Uruguay
Tax and Investment Profile

2008, December
Profile of Uruguay

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The investment climate

Political background

Uruguay is a democratic republic organized under a presidential system. The president is directly elected by the national electorate for a term of 5 years, and may not be reelected until after a span of one term. Dr. Tabaré Vazquez is the official Uruguayan President. The next elections are due to be held in November 2009.

Executive, Legislative and Judicial are the three independent branches conforming the state. The Executive Branch is held in the hands of the President and his cabinet of Ministers (13). The Legislative Branch rests with the parliament, which is composed of the senate (31 members) and the chamber of representatives (99 members).

The Judicial Branch is composed by the court of justice headed by the Supreme Court of Justice. Each of the above branches is autonomous as regards the duties entrusted to them by the Constitution.

1 Economic structure

Since the return of Uruguay to democracy by mid 80’s, at a regional level Uruguay stands out by its political, social and economical stability. Uruguay is an open country to foreign trade investment and investors’ main considerations are: no restriction to import goods, free transfer of capital and profits, currency exchange freedom and no discrimination between local and foreign investors.

Manufacturing industry and mining accounted for around 23% of GDP in 2007, service to enterprise, real estate, insurance and financial services for 19%, transportation and communications for 10% and other services for the 18%. The principal agricultural activities are cattle and fishing, providing raw material to the manufacturing industry. Telecommunications have been one of the most dynamic sectors in recent years owing to the development of services and software, such as call centers, long-distance, wireless communications and tailor-made software. The government is the main supplier of personal services.

<table>
<thead>
<tr>
<th>2007</th>
<th>Uruguay</th>
<th>Argentina</th>
<th>Brazil</th>
<th>Chile</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIB (US$ miles de millones)</td>
<td>23.1</td>
<td>262.5</td>
<td>1,313.7</td>
<td>163.9</td>
</tr>
<tr>
<td>PIB (US$ ajustados por PPP)</td>
<td>11,241</td>
<td>13,318</td>
<td>9,705</td>
<td>13,909</td>
</tr>
<tr>
<td>IPC (promedio, %)</td>
<td>8.1</td>
<td>8.9</td>
<td>3.65</td>
<td>4.4</td>
</tr>
<tr>
<td>Saldo en Cuenta Corriente (US$ miles de millones)</td>
<td>-0.2</td>
<td>7.1</td>
<td>1.7</td>
<td>7.2</td>
</tr>
<tr>
<td>Exportaciones de bienes FOB (US$ miles de millones)</td>
<td>5</td>
<td>55.8</td>
<td>160.6</td>
<td>67.6</td>
</tr>
<tr>
<td>Importaciones de bienes (US$ miles de millones)</td>
<td>6</td>
<td>42.5</td>
<td>120.6</td>
<td>44.0</td>
</tr>
</tbody>
</table>

(*) Source: Economist Intelligence Unit
Uruguay is an attractive country where to perform new investment operation. Taking in consideration the annual global competitiveness report made by World Economic Forum (record 131 countries), comparing factors as global and business competitiveness, sophistication of companies operation and strategy and quality of the national business environment at a regional level, doing business in Uruguay could escort to a significant competitive advantage for foreign investments companies.

**Global competitiveness index**

![Graph showing the most problematic factors for doing business in Uruguay](chart)

*Source - World Economic Forum - The Global Competitiveness Report 2007-2008*

Note: From a list of 14 factors, respondents were asked to select the five most problematic for doing business in their country and to rank them between 1 (most problematic) and 5. The bars in the figure show the responses weighted according to their rankings.
2 Banking and financing

Uruguay financial centre is Montevideo, the national capital. Departments or state capitals play only minor roles as the headquarters for some of the important state owned banks.

During 2007 the banks’ activity level grows at a good pace. The business with the non-financial sector grew a 22% while the amount of assets grew at a 16%.

Loans to the non-financial sector grew a 37.6% during 2007 and deposits continue growing, being the majority of them demand deposits.

3 Foreign trade

Uruguay is part of the MERCOSUR – Common Market of the South – an agreement signed with Brazil, Argentina, Paraguay with intentions to soar and open the Uruguayan economy. The agreement provides through a progressive elimination of tariff and non tariff barriers and through a Common External Tariff agreed by all members for almost all goods and products introduced into the MERCOSUR area, a free circulation of good, services and productive factors within the MERCOSUR territory, being the main objective the integration of all parties’ members.

Leading export markets: Brazil, the US, Argentina, Mexico and the EU.

