

URUGUAY



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PREPARED BY MERITAS LAWYERS
IN LATIN AMERICA AND THE CARIBBEAN



Published by Meritas, Inc. • 800 Hennepin Avenue, Suite 600
Minneapolis, Minnesota 55403 USA

+1.612.339.8680 | +1.612.337.5783 FAX | WWW.MERITAS.ORG

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DOING BUSINESS IN LATIN AMERICA AND THE CARIBBEAN

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ARS	Argentinean Peso	DOP	Dominican Republic Peso
BSD	Bahamian Dollar	GTQ	Guatemalan Quetzal
BRR	Brazilian Cruzeiro Real	HNL	Honduran Lempira
KYD	Cayman Dollar	MXN	Mexican New Peso
COP	Colombian Peso	NIO	Nicaraguan Córdoba
CRC	Costa Rican Colón	PYG	Paraguayan Guarani
USD	United States Dollar	UYU	Uruguayan Peso

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U With a geographical area of 176,215 square kilometers and a current population of 3.2 million inhabitants, Uruguay is one of the smallest countries in South America. Its current growth is 5% per annum.

The Uruguayan legal system is based on written law, passed by Parliament and enacted by the Executive Power. The country is politically organized under a Presidential system, divided into three independent powers: Executive, Judicial and Legislative.

Uruguay is politically divided into 19 departments, each one with its own Municipal Government, Mayor and Department Council elected by democratic vote.

FOREIGN INVESTMENT

The government actively promotes investments and has a specific policy towards the attraction of foreign investment. The system is absolutely open and, from a fiscal viewpoint, it is nondiscriminatory between local and foreign investors. Foreign investors are entitled to the same incentives as local investors.

No special authorization is required for foreign investment in Uruguay.

Incentives available for local and foreign investors are focused on the creation of labor sources, the establishment of high-technology industries and the increase of exports. The most generic incentives are tax exemptions for certain types of investments.

ECONOMIC POLICY FRAMEWORK

In Uruguay there are no restrictions on the free inflow and outflow of foreign currency. Foreign currencies can be freely exchanged and they are all legal tender (this allows for contracts to be performed in any currency). Domestic and foreign investors are treated equally under the law.

INTERNATIONAL TRADE AGREEMENTS

In 1991, Argentina, Brazil, Paraguay and Uruguay signed the MERCOSUR treaty, which created a single free circulation market with a common external tariff that ranges from 0% to 23%. The first article of the above mentioned treaty states that there shall be free transit of goods, services, persons and capital between member states, thus eliminating customs duties. Taxes between MERCOSUR

countries are almost 0% for most products (there are exceptions) as long as the products from those countries meet the requirements of origin, which shall be controlled and certified by a representative of the importer. Bolivia and Chile have also partially adhered to MERCOSUR and have some preferences regarding international commerce.

MERCOSUR signatory countries have also signed agreements with other parties such as Israel, India and the Andean Community. Finally, Uruguay has also entered into an agreement with Mexico on import-export tax benefits.

BUSINESS ENTITIES

The law governing commercial companies in Uruguay is basically Act No. 16.060 or the Business Organizations Act, which contains most of the rules applicable to the incorporation, operation and liquidation of a business entity. In accordance with its provisions, business associations can be carried out under different legal formats, such as corporations.

Subsidiaries of foreign corporations are also authorized to carry out business activities upon following incorporation procedures.

CORPORATIONS (*SOCIEDAD ANÓNIMA, S.A.*)

Corporations must be incorporated by at least two founders. The main formalities for the setting up of a corporation include:

- Approval of the articles of incorporation and corporate bylaws by the government;
- Registration in the Commercial Public Registry; and,
- Publication in the Official Journal and another private journal.

There are no restrictions regarding the nationality or address of the company founders or directors. Once the incorporation process is finished, the stock capital may be owned by only one shareholder and may be issued in bearer or registered shares.

Corporate bodies of a corporation are the following:

- Board of Directors
- Shareholders' Meeting (ordinary and extraordinary)
- Fiscal Commission or Syndic (optional in the case of "close" corporations, which are those corporations whose shares are not offered to the public)

The ordinary shareholders' meeting must be held at least once a year at the corporate domicile to consider the year-end financial statements, to discuss the

performance of the board of directors, and to appoint its members and the Syndic of the company, if applicable.

The board of directors may be vested with the broadest powers or it may be subject to limitations depending on the shareholders' decision, in which case, those limitations must be set forth in the corporate bylaws.

The board of directors may have one or more members, either physical or legal persons, whatever their nationality, domicile or residence, whether shareholders of the company or not and their meetings are not required to be held in the country.

Shareholders are entitled to attend meetings and to vote directly or indirectly through an attorney in fact. In the latter case, a power of attorney duly notarized, or a private instrument in case of representation for a specific meeting, shall be sufficient.

