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Income Tax Reform – Abrogation of the Cedular Tax for Employees

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On 06.28.2024 the National Congress passed the "Law of Palliative and Relevant Fiscal Measures", which contains significant reforms to the Income Tax, the main aspects of which are described below:

a) Abrogation of the cedular tax for employees, retirees, and pensioners. Scales.

The regime established by Law No. 27,725 was abrogated, eliminating the cedular tax for employees who, as of January 1, 2024, were required to pay taxes only on annual income exceeding 180 minimum vital and mobile wages (known as SMVM for its Spanish acronym).

Therefore, employees will again be included in the fourth category regime of the Income Tax and will have to pay the tax according to a graduated scale based on the level of net earnings. Depending on the degree of the scale, a fixed value plus a percentage of the excess, ranging from 5% to 35%, will be taxed. Furthermore, scales are established for individuals and undivided estates for net taxable income equal to or exceeding AR$1,200,000, which amounts will be updated annually starting on 2025, based on the annual variation of the Consumer Price Index (CPI) provided by the National Institute of Statistics and Censuses (INDEC).

b) Offsetting losses carryforwards with gains.

The wording of the law prior to the reform of Law No. 27,725, which was abrogated, is reinstated, allowing employees to offset net results obtained with losses carryforwards incurred in the last five fiscal periods.

c) Abrogation of exemptions:

The following exemptions established in the Income Tax Law are abrogated:

- The difference between the value of overtime and ordinary hours received by dependent workers for services rendered on holidays, non-working days, and weekends.
- Productivity bonuses, cash register discrepancies, or similar concepts.
- Supplements received by military personnel for: (i) risky activity; (ii) undergrad degrees; (iii) high specialization or for working in an unhealthy or arduous zone or environment; and/or (iv) other specific supplements created by the Executive Power.
- The annual complementary salary.

d) Deductions on the income of individuals:

The amounts established by law for deductions on the income of individuals in terms of: (i) non-taxable income, provided the person is a resident of the country; (ii) family dependents, which include deductions for a spouse, children under 18 years of age, or those incapacitated for work; and (iii) special deduction are increased.

Additionally, a new deduction equivalent to one-twelfth of the sum of the deductions for non-taxable income, family dependents, and special deductions for employees and retirees is incorporated.

The Executive Power is authorized to increase these amounts during 2024.

Lastly, the obligation to add one-twelfth of the annual complementary salary to the monthly income of employees and retirees is eliminated, as is the 22% increase in deductions for dependent employees working and retirees residing in the Patagonian zone.

e) New mechanism for updating deductible amounts.

It is established that deductible amounts for sums paid by policyholders and insured parties, and contributions to private retirement insurance plans, will be updated annually starting January 1, 2023, considering the annual variation of the Consumer Price Index (CPI) provided by the National Institute of Statistics and Censuses (INDEC).

f) Retroactivity of the changes.

In cases where incomes derived from employment, pensions, and retirements are affected by an increase in the fiscal obligation on incomes received between January 1, 2024, and the last day of the month the law comes into effect, both dates inclusive, a special deduction equivalent to the increase in net income subject to tax generated during that period due to the reform may be computed.

g) Ratification of Decree No. 473/23. Delegation to the National Executive Power.

The decree is ratified, giving it the status of law, according to which incomes below 15 minimum SMVM wages would not be subject to the Income Tax.

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