Major exports: beef, processed rice and wool, hides and skins, milk product, honey, cereals and barley. Uruguay places few restrictions on foreign investors. A foreign-owned company may locate anywhere receives local treatment.

The IMF has approved a three-year stand-by arrangement for Uruguay. Stand-by agreements are between the IMF and various countries subject to compliance with certain requirements.
Foreign investment

1 Foreign investment incentives and restrictions

Government encourages foreign investment by means of providing it with a legal framework whose major highlights are the following:

- There are no restrictions for imports or for capital repatriation. Moreover, there is total freedom in the currency market and to draw up contracts in any currency. Domestic and foreign investors are treated alike.
- There is free entrance and exit of funds in Uruguay, with no limits about type of currency, metals, values, or the reason for sending it abroad.
- Moreover, exchange market is also free, allowing investors to do banking operations without limits. Rate of exchange varies according to supply and demand.

Industrial Promotion Law

Various incentives are available under the Industrial Promotion Law to projects or industries formally declared promoted by the Executive Branch.

It is important to point out that goods that can benefit from these incentives of general order are restricted to the following:

- Movable goods directly destined to the activity of the company.
- Fixed improvements.
- Immaterial goods determined by the Executive Branch.

Inversions should aim at generate employment, decentralize, increase exports, use clean technologies, increase the national value added, impact on the economy and increase of investigation, development and innovation.

Applications for these benefits must be filed in the Investor’s Attention Office in the Ministry of Tourism. The project is evaluated by a Commission specially created for the purpose and it advises the Executive Branch about the promotion of the projects.

The incentives that may be available include: exemption from import duties on fixed assets required for the project, exemption from the tax on net worth for a limited number of years and a relief from the Corporate Income Tax (IRAE).

Regarding Corporate Income Tax, the amount and the period of the benefit depends on the score that the project receives from the Commission. The score is given according to the size of the project, the amount invested and the achievement of certain aims established by the government. Exemption from IRAE can be of 100% of the amount invested for 3 to 25 years.

Free Zones

Goods and raw materials may be imported into the free zones without the payment of customs duties. Businesses established in the free zones are wholly exempt from Uruguayan taxes, except social security contributions, provided that not less than 75% of the workforce is Uruguayan.

Despite the exemption of Uruguayan taxes applied to Free Zones Users, they have to withhold the Non-residents Income Tax and the Personal Income Tax when it corresponds.
Reinvestment of Income

Income reinvested in machinery, equipment (including computer hardware) and some kind of buildings is exempt from income tax but is subject to certain limits. The exempt income may not exceed 40% of the capital spent on machinery and equipment or 20% of the capital spent on buildings and constructions. Nor may it exceed 40% of total taxable income of the year, before the exemption is taken into account. The third limiting factor is the amount of book profits (including retained earnings) since the exempt income must be transferred from book profits to a non-distributable reinvestment reserve in the taxpayer’s books. If the 40% of the taxable income of the year is exceeded, the income can be exempted from income tax in the following two fiscal years.

2 Exchange controls

The monetary unit is the Uruguayan Peso ($). Since 1974, there has been total freedom from exchange controls. Contracts may be drawn up in any currency. No restrictions are imposed on the introduction of capital or the repatriation of capital or profits.

The most commonly used foreign currencies are the U.S. Dollar, the Argentine Peso and the Brazilian Real.
Choice of business entity

1 Principal forms of doing business

The main forms of business organization in Uruguay are the corporation (sociedad anónima), limited liability company (sociedad de responsabilidad limitada), general partnership (sociedad colectiva), limited partnership (sociedad en comandita), sole proprietorship (unipersonal) and branch of a foreign company. Foreign investors usually choose a corporation or a branch to set up a business in Uruguay.

Generally, Uruguayan entities may be wholly foreign-owned, and there are no nationality or residence requirements for the directors of a corporation. Staff may be entirely foreign. In certain sectors, however, such as the fishing industry and businesses conducted by free zone companies, tax incentives may be granted only if Uruguayan citizens represent a specified proportion of the workforce.

2 Establishing a branch

Companies willing to establish a branch in our country must register before the National Register of Commerce showing up the following information:

a) An authenticated copy of the Head Office’s bylaws and its subsequent modifications.

b) An authenticated copy of the Resolution of the Board of Directors from the Head Office deciding the establishment of a branch in Uruguay. The Resolution must specify the domicile of the branch in Uruguay, the persons appointed to administer and represent it and the legal capital assigned to the branch. If the purpose is to access to the benefits of the Free Zone Regime, the specific purpose of operating as a free zone user company.