Further to the capital stock, at least 25% of the authorized share capital must be paid in at the moment of incorporation, there being no legal requirements on the minimum or maximum amounts of capital.

Annual Obligations

Corporations are required to fulfill the following obligations:

- To keep accounting records and draw up financial statements at the end of each fiscal year;
- To call an ordinary shareholders' general meeting (annually) to approve the financial statements, evaluate board of directors' performance, and appoint the company authorities;
- To file the tax return and pay the applicable taxes.

LIMITED LIABILITY PARTNERSHIP (*SOCIEDAD DE RESPONSABILIDAD LIMITADA, S.R.L.*)

SRLs in Uruguay have the following characteristics:

- The liability of the partners is limited to their capital contribution, except for Business Income Tax (IRAE) and salary obligations;
- Interest parts in the company are nominative;
- A minimum of two interest part holders (partners) is required;
- SRLs are managed and represented by one or several individuals, partners or not, designated in the partnership agreement. In general, resolutions at the partners' meetings are adopted by those holding the majority of the interest parts if there are fewer than 20 partners. If there are 20 or more partners, the resolutions, in general, are adopted by a simple majority of votes of the partners present, counted as one vote per interest part (in such case the scheme is the same as the one for corporations).

SUBSIDIARIES OF FOREIGN CORPORATIONS

Subsidiaries of foreign companies may carry out their business in Uruguay and are subject to the bylaws of their head office. They must be registered at the Public Registry of Commerce and their incorporation must be published in the Official Gazette and another private journal. They must also be registered in the General Tax Office (DGI) and the Social Security Bank (BPS).

TAXATION OF LEGAL PERSONS

In general, taxes are levied only on activities carried out in the country, on the possession of assets located in the country, and on the corresponding Uruguayan income.

BUSINESS INCOME TAX (IRAE)

This applies to income from Uruguayan source obtained from any type of economic activity (industry, commerce, agriculture, cattle farming and services).

Uruguayan Source

Income obtained from activities carried out, assets located and rights used economically in Uruguay, regardless of the nationality, domicile or residence of the persons who take part in the activities, or of the location where the legal act is executed, is considered to be from Uruguayan source.

Taxable Amount

The taxable amount is determined by the difference between gross income and expenses necessary to produce said income, all duly documented.

Income and expenses are recorded on the accrual basis, as opposed to the cash basis.

Rate

Legal persons as well as foreign residents with a permanent establishment located in Uruguay are subject to income tax on their territorial source by applying a rate of 25%.

Authorized Deductible Expenses

Deductions are limited to those expenses which are deemed taxable income under IRAE, IRPF (personal income tax on physical persons) or IRNR (income tax on nonresidents) or under regulations on foreign income.

If the counterparty to the transaction incurs in expenses taxed at a rate lower than IRAEs, then the deduction will be limited to the amount resulting from applying the quotient between the applicable tax rate to such income and the IRAE tax rate to the expense (tax rate difference limitation).

Inflation Adjustment

In order to record the result caused by inflation, our tax regime establishes a global and simplified calculation system consisting of the application of the Wholesale Price Index on the net worth of the taxpayer at the beginning of the fiscal year, duly adjusted by the same rules applicable to IRAE.

Tax Loss

Tax losses can be deducted over a period of five years, updated pursuant to the Wholesale Price Index.

Transfer Pricing

As of the enforcement of the Tax Reform Act of 2007, Uruguay introduced transfer pricing regulations into its general tax system, regulations which did not exist before that time. Said regulations are aligned with those of other countries in the region, with the exception of Brazil, and are also aligned with OCDE guidelines.

Calculation Scheme

Following is the calculation process used for IRAE on the financial results of the income generating entity:

NET PROFITS (according to the Balance Sheet)

(+ / -)	Fiscal adjustments	
(+ / -)	Inflation adjustment	
(-)	Nontaxable gross income	
(+)	Costs associated with nontaxable income	
(+)	Nondeductible expense	
<hr/>		
(=)	FISCAL PROFIT OR LOSS	
(-)	Fiscal losses from previous years	
(-)	Channeling savings	} Tax benefits; see IRNR Uruguayan Source & Taxable Income, pg 456
(-)	Investment exemptions	
<hr/>		
(=)	TAXABLE AMOUNT	
	IRAE = 25% x Taxable Amount	
(-)	IRAE advance payments	
(-)	Tax benefits derived from government-approved projects (See IRNR, Taxable Amount, pg 456)	
<hr/>		
(=)	TAX PAYABLE or TAX CREDIT	

TAX ON THE DISPOSAL OF AGRICULTURAL AND CATTLE FARMING PROPERTY (IMEBA)

This indirect tax levies the first disposal of agricultural or cattle farming products made by producers to buyers who pay IRAE, official entities and exporters.

All agricultural and cattle farming producers must pay IMEBA, but those who must pay IRAE shall deduct their IRAE payments from their IMEBA payments. For small farmers or producers, IMEBA will take the place of IRAE as the final tax.

