fund	12.5%	12%
Family subsidy fund	9%	—
Health scheme	4.5%	3%
National Housing Fund	5%	—

The obligatory legal bonus of one month's salary per year is subject to similar contributions.

24. Taxes on Natural Resources

The principal taxes levied on natural resources relate to oil and gas operations. It is necessary to distinguish between the holders of exploration permits and operating concessions, which are taxed in accordance with Law 17319 of 1967 and firms entering into "Risk Contracts for the Exploration and Exploitation of Hydrocarbons" covered by Law 21778 enacted in April 1978, under which the contracting firms assume all the risks attaching to the prospecting and operating process, supply the necessary technology and capital, and receive payment at specified rates for the oil or gas subsequently extracted; the latter are subject to the normal tax system, but entitled to a number of benefits, as summarized in subsequent paragraphs. Holders of exploration permits are subject to an annual rate, based on the area leased, which increases with the age of the permit. Holders of operating concessions are subject to an annual rate based on the area leased, and to a royalty payable to the Argentine Government of 12% of the oil or gas pumped out at each well. This may be reduced to 5% at the discretion of the Executive Power, bearing in mind the productivity, conditions, and location of the wells.

In addition, the annual net income obtained as a result of the permit or concession is subject to a special income tax at a flat rate of 55%. However, the annual rates corresponding to the basic exploration period and the period of operation, the royalty on oil or gas pumped and provincial and municipal taxes may be credited against the special income tax due, and any resulting credit balance may be carried forward and offset against the special income tax corresponding to subsequent fiscal years, but is not refundable or transferable. Holders of permits or concessions for oil and gas exploration or operation are exempt from all other national taxes, including taxes levied on the shareholders or other direct beneficiaries of income related to their operations.

Companies engaged in oil and gas exploration and operation under "risk contracts" signed with the State Oil Authority or the State Gas Authority are subject to the general tax system, but have the option to claim the following special benefits available under Law No. 21778 enacted in April 1978:

- ☐ The right to compute depreciation charges for 100% of the value of depreciable assets used in the exploration stage of the risk contract during the first year of operation, as a charge against income from the same contract, both for income and capital tax purposes.
- ☐ The right to revalue income tax loss carryforwards based on the variation in the wholesale price index, when offsetting them against future years' taxable income. (This right has now become available to all taxpayers).

Foreign capital investments pursuant to such risk contracts are exempt from the rules of the Foreign Investment Law, and subject instead to Law 21778. Individuals and companies making investments for "risk contracts" may take up a 100% investment allowance in respect of the capital contributions or share subscriptions in local national capital contracting companies, based on the amounts actually paid up, provided they maintain their investments for at least three years. The Economy Ministry has the authority to set overall annual limits for these allowances, based on its computation of the theoretical fiscal cost they entail. Fixed assets, special tools and parts imported pursuant to the "risk contracts" law are exempt from all customs duty and other taxes on their FOB value, provided they are not available under competitive terms on the local market, but they may not be sold or otherwise transferred while the contract is in force, and must subsequently be re-exported; otherwise the regular taxes must be paid. The contracting State entities may include a clause providing for price readjustments to maintain a uniform treatment in the event of subsequent changes in the tax rates applicable to the contractors. Stamp duty is computed on the basis of the investment commitment undertaken by the contractor. Contractors are assessed with a flat charge (which is predetermined for each area) per square kilometer covered by the contract, to cover the cost of maintaining security in the area. In the case of joint ventures, the tax benefits must be apportioned in proportion to the risk borne by each party according to the contracts signed by them, as approved by the Executive Power.

25. Other Taxes

Land and Property Taxes. Land and property taxes are levied by the provinces and the Municipality of Buenos Aires, based on the assessed valuation of the property. Rates vary from one jurisdiction to another. The assessed valuation is adjusted annually for inflation, but is usually below the current market value.

Taxes on Capital. Taxes on capital are levied on the business capital of companies and on the net worth of individuals, as explained below.

Tax on Business Capital. This is levied at 1.5% of the year-end capital, as determined for tax purposes, of companies, branches, partnerships, and sole pro-