After the registration, the branch must carry out the publications depending on the legal form of the Head Office.

The directors or officers of the company must sign the necessary forms, for the registration before the control offices (Tax Authority, Social Security Authority, etc.).

Once the branch is established in order to operate according to our legislation, it must have a separate accounting in Spanish, it must comply with the Administration controls established for the local companies, and the designated directors and officers shall receive the same treatment as those from local companies in reference to their liability.

3 Setting up a company

Limited liability partnership (SRL):

- These entities are incorporated by a contract signed by the parties involved. It cannot be bought off the shelf. The contract has to match certain specifications and has to be registered and published. As a result, the incorporation of these entities may last one month or more.
- The capital is divided in identical participations, which can be accumulated.
- Partners’ responsibility is limited to the participations’ contribution.
- The partners cannot be more than 50.
- Each partner has to contribute with at least 50% of the amount subscribed in cash by each of them. Those contributions in kind have to be made when celebrating the contract.
- Participations cannot be transferred to third parties if there is not an agreement of the partners who represent 75% of the capital (when there are more than 5 partners) or an agreement of all the partners (when there are less than 5 partners).
Corporation (SA):

- These entities can be bought off the shelf in 48 hours. Subsequently, bylaws modifications have to be made so that they fit the company’s requirements. In the case of incorporating a SA instead of buying it off the shelf, 3 months is the average period required.
- The capital is divided into shares, and they could be represented by negotiable titles.
- Shareholders’ responsibility is limited to the shares’ contribution.
- The capital cannot be less than USD 43,800, which is the maximum capital of a SRL.
- Shareholders have to contribute with at least 25% of the authorized capital and have to subscribe what is pending to 50%.
- There are no limitations to shares’ transfers.
Business taxation

1 Overview

Uruguayan Tax System has been modified by Act 18.083 that came into force on 1st July 2007.

Taxation is mainly regulated by the National Tax Code of 1996 and the decrees that regulate the Code.

Uruguay has adopted a territorial concept of taxation. This means that only Uruguayan-source income is taxed, irrespective of the nationality, domicile or residence of those who are part of the transactions and despite the place where the business takes place. If the activities are developed, the services are provided or the goods are situated in Uruguay, Uruguayan taxes have to be paid.

2 Taxable income and rates

The Economic Activities Income Tax (IRAE) levies on business income.

Uruguayan entities, those that have been created according to Uruguayan Regulation, are taxed by the Economic Activities Income Tax (IRAE). Non-resident entities that derive income through a permanent establishment (PE) in Uruguay are also taxed by IRAE. These entities, among others, are IRAE taxpayers for being such.

The tax also levies on income arising from the joint use of capital and labor applied to regular profit-oriented activities.

Taxable income defined

IRAE levies on net taxable income at a rate of 25%. Taxable income for IRAE purposes is basically net income shown by the company's books after making various tax adjustments, including an adjustment for inflation.

IRAE taxpayers may opt to be taxed on real or presumed income if their annual sales are less than $ 6,934,800 (USD 328,660) for 2008. If their annual sales exceed this amount, presumed income cannot be chosen. Under Real IRAE, the taxable basis is net income considering real expenses. Under Presumed IRAE, the taxable basis is defined as a percentage of the gross income and no expenses are deducted.

Companies, whose total revenue does not exceed a certain limit annually established, pay a flat tax instead of IRAE. This annual limit for 2008 has been set in $ 528,780 (USD 25,060) and the flat tax has been set at $ 1,600 (US$ 76) per month for 2008.

Deductions

As a general rule, all necessary expenses to obtain and maintain taxable income are deductible, but only if they are well-documented.

Besides, only expenses that are taxed, for the one that receives the income, are deductible. These expenses have to be taxed by Personal Income Tax (IRPF), Non-Residents Income Tax (IRNR), Economic Activities Income Tax (IRAE) or by an effective Income Tax abroad.

Expenses' percentage of deduction depends on the rate at which they are taxed. As both IRNR and IRPF (Capital gains) rate is of 12%, the expense is a 48% deducted (12 / 25 IRAE rate). If income is also taxed abroad, the expenses can be deducted in the following percentage: (12 + Foreign Income tax rate) / 25.
Depreciation

Depreciation of tangible fixed assets is normally deductible for IRAE purposes using the straight-line method. For urban and rural buildings, the straight-line rates permitted for tax purposes are fixed at 2% and 3%, respectively. Brand new vehicles must be depreciated in a period of no less than 10 years. In the case of other assets, the tax authorities accept any rates provided that they are reasonable and applied consistently from year to year.