Producers who shall pay IRAE as their definite tax obligation (no option) are the following:

- Corporations, permanent branches of nonresident companies, Closed Investment Funds, official entities and trusts (except for guarantee funds);
- Taxpayers whose income exceeds an amount determined by the Executive Power;
- Those who obtain income from the sale of assets destined for agricultural and cattle farming, but not included in IMEBA; and
- Other agricultural and cattle farming products specified by the Executive Power.

IMEBA rates vary from 0.1% to 2.5% of the sales or the export prices, depending on the type of product.

NET WORTH TAX (IPAT)

This is an annual tax at the rate of 1.5% on the local (Uruguayan source) net worth of companies located in the country, adjusted as per the tax regulations, at the end of each fiscal year of the company.

Uruguayan Source

Assets located abroad are not considered for this tax.

Rate

Uruguayan and foreign legal persons pay IPAT at the rate of 1.5%.

Taxable Amount

The taxable amount of IPAT is determined by the difference between:

- The assets located in Uruguay, valued according to specific tax rules; and,
- Certain liabilities, specifically listed in the Uruguayan regulations as Deductible Liabilities.

The following are liabilities deductible from IPAT taxes:

- Yearly averages of credit balances (at the end of each month) of loans granted by:
 - ▶ financial institutions
 - ▶ other local entities authorized to grant loans on a regular basis
 - ▶ closed investment funds
 - ▶ trusts
- Debts with suppliers of goods and services of all types, with the exception of balances due on imports and debts with state entities not subject to IPAT;
- Debts for taxes not yet due, excepting IPAT;
- Securitized debt or debentures listed in financial markets under certain conditions.

When the company owns assets located abroad which are exempt from IPAT or which do not form part of the amount taxable by IPAT (Assets Not Taxed), only those liabilities that surpass the value of Assets Not Taxed are admitted.

Calculation Scheme

IPAT is calculated as follows:

ASSETS (according to the Balance Sheet)	
(+ / -)	Valuation adjustments
<hr/>	
(=)	FISCAL ASSETS
(-)	Assets located abroad
(-)	Exempted assets
<hr/>	
(=)	TAXABLE ASSETS (A)
LIABILITIES (according to the Balance Sheet)	
(+ / -)	Valuation adjustments
<hr/>	
(=)	FISCAL LIABILITIES
(-)	Nondeductible liabilities
<hr/>	
(=)	DEDUCTIBLE LIABILITIES
(-)	Assets located abroad + Exempted assets
<hr/>	
(=)	ADMITTED LIABILITIES (B)
TAXABLE AMOUNT = A - B	
	IPAT = 1.5 % x Taxable Amount
(-)	IPAT advanced payments
<hr/>	
(=)	TAX PAYABLE or TAX CREDIT

VALUE ADDED TAX (IVA)

IVA levies “the internal circulation of goods, the rendering of services in the territory of Uruguay, the entry of goods into the country and the value added to real estate on account of construction work.”

Rates

The basic rate is 22% applicable to the majority of taxable goods and services rendered in the national territory.

There is a 10% minimum rate applicable to basic products such as some food products, drugs, hotel services and the first sale of real estate made by IRAE taxpayers. This concept includes the first disposal of real property with certain remodeling. The first sale of real estate with construction modifications is included in the concept as well.

IVA Calculation

The taxpayer pays the difference between:

- The IVA invoiced by the company (Sales IVA), and
- The IVA paid to its suppliers of goods and services or due on the import of goods to the country (Purchases IVA).

To be able to offset IVA from purchases, those goods and services must be directly or indirectly related to the activities which generated Sales IVA.

EXPORTS (0% RATE REGIME)

Exports of goods and of some services are not subject to this tax.

The concept of export of services includes among others, those services rendered at customs locations, the supply of ships and services supplied from Uruguay to persons domiciled abroad and to be used exclusively abroad.

The exporter recovers the IVA from purchases of goods and services used to generate other goods or services destined for export. The mechanism implies the use of credit certificates issued by the Uruguayan Tax Authority.

Exemptions

Certain activities have been expressly exempted from IVA by law, such as the sale of currencies and securities, loan assignments, operations related to fuels, books and other educational material, water supply, transport of passengers, real estate leases and income from investments in treasury bills.¹

¹ IVA acquired (direct and indirect) and applied to the cost of sales of these operations is not deductible since it is related to nontaxable operations.

EXCISE DUTY (IMESI)

This levies the first local sale and import of certain products (vehicles, beverages, tobacco and cigarettes, fuels and lubricants). Exports are not taxed.

Taxable Amount

In most cases it equals the retail price of the taxed goods. In other cases, such as beverages, cigarettes, lubricants, etc., the Executive Power periodically fixes notional prices on which the tax rates are applied.

Rates

Rates vary for the different products. The highest rates correspond to vehicles, cigarettes and alcoholic beverages.

CORPORATE CONTROL TAX (ICOSA)

Corporations must pay an annual tax of 0.75% calculated on a fixed amount which is set every year by the Executive Power. The tax to be paid by fiscal years ended in 2012 amounts to approximately USD600. ICOSA payments are registered as advances to offset a corporation's IPAT (in practice this tax operates as a sort of minimum IPAT for corporations).

TAX ON THE CONCENTRATION OF RURAL ESTATE (ICIR)

This is an annual tax which levies ownership of rural estates exceeding as a whole 2,000 hectares of CONEAT index 100 or its equivalent per holder.

The CONEAT index is an indicator of the productivity level of the land. As an example, a holder of 4,000 hectares of CONEAT index 70, for the purposes of this tax, will pay for 2,800 hectares ($4,000 \times 70/100$).

The law has established four different categories subject to this tax:

1. Physical persons, family units and undivided estates owners of real property which at year end exceed, as a whole, 2,000 hectares of CONEAT 100.
2. Corporations, partnerships limited by shares, agricultural associations, civil associations with an agricultural object, permanent establishments of nonresident entities in the Republic, semi-governmental and decentralized services of the industrial and commercial domain of the State, closed credit investment funds, trusts (except for guarantee trusts), de facto business associations and civil associations (except for those associations formed exclusively by resident physical persons and those associations which obtain only pure capital income, formed exclusively by resident physical persons and by nonresident entities.

3. Legal persons set up abroad provided they do not constitute a permanent establishment.
4. Any other holder of rural estate levied by tax which is not under the cases set forth before.

Likewise, in order to determine the payable tax, the total number of CONEAT hectares of rural property owned by the liable subject will be taken into account and said amount will be used to calculate the tax by applying the CONEAT amount per hectare provided by the law:

Number of Hectares	Amount per Hectare
<u>CONEAT index 100 or equivalent</u>	<u>CONEAT index 100 or equivalent</u>
From 2,000 to 5,000	67 UI (approx. USD8)
More than 5,000 to 10,000	100 UI (approx. USD12)
More than 10,000	135 UI (approx. USD16)

UI: *Unidades Indexadas* (Indexed Units)

The tax will be calculated on the real estate owned by the taxpayer at December 31 of each year.

PAYROLL TAXES (SPECIAL SOCIAL SECURITY CONTRIBUTIONS)

Entities must pay social security contributions on all types of salary payments made to its personnel located in Uruguay.

Contributions to social security are the following : (a) Pension Contribution; (b) Health Insurance; and, (c) Contribution to a Labor Reconversion Fund.

Such contributions are compulsory for employers and employees. Therefore, they are subdivided into Employer's Contributions and Employees' Contributions.

Employees' contributions are deducted from their salaries and paid directly to the social security system by the employer.

Applicable Rates

The following rates are applicable to the above mentioned social security contributions on salaries:

Contribution	Employer's Contribution	Employee's Contribution
Pension	7.5% with a maximum of approx. USD320	15% with a maximum of approx. USD640
Health	5%	3%, 4.5%, 6% or 8%
Labor Reconversion Fund	0.125%	0.125%

In addition, employers have to withhold employees' IRPF (personal income tax on physical persons) at its different rates according to their level of remuneration (from 0% to 30%).

Exemptions

- Employer's contribution on the 13th salary (*Aguinaldo*) is decreased by 5% since it is exempt from the employer's health contribution.
- The yearly vacation bonus (*Salario Vacacional*) is not subject to payroll taxes (it is intended for better enjoyment of the vacation).
- Amounts paid on account of severance pay are not subject to payroll taxes either.
- Board members and syndics who do not earn a salary for their positions and board members who reside abroad are not subject to payroll taxes.

TAX INCENTIVES FOR INVESTMENTS

In order to simplify this analysis, we will divide benefits into three groups: (a) benefits obtained automatically upon the acquisition of specific assets, (b) nonautomatic benefits which are only granted if a specific activity is designated by the Uruguayan government as being "of national interest," and finally, (c) benefits which can be obtained by submitting an Investment Project approved by the Uruguayan government.

Automatic Benefits

IRAE Exemption: The law allows fiscal deductions in the following cases: (a) 40% of the investment in certain assets including machinery, communications and data processing equipment, hotel furnishings, etc.; (b) 20% of the investment in construction or improvement of industrial and hotel facilities.

Total reductions due to these benefits cannot exceed 40% of the annual net income of the fiscal year, once income exempted by other rules is deducted.

IPAT, IVA and IMESI Exemptions: The following investments are exempted from IPAT, IVA and IMESI on imports and IVA on local purchases:

- Industrial machinery
- Industrial installations
- Agricultural machinery meaning the machinery used by agribusiness entities in order to produce primary products
- Utility vehicles

Sector Activities Promoted by the Executive Power

We will now briefly analyze the tax benefits granted to certain sectors of activity which have been promoted by the Executive Power.