As a guideline, the most typical rates are 10% for automobiles, 10% for furniture and fixtures, 10% to 20% for machinery and equipment, and 20% to 33% for computers. Depreciation is computed on the historical cost of fixed assets as revalued at the end of the period by the variation in the wholesale price index occurred in the considered period. Intangible fixed assets, such as patents and trademarks, purchased from third parties may be depreciated -at historic values- for tax purposes. The amortization of goodwill, however, is not deductible.

Losses

A tax loss incurred in one year, adjusted for inflation, may be carried forward to set off against taxable profits arising in the following five years. Losses may not be carried back.

Tax Adjustment for Inflation

Taxable income must include an adjustment to reflect changes in the purchasing power of the (Uruguayan) currency. Essentially, the difference between assets and liabilities adjusted at the beginning of the period is multiplied by the variation in the wholesale price index during the year.

If the amount of assets exceeds the amount of liabilities at the beginning of the year and the change of the index is positive, the resulting amount is deducted from taxable income. On the other hand, if liabilities exceed assets, the resulting amount is added to the taxable income. However, if the change of the index is negative, the result is the opposite.

Commercial Activity Abroad – Trading operations

The Internal Revenue Service, by resolution has established that Uruguayan source income arising from activities of intermediaries developed in Uruguay is set in a fixed way.

The Resolution applies to purchases and sales of goods situated abroad. Neither the country of origin or destination can be Uruguay, nor can the goods pass through Uruguay. The same applies to mediations in the provision of a service, only if the services are provided and economically used abroad.

Uruguayan source net income is fixed at 3% of the difference between the sale and purchase price of the goods and services in discussion. IRAE tax rate (25%) applies directly over this amount. The tax is calculated in the way explained and it does not admit extra deductions.

This regulation also allows choosing between the above-mentioned regime and the determination of real net income of Uruguayan source.

3 Capital Gains

Capital gains are treated as ordinary business income and are subject to IRAE at the normal rate (25%).

4 Withholding taxes

Non Residents Income Tax (IRNR) is levied on Uruguayan source income obtained by non-resident individuals or entities, as long as they do not operate in our country through a permanent establishment. The tax is withheld by the Uruguayan payer.
Non-resident entities are those incorporated according to foreign regulations. Non-resident individuals are those who have not been in Uruguay more than 183 days, or do not carry out their main activities in Uruguay, neither have their economical or vital interests in our country (there is an assumption that an individual’s vital interests are in Uruguay when the spouse and underage children live here).

The definition of Uruguayan source income is the same given in the "Overview". However, it is important to mention that, regarding this tax, it is also considered as Uruguayan sourced, income derived from technical services rendered abroad to Corporate Income Tax (IRAE) payers. Technical services are the ones rendered in areas of management, technique, administration and advice of any kind.

The IRNR general rate is 12%, although there are other reduced rates for specific types of income (3% and 5% on certain interests paid by banks). Additionally, the applicable rate for dividends and profits paid or credited by IRAE taxpayers is 7% (they are only taxed if they correspond to income taxed by IRAE in the local entity).

As a general rule, IRNR is withheld by local entities when payments of taxed income are done to foreign entities. However, in the cases in which no withholding agent has been designed, the non-resident should appoint a resident individual or entity to represent it towards the Uruguayan Tax Authority (DGI).

5 Foreign income and tax treaties

Foreign-source income is not subject to IRAE. As a result, direct expenses incurred by a company to earn foreign-source income are not deductible. A portion of indirect expenses may also be nondeductible.

Uruguay has signed double-taxation treaties with Germany and Hungary. Both basically limit the rate of Uruguayan tax on dividends, interests, and royalties paid to residents of the recipient countries to 15%. In the case of technical assistance, the limit rate is fixed at 10%.

IRNR general rate is of 12%. Consequently, only the limit on technical assistance rate is taken into account when withholding taxes to Germany or Hungary.

6 Transactions between related parties

Transfer pricing

The Tax Reform introduced transfer pricing rules, based on the OECD model. These new rules only apply to crossborder transactions between "related parties" and transactions with entities located in tax haven jurisdictions.