Within the framework of the sector promotion under the Investment Act, activities such as those carried out by public works concessionaires, tourism-related plans or projects and activities carried out by Distant Call Centers have been promoted under certain conditions.

Further to public works concessionaires, the following benefits have been granted: the channeling of domestic savings, IPAT exemption on fixed and intangible assets, IVA exemption on imports or a IVA credit for the purchase of machinery and works equipment in the market.

Additionally, regarding tourism-related projects, the following benefits have been granted: IVA exemption or IVA credit regarding market purchases, accelerated depreciation of assets and services destined for construction, improvements or extension of the projects and IPAT exemption for infrastructure, civil works and fixed assets investments.

Finally, tax exemptions are granted to companies that generate energy based on renewable sources on their sales in the spot market to the state energy entity.

Benefits Derived from Government-Approved Projects

IRAE taxpayers may obtain important tax benefits by submitting an investment plan before the Executive Power.

The benefits are:

- Income Tax on Economic Activities (IRAE) exemption. The amount and term to enjoy the benefit depend on the project's rating based on an "indicator matrix."
- Corporate Net Worth Tax (IPAT) exemption on movable assets and buildings.
- Tax exemptions on the import of movable assets or fixed assets which do not compete with the national industry.
- IVA refund for the acquisition in the local market of materials and services for civil works purposes.

Project evaluation criteria

The Application Committee (COMAP) from the Ministry of Economics and Finance is the division responsible for the evaluation of projects.

The matrix used to evaluate projects is comprised of the following indicators:

- Employment generation
- Geographic decentralization

- Increase of exports
- Use of clean technology
- Increase of Research and Development and Innovation (RDI)
- Sector indicators

The methodology used for said evaluation is published in a document called “COMAP – *Criterios Básicos Generales de Funcionamiento*” (COMAP – General Functioning Basic Criteria).

TAXATION OF PHYSICAL PERSONS

This section will briefly describe taxes applicable to physical persons who do not develop business activities in Uruguay, and income and assets not related to the business activities carried out by physical persons.

PERSONAL INCOME TAX ON PHYSICAL PERSONS

This is an annual tax on persons who hold fiscal residence in the country.

Fiscal Residence

A physical person is considered a fiscal resident when the same resides at least 183 days in the national territory or when his/her business head office, basis or vital economic interest is located in the national territory.

The physical person shall be deemed to have a fiscal residence in Uruguay provided his/her spouse or children (minors) reside regularly in the country, unless proved otherwise.

Taxable Amount

The events that give rise to this tax include capital income and capital gains set forth by the law, and income from personal work and services under an employment agreement.

The Tax Reform Act classifies income into two categories:

Category I: Capital Income. This category comprises income resulting from capital, capital gains and other similar sources.

This category includes:

- Income from real estate capital: leases, subleases, rights of use, etc. of Uruguayan source. Certain expenses and taxes may be offset against it;
- Interest and dividends of Uruguayan and foreign source;
- Capital gains of Uruguayan source.

The current rates applicable to income from Category I are the following:

RATE	INCOME FROM CATEGORY I
3%	Interest from deposits (local currency or indexed placements) in financial entities, over a one-year term.
3%	Interest from other placements (bonds, debentures, etc) over a three-year term.
5%	Interests from deposits (local currency without any adjustment index) in financial entities, under a one-year term.
12%	Dividends or profits paid by IRAE taxpayers to Uruguayan residents originated in interest or dividends obtained from abroad.
7%	Other dividends or profits paid by IRAE taxpayers.
7%	Returns derived from copyrights on literary, artistic or scientific work.
3%	Returns on certificates of interest in national entities issued by financial trusts through public offers and stock exchange listing, with terms longer than three years.
12%	Other income.

Most significant exemptions regarding Category I are:

- Interest paid on government securities.
- Income from Provisional Savings Funds.
- Dividends and earnings distributed by IRAE taxpayers from IRAE-exempt activities, accrued in fiscal years which started as of the effective date of this Act.
- Earnings distributed by personal associations (*sociedades personales* – those which are neither corporations nor limited partnerships that issue stock) whose income does not exceed the limit determined by the Executive Power and by those rendering personal services under a nonemployment agreement subject to IRAE.
- Capital gains from stock purchases due to capital reductions in companies taxed under IRAE and IMEBA and in companies constitutionally exempt from these taxes.
- Income from the sale of bearer shares and other interest represented by bearer certificates belonging to companies taxed under IRAE or constitutionally exempt from said tax.

Category II: Income from Personal Work and Services. This category comprises income obtained from work, either under an employment agreement or not, with the exception of income taxable by IRAE.

This category comprises labor income obtained from:

- The rendering of personal services under an employment agreement,
- Pensions and similar, and
- The rendering of personal services under a nonemployment agreement.

Rates are progressive between 10% and 30%, starting with a minimum nontaxable amount.

PERSONAL NET WORTH TAX (IPPF)

This is an annual tax on the fiscally determined net worth of physical persons, families and estates, estimated each December 31.

Uruguayan Source

Assets located abroad are not taxed.

Taxable Amount

The taxable amount is calculated based on the fiscal value of assets (located in the country) with some exceptions and deductions of certain liabilities authorized by our regulations.

Some of these exceptions are:

- The value of real estate and vehicles is regularly adjusted by the Executive Power.
- Residential homes are taken at 50% of their value.
- Home furnishings are calculated at a notional level by applying a 10% or 20% on the total remaining assets.

Deductions are limited to loans granted by local banks or other institutions regularly authorized to grant loans which exceed the value of assets located abroad.

Physical persons and undivided estates pay this tax when their calculated net worth according to the fiscal criteria exceeds a Minimum Nontaxable (MNI) amount which currently amounts to approximately USD 100,000 and double this amount for family households.

Rates

Rates vary from 0.7% to 1.80% depending on the wealth level from the above mentioned MNI onwards.

TAXATION OF NONRESIDENTS

NONRESIDENT INCOME TAX (IRNR)

This taxes income of Uruguayan source of any nature whatsoever obtained by nonresidents. According to our tax legislation, a nonresident person is anyone who has not set up a permanent establishment in Uruguay.

Actually, a permanent establishment belonging to a nonresident person is deemed as such when said person carries out activities through a fixed place of business in Uruguay.

Uruguayan Source

This is defined as income obtained from activities carried out in Uruguay, and assets located in and rights economically used in Uruguay regardless of the nationality, domicile or residence of the persons participating in the operations and on the place where legal businesses are carried out.

Likewise, income obtained on account of the rendering of services performed abroad to taxpayers residing in Uruguay is deemed from Uruguayan source, provided those services are used by the person receiving said services for the generation of income subject to IRAE.

Taxable Income

The regulation classifies income into the following categories:

- Business income
- Labor income
- Capital income
- Capital gains

Taxable Amount

Taxable income categories under business income and labor income are equivalent to the sum of all income under these concepts.

For the remaining income, rules applied correspond to those of the Income Tax on Physical Persons (IRPF).

If some income is negative and some positive, these cannot be offset against the different categories.

Rates

Current rates applicable to the IRNR are the following:

RATE	INCOME FROM CATEGORY I
3%	Interest from deposits (local currency or indexed placements) in financial entities, over a one-year term.
3%	Interest from other placements (bonds, debentures, etc.) over a three-year term.
5%	Interest from deposits (local currency without any adjustment index) in financial entities, under a one-year term.
7%	Dividends or profits paid by IRAE taxpayers to nonresidents.
7%	Returns derived from copyrights on literary, artistic or scientific work.
3%	Returns on certificates of interest in national entities issued by financial trusts through public offer and stock exchange listings, with longer terms than three years.
12%	Other income.

NONRESIDENT NET WORTH TAX (IPNR)

Nonresident physical persons are subject to Net Worth Tax on their assets located in the country as is the case for resident physical persons.

Foreign legal persons who do not have a permanent establishment pay a net worth tax rate of 1.5% on local assets located in our country, valued according to the regulations applicable to resident entities.

FREE ZONE CORPORATIONS

Business associations, either corporations or other types, whose only object is to carry out transactions within Uruguayan Free Trade Zones and abroad (developing commercial, industrial, service and financial activities) are exempt from any national taxes. Special Contributions to Social Security (CESS) are not included in this exemption, which however are only applicable to staff located in Uruguay.

On the other hand, any type of goods entering a Free Trade Zone from abroad or goods exported to foreign countries from a Free Trade Zone are exempt from all types of taxes.

As to Special Contributions to Social Security, in the case of foreign staff residing in Uruguay (which at first cannot exceed 25% of the total number of employees), members of staff can waive benefits from the Uruguayan Social Security and in this case, social security contributions on their remuneration must not apply.

With respect to the income tax applicable on income of the above mentioned foreign staff derived from their employment agreement with the Free Trade Zone company, it should be pointed out that said staff may choose whether to be taxed as IRPF taxpayers (progressive rates between 10% and 25%) or as IRNR taxpayers at a 12% rate.

The payment of dividends by Free Trade Zone companies is not subject to taxation.

REGISTRATION OF BEARER SHARES

Act 18.930, in force as of 1 August 2012, established the creation of a Register at the Central Bank of Uruguay (BCU) for the identification of owners and beneficiaries of bearer shares.

It is important to highlight that this act does not overrule the bearer share regime in Uruguay. It only introduces some modifications concerning the reservation existing before regarding the identity of the holders, and enables access to this information in a restrictive way, only to certain agents and third parties with which Uruguay has signed treaties of information exchange.