The main characteristics of the new regime are the following:

- Transactions carried out between individuals or related entities must adhere to the market’s usual practices between independent parties.
- Relationship is deemed to exist when a taxpayer performs transactions with non-resident individuals, entities or establishments, or with Uruguayan Free Zones, with which he/she may have corporate or economic relationship.
- Transactions that taxpayers may perform with non-residents, located in low taxation jurisdictions or that enjoy a special regime of low or no taxation (whether related or not) will not be considered as adjusted to market’s usual practices and should apply transfer pricing rules.
- The fact that prices or conditions of the transactions do not adjust to the market’s usual practices between independent entities must be irrefutably proved by the Tax Authority.
• All methods from the Organization for the Economic Cooperation and Development (OECD) are accepted. As for the preference for any of these methods, it shall be used the one that best fits the type of transaction.

• The Executive Power is entitled to set out safe harbors in view of, among other things, types of transaction, line of business or explotation. These shall be optional.

• Regulation will set out the information to be submitted by taxpayers to determine whether transaction prices reasonably correspond to those of the market, which might include cost allocation and profit margins, among others.

• The Tax Authority in order to carry out a periodical control of transactions may ask to submit special tax returns containing all information it may deem necessary to analyze, select and verify the agreed upon prices.

Thin capitalization

There are currently no thin-capitalisation rules in effect. However, the deduction of interests related with loans from a non-resident, is proportional to the rate to which they are taxed (either locally or abroad).

Controlled foreign companies

Uruguay does not have CFC rules due to the fact that taxes are levied only on Uruguayan-source income. Foreign income is exempt.

Consolidated returns

Uruguay does not have tax-consolidation rules. Each entity is taxed separately from other related entities.

7 Turnover and other indirect taxes and duties

Value Added Tax (VAT)

VAT is levied on sales of goods and rendering of services by independent workers in Uruguay. Services rendered by employees are not subject to VAT.

VAT is also levied on imports. Regarding imports, it is necessary to pay an advance of sales VAT.

VAT is generally paid monthly. A business may credit VAT paid on imports and purchases from its suppliers (input tax) against VAT charged by it on sales of goods and services to its customers (output tax). Only the excess of output tax over input tax has to be paid to the tax authorities. If input tax exceeds output tax, the excess may be carried and applied against future output tax.

The standard rate is 22%. A reduced rate of 10% applies to sales of certain essential goods and to some services. The sales VAT advance paid in imports is fixed at 10% (for goods taxed at the standard rate) and at 3% (for goods taxed at the reduced rate).

A business that carries out exempt transactions does not have to charge VAT to its customers, but generally it cannot recover VAT paid on its purchases.

This rule does not apply to exports. Exports of goods are exempt from VAT but the exporter may claim a refund of VAT paid on purchases.
Excise taxes

A specific consumption tax (IMESI) is levied at various rates on the first sale made by importers and manufacturers of a certain range of products. These include certain alcohol, cosmetics, tobacco, fuel and automobiles.

8 Other taxes

Payroll and social security taxes

Employers have to withhold the employees' social security contributions. Besides, they are required to contribute a percentage of monthly payrolls to social security fund (12.625%).

<table>
<thead>
<tr>
<th>Tax Description</th>
<th>Employee</th>
<th>Employer</th>
</tr>
</thead>
<tbody>
<tr>
<td>DIPAICO (Retirement benefit contributions)</td>
<td>15%</td>
<td>7.5%</td>
</tr>
<tr>
<td>DISSE (Medical insurance contributions)</td>
<td>3% - 4.5% - 6%</td>
<td>5% (2)</td>
</tr>
<tr>
<td>FRL (Fund for retraining the unemployed)</td>
<td>0.125%</td>
<td>0.125%</td>
</tr>
</tbody>
</table>

(1) Those employees receiving monthly wages exceeding approximately US$ 2.150 are only obliged to make retirement benefit contributions up to this amount. Contributions with respect to the amount over US$ 2.150 are optional.

(2) These percentages where increased by law so that underage children and disabled people could have free medical assistance. People in charge of underage children or disabled people must contribute a 6%, those people without children or disabled people must contribute a 4.5%, and those with a remuneration below $4,400 (USD 210) a 3%.

(3) If this percentage does not cover the corresponding private health society fee, a supplementary health care contribution must be paid. The monthly private health society fee per employee is approximately US$ 45.

Net wealth tax

Resident and non-resident entities are taxed on assets situated in Uruguay on 31 December value according to fiscal regulations. Certain liabilities can be deducted from taxable assets.

Taxpayers would be able to credit IRAE paid against their net worth tax liability up to 50% of the latter, but the applicable percentage has not been defined yet. The ability to offset is available only to legal entities with nominative titles.

Entities are taxed at a flat rate of 1.5%.

An exemption was set on net worth of farms, and also on stocks placed in free ports, as well as in free zones, owned by nonresidents.

Property Transfer tax

Real estate sales trigger a property-transfer tax that levies on the real value of property at a 4% rate. The tax is paid by both the seller and buyer (2% buyer, 2% seller). The real value is determined by the municipal government.

This tax applies also in the case of inheritance but with a 3% rate paid by the heirs.

Farming goods sale tax

Net income from agricultural and farming activities is taxed by the Economic Activities Income Tax (IRAE) seen in 4.2.

Those small entities included in this tax for agricultural activities can decide between paying IRAE or the Farming goods sale tax (IMEBA). This tax is much more simplified and the rate can sum up to 2.5% depending on the good sold.
**Financial Investment Corporations tax**

Financial Investment Corporations (SAFI) are characterized by the fact that their main trade is to "engage, directly or indirectly, for their own account or for the account of third parties, in investments abroad in bills, bonds, shares, securities, debentures, notes, goods or real estate". These corporations can also engage in commercial activities abroad on their own account, on the account of third parties, or for third parties.

The only tax they are liable for is an annual tax (ISAFI) of 0.3% on the total amount of the shareholders’ equity plus the debts that exceed twice the amount of that equity. Funds held in trust on behalf of third parties must be included in total liabilities when determining whether this limit has been exceeded.

These entities are not subject to Corporate Income Tax, Net wealth Tax, Consumption Taxes or any other tax, except for social security contributions.

There are restrictions on the amount and type of assets that these entities could keep in Uruguay and they cannot sell goods nor render services to Uruguayan customers.

The Tax Reform established that after the 1st of July 2007 no more SAFIs could be created. Besides, the SAFIs’ special tax regime could not be applied for those fiscal years ending after the 31 December 2010.

SAFIs tax regime would be adapted to the general regime according to the conditions determined by the Executive Branch from the 1st of January 2011.

**Corporate Control tax**

Corporations are subject to an annual tax (ICOSA) of $ 7,524 (US$ 357). It is calculated as 1.5% of the minimum capital allowed for corporations, which is fixed by the authorities once a year.

**9 Tax compliance and administration**

The tax year for IRAE purposes, if there is not sufficient accounting, shall coincide with the calendar year (the year ending on December 31). If, however, a company keeps adequate accounting records, the fiscal year is the company’s own financial year.

IRAE taxpayers must file an annual tax return within four months following the end of each fiscal year. A company normally self-assesses its IRAE liability on this annual return. The tax authorities may make an assessment in certain circumstances, for example, when they doubt about the accuracy or truthfulness of a return, or they request but fail to obtain corrections or clarifications from the company.

The statute of limitations is of five years from the end of the fiscal year. The term of five years may be extended up to a maximum of ten in specific circumstances.

Monthly advance payments have to be done based on the income tax of the previous year. These payments are calculated by applying to each month’s income the percentage that the tax paid on the previous year represents on the previous year’s total income. There is a minimum tax to be paid according to the sales of the entity, which varies from $2,070 to $5,220 (US$ 100 to US$ 250). These payments are deducted from the final tax calculated at the end of the fiscal year, and only the difference has to be paid when filing the annual return.
Personal taxation

Individuals in Uruguay are subject to income tax, net worth tax and social security contributions.

Both resident and nonresident individuals are taxed on their Uruguayan-source income. Residents are subject to Personal Income Tax (IRPF), while non-residents are subject to Non-residents Income Tax (IRNR). It is considered of Uruguayan-source income stemming from activities developed, goods placed or rights used in Uruguay.

These taxes are applied on a dual basis:
- Category I: Capital gains and equity increases
- Category II: Income derived from work (employees and independent workers) and pensions and annuities paid by Uruguayan entities.

1 Residency

An individual is considered as resident if he/she has been in Uruguay for more than 183 days in the calendar year, if the individual carries out activities in Uruguay or if his/her economical or vital interests are in Uruguay (there is an assumption that an individual has his/her vital interests in our country when his/her spouse and underage children live here).

The tax that has to be paid (IRPF or IRNR) depends on whether the individual is deemed to be resident or nonresident.

2 Taxable income and rates

Personal taxes, 2008

Capital gains and equity increases are taxed at a flat 12% rate, with almost no deductions. There are some reduced rates (3% and 5%) for certain interests depending on the currency and term of the loan.