The following resident entities are reached by the obligation to inform and identify their owners or beneficiaries: corporations, partnerships limited by shares, agricultural associations, trusts and investment funds, as long as they are not regulated by the Central Bank of Uruguay, and in general, any other entity issuing bearer shares.

The regulations also include nonresident entities which issue shares both to the bearer and nominal, when any of the situations provided by law exist.

In turn, resident entities with nominal or book entry shares are excluded from the obligation to inform the Central Bank of Uruguay, as well as those issuing securities that are listed on the national, international or renown stock exchanges.

The information provided to the Central Bank of Uruguay is secret and access to it will be restricted to:

- The General Taxation Bureau (DGI), within the framework of inspection activities or in compliance with express requests

under sufficient grounds made by another foreign state with which our country has signed agreements concerning the exchange of information.

- The Financial Analysis and Information Unit of the Central Bank of Uruguay.
- The National Secretariat on Money Laundering.
- The Criminal Justice or Competent Justice due to matters of alimony, on sufficient grounds.
- The Transparency and Public Ethics Board.
- The State Internal Audit for compliance with its supervising and controlling duties.
- Others, only when authorized, expressly and in writing, by the subject whose particulars are included in the Register of the Central Bank of Uruguay.

The Act provides sanctions for nonfulfillment of its provisions, both for the owners or beneficiaries, as for the issuing entities, such as monetary sanctions such as penalties and fines and limitations to exercising the rights inherent to the condition of holder of those shares.

TREATIES TO AVOID DOUBLE TAXATION

Uruguay has adopted, as the principle of taxing rights, the territoriality criteria or the principle of the source. By doing this, it has not had the historical necessity of signing agreements to avoid double taxation.

This is evident until the year 2009 in the mere existence of two agreements, one with Germany and one with Hungary, which date back over 20 years and in practice are not often used.

Based on the increased pressures and demands of the various international agencies such as the Organization for Economic Cooperation and Development (OECD), Uruguay has seen the need to begin to align with international standards.

As part of compliance with international standards and seeking to improve investment conditions, our country has begun working on a variety of agreements to avoid double taxation (CDI) and to improve the exchange of tax information.

The following chart shows the stages of the CDIs (11 of them) between Uruguay and other countries:

Treaties with Information Exchange Clauses		Information Exchange Treaties		
<i>In Force</i>	<i>Signed</i>	<i>In Force</i>	<i>Signed</i>	<i>Under Negotiation</i>
Spain	Argentina	France	Faroe Islands	Brazil
Mexico	Ecuador		Denmark	
Hungary	Malta		Greenland	
Germany	Portugal		Sweden	
Switzerland	Finland		Norway	
	India		Iceland	
	Korea			

FREE TRADE AND PRESERVATION OF FREE COMPETITION

Act 18.195, which promotes free trade and the preservation of free competition, protects the welfare of current and future consumers, promoting economic efficiency and equality of access of companies and products to the market. Under this regulation, it is prohibited to:

- Abuse a dominant position, and
- Promote practices, behaviors or recommendations, individual or concerted, whose objective or effect could be to restrict, limit, hinder, distort or impede the current or future competition in the relevant market.

IMMIGRATION

Any person who has legally entered the country is able to apply for permanent or temporary residence. In addition, the applicable regulation (Law 18.250) establishes that all foreigners must be treated equally as Uruguayans, regarding their rights and especially their labor rights. Both permanent and temporary residents may develop their labor activities under an employment agreement or on their own. Nonresidents must not carry out any labor activity other than the ones expressly authorized by the National Immigration Bureau, in general granted when said activities do not exceed a period of six months.

ARGENTINA

Negri, Busso & Fariña

Godoy Cruz 3236
Buenos Aires C1425FQV

Federico Busso
federico_busso@negri.com.ar
Tel: +54 11 5556 8000
www.negri.com.ar

THE BAHAMAS

Chancellors Chambers

Samana Hill, 14 Village Rd N
Nassau N-4589

Merrit Storr
mstorr@ccsbahamas.com
Tel: +1 242 394 1823
www.ccsbahamas.com

BOLIVIA

Mostajo Sociedad Civil

Edificio Hilda, 12th Flr
Av. 6 de Agosto
La Paz

Denise Mostajo
denise@mostajo.com
Tel: +591 2 244 3856
www.mostajo.com

Mostajo Sociedad Civil

Av. Cristobal de Mendoza No. 246
segundo anillo ed. La Casona
2nd Floor, #204

Santa Cruz
Sergio Mostajo
lawfirm@mostajo.com
Tel: +591 778 31499
www.mostajo.com

BRAZIL

Felsberg e Associados

Avenida Paulista 1294, 2nd Floor
São Paulo, SP 01310-915

Thomas Felsberg
thomasfelsberg@felsberg.com.br
Tel: +55 11 3141 9100
www.felsberg.com.br