Dividends and profits are taxed at a 7% rate but tax levies on those related with income locally taxed by Corporate Income Tax (IRAE). For instance, dividends derived from foreign source or exempt income are not taxed.

Income derived from work is taxed at progressive rates (ranging from 10% to 25%). There is a minimum non-taxable amount as well as some deductions.

Below is the annual income scale applicable for income derived from work (employees or independent workers), pensions and annuities. This scale is based on a variable unit called Contributions and Benefit Unit (B.P.C).

<table>
<thead>
<tr>
<th>USD</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 0 to 5.000</td>
<td>Exempt</td>
</tr>
<tr>
<td>More than 5.000 to 10.000</td>
<td>10%</td>
</tr>
<tr>
<td>More than 10.000 to 15.000</td>
<td>15%</td>
</tr>
<tr>
<td>More than 15.000 to 50.000</td>
<td>20%</td>
</tr>
<tr>
<td>More than 50.000 to 100.000</td>
<td>22%</td>
</tr>
<tr>
<td>More than 100.000</td>
<td>25%</td>
</tr>
</tbody>
</table>

| B.P.C. (USD) | 85 |
| T/C | USD 1 = $UY 21.1 |
It is important to mention that income has to be divided in these ranges and to each of them is applicable its specific rate (not the higher one to all the income).

**Determination of taxable income**

In order to determine the taxable income for Category II, two amounts need to be calculated.

The mentioned rates are applied to the gross income, whether received in cash or kind, and results in a “primary IRPF”. It is important to mentioned that independent workers’ gross income admits a 30% deduction as notional expenses, so the rates are applied to the 70% of the gross income.

Contributions to social security and a small fixed amount per child are allowed as deductions. The following scale has to be applied to these deductions, resulting in an “IRPF of deductions”.

<table>
<thead>
<tr>
<th>USD</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 0 to 5,000</td>
<td>10%</td>
</tr>
<tr>
<td>More than 5,000 to 10,000</td>
<td>15%</td>
</tr>
<tr>
<td>More than 10,000 to 45,000</td>
<td>20%</td>
</tr>
<tr>
<td>More than 45,000 to 91,000</td>
<td>22%</td>
</tr>
<tr>
<td>More than 91,000</td>
<td>25%</td>
</tr>
</tbody>
</table>

Finally, the tax is the result of deducting the “IRPF of deductions” from the “primary IRPF”.

Regarding dependant workers, the tax to be paid by employees is withheld by the employer and an annual adjustment must be done by the employer. The employee is responsible for filing a tax return in which all the work revenues received during the year must be considered, but only if he/she is included in any of the following situations: the employee works for two or more employers, works as a dependant and independent worker simultaneously, receives pensions or annuities by different entities, receives pensions or annuites and work income, or as a result of the annual adjustment the employee has a tax credit. On the other hand, dependant workers have to fill in a form in which they inform certain deductions that are admitted.

**3 Special expatriate tax regime**

There is not a special tax regime for expatriates. However, it is important to mention that foreigners working in the Uruguayan Free Zone can opt out of the Uruguayan Social Security System.

**4 Wealth taxes**

An annual Personal Net Wealth Tax is imposed on residents and non-residents. The tax is levied on assets situated in Uruguay on 31 December value according to fiscal regulations. Only debts with banks in the country can be deducted from taxable assets.

Married couples living together have the option for joint assessment. There is a non-taxable amount (USD 86,000) and it is doubled for married couples.

Individuals are taxed at progressive rates ranging from 0.7% up to 2.75%.
Labour relations and workforce

1 Visa and entry requirements

Visitors from most countries may enter freely without obtaining an entry visa. Work and residence permits are extensively granted upon presentation of evidence of good conduct, good health and means of financial support.

2 The employment market

The economic growth in the latest years has resulted in an increase in the company’s demand for new workers. This, added to the better expectations about the labour market, has generated an increase in the labour supply. Consequently, there has been a significant decrease in the unemployment rate.

Along those lines, workers with a higher educational level are the ones who manage to have better labour conditions. Increasing restrictions are shown when coming to appeal or retain workers, especially in the case of those with engineering and computation knowledge.

3 Employees’ rights and remuneration

A minimum salary is set by law and is adjusted periodically by inflation. The legal minimum gross salary is approximately USD 150 per month.

An annual bonus equivalent to approximately one month’s salary, normally payable in two installments, is compulsory.

Standard overtime is paid with a supplement of 100% of normal rates. However, overtime on Sundays and public holidays has a supplement of 150% of normal rates.

In practice, normal working hours per week are set at 44 for commerce employees and at 48 for industrial workers.

Public holidays for which employees are entitled to full pay are: January 1, May 1, July 18, August 25 and December 25.

In addition, there are official holidays which are only paid if worked: Carnival (two days), Easter Week (two days), January 6, April 19, May 18, June 19, October 12 and November 2.

Employees are entitled to pay annual vacations of at least 20 continuous working days upon completion of each year of service. One additional day is granted for each four years of service.

In addition, a special vacation bonus must be paid before an employee leaves on vacation. This is equivalent to the net salary for the days on vacation.

Vacations are not accumulative and must be taken within the 12 months following the period in which they were earned.

The full period of vacation may be split into two periods of not less than 10 consecutive days upon agreement between management and labor.

4 Wages and benefits

Employers must contribute to the Social Security Fund with approximately 12.625% of the employees’ gross earnings. Besides, they have to withhold the personal contributions from the employee salaries.
Capitalization of savings in personal accounts is mandatory.

The State Social Security System provides coverage to the employee for medical treatment and hospitalization fees, maternity, disability, unemployment compensation, pensions and family allowances. Besides, it provides medical assistance to all underage children and disables people.

Employers must insure their employees against work related accidents, and diseases contracted in defined unhealthful activities.

Private pension plans are rare.

5 Termination of employment

An employee is entitled to severance payment equivalent to one month’s salary for each year or fraction of year worked, which is generally limited to a maximum of six month’s salary. Proven misconduct may exempt the employer from payment.

6 Labour-management relations

Regarding salaries fixing methods, our country has chosen in the latest years to call for the Salaries Councils. These Councils establish minimum salaries, labour categories and other benefits.

The association that gathers more unions is known as PIT-CNT (Plenario Intersindical de Trabajadores – Convención Nacional de Trabajo). In this association are the main unions from different industries and sectors such as Energy, Food, Chemistry, Metal, Building, Textile, State-owned Companies, among others

Except for large companies, unions are organized by industry rather than by company. Unions play a significant role in the determination of wages and fringe benefits.

Membership for employees is not mandatory.

7 Employment of foreigners

Foreigners enjoy the same rights and obligations as Uruguayan citizens as long as they are legally working in our country.

They must get the Uruguayan identity card and consequently the resident status, for permanent and temporary job (Law 18.250).

The procedure to obtain Uruguayan legal residence should be completed before the Migration Office. When this procedure is completed, the individual is declared a legal temporal or permanent resident in Uruguay.
General Information

- **Uruguayan Chamber of Commerce and Services** - Rincón 454 2nd floor. Tel: (598 2) 916 1277. http://www.cncs.com.uy
- **National Internal Audit (AIN)** - Paysandú 941. Tel: (598 2) 901 7223. http://www.ain.gub.uy
- **Uruguayan Central Bank (BCU)** - Diagonal Fabini 777. Tel: (598 2) 1967. http://www.bcu.gub.uy
- **Social Security Authority (BPS)** - Colonia 1921. Tel: (598 2) 401 8052. http://www.bps.gub.uy/
- **Electoral Administration** - Ituzaingó 1467. Tel: (598 2) 916 1428. http://www.corteelectoral.gub.uy
- **Customs Administration (DNA)** - Rambla 25 de Agosto. Tel: (598 2) 915 5976. http://www.aduanas.gub.uy/
- **National Civil Identification (DNIC)** - Bartolomé Mitre and 25 de Mayo. Tel: (598 2) 916 1535 to 37. http://www.minterior.gub.uy
- **National Institute of Statistics (INE)** - Río Negro 1520. Tel: (598 2) 902 7303. http://www.ine.gub.uy/
- **Ministry of Economy and Finance (MEF)** - Colonia 1089 3rd floor. Tel: (598 2) 17122. http://www.mef.gub.uy
- **Ministry of Social Security and Labour** - Juncal 1511. Tel: (598 2) 916 2681. http://www.mtss.gub.uy/
- **Ministry of Education and Culture** - Benigno Paiva 1160. Tel: (598 2) 628 5544. http://www.mec.gub.uy/
- **Ministry of Tourism** - Rambla 25 de Agosto and Yacaré. http://www.mintur.gub.uy/qsomos.html
- **Consumers Defence** - 25 de Mayo 737. Tel: (598) 0800 7005. http://www.defcon.gub.uy/
- **Uruguayan Technological Laboratory (LATU)** - Avda. Italia 6201. Tel: (598 2) 601 3724. http://www.latu.org.uy
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