Felsberg e Associados

Av. Almirante Barroso
52 - 22nd Flr - Grupo 2202
Rio de Janeiro 20031-000

David Meiler
davidmeiler@felsberg.com.br
Tel: +55 21 2156 7500
www.felsberg.com.br

Felsberg e Associados

SCN, Quadra 05-Bloco A-Sala 1217
Torre Norte
Brasília 70715-900

Nayara Cunha
nayaracunha@felsberg.com.br
Tel: +55 61 3033 3390
www.felsberg.com.br

CAYMAN ISLANDS

Campbells

Willow House, Cricket Square
PO Box 884
Grand Cayman KY1-1103

Shaun McCann
smccann@campbells.com.ky
Tel: +1 345 949 2648
www.campbells.com.ky

CHILE

Philippi, Yrarrazaval, Pulido & Brunner LTDA.

El Golf 40, Piso 20
Comuna de Las Condes
Santiago 7550107

Alberto Pulido Astoreca
apulidoa@philippi.cl
Tel: +56 2 2364 3700
www.philippi.cl

COLOMBIA

Posse, Herrera & Ruiz S.A.

Carrera 7 No. 71-52
Torre A Piso 5
Bogotá

José Alejandro Torres
josealejandro.torres@phrlegal.com
Tel: +571 325 73 00
www.phrlegal.com

COSTA RICA

BLP Abogados

Via Lindora Business Center, 4th
Flr Radial Santa Ana-San
Antonio de Belén, Km 3
San José

Rafael Manzanares
rmanzanares@blpabogados.com
Tel: +506 2205 3939
www.blpabogados.com

DOMINICAN REPUBLIC

Russin, Vecchi & Heredia Bonetti

Edificio Monte Mirador, 3rd Floor
Calle El Recodo #2
Ensanche Bella Vista
Santo Domingo DN

Georges Santoni Recio
gsantoni@rvhb.com
Tel: +1 809 535 9511 Ext. 272
www.rvhb.com

ECUADOR

Romero Arteta Ponce Abogados

Av 12 de Octubre No 26-97 y A.
Lincoln
Edificio Torre 1492, 8th Floor
Quito

Diego Romero
dromero@law.com.ec
Tel: +593 2 2986 666
www.ecuadorianlawyer.com

EL SALVADOR

Espino Nieto & Asociados

83 Avenida Norte No. 138
Colonia Escalon
San Salvador

Luis M. Espino
luism@espinolaw.com
Tel: +503 2263 7522
www.espinolaw.com

GUATEMALA

Marroquín, Pérez & Asociados, Sociedad Civil

3a. Avenida, 12-38, Zona 10
Edificio Paseo Plaza Business
Center, Of. 1002
Guatemala City 01010

María M. Marroquín
mpemueller@mra-legal.com
Tel: +502 2321 1212
www.mra-legal.com

HONDURAS

Casco-Fortín, Cruz & Asociados

Bldv. San Juan Bosco, contiguo a
Citi Bank (principal)
Edificio Torre Alianza, Suites 701-702
Tegucigalpa

Vanessa Velasquez
vanessav@cascolaw.com
Tel: +504 2271 0073
www.cascolaw.com

MEXICO

Cuesta Campos y Asociados, s.c.

Bismark 192 Planta Baja
Col. Vallarta Norte
Guadalajara, Jalisco 44690
Fernando J. Cuesta
fcuesta@cuestacampos.com
Tel: +52 33 3630 0580
www.cuестacampos.com

Cuesta Campos y Asociados, s.c.

Montes Urales #723, Int 402, 4th Flr
Lomas de Chapultepec
Mexico City, D.F. 11000
Hugo G. Cuesta Leaña
hcuesta@cuestacampos.com
Tel: +52 55 5540 1737
www.cuестacampos.com

NICARAGUA

Núñez, Rizo, Zambrana Abogados

Edificio CAR, 3rd Floor, Suite M-7
Managua
Ernesto Rizo Pallais
erizo@nrzlaw.com
Tel: +505 2270 7353
www.nrzlaw.com

PANAMA

Alemán, Cordero, Galindo & Lee

PO Box 0819-09132
2nd Flr, MMG Tower, E 53rd Street
Panama City
Jaime Alemán
jaleman@alcogal.com
Tel: +1 507 269 2620
www.alcogal.com

PARAGUAY

Peroni Sosa Tellechea Burt & Narvaja

Eulogio Estigarribia 4846
Esquina Monseñor Bogarin
Asunción, 1892
Francisco Peroni Clifton
pstbn@pstbn.com.py
Tel: +595 21 663536
www.pstbn.com.py

PERU

García Sayán Abogados

Avenida Reducto 1310 Miraflores
Lima 18
Luis Gastañeta
lgastaneta@garciasayan.com.pe
Tel: +51 1 615 0202
www.garciasayan.com.pe

PUERTO RICO

Fiddler González & Rodríguez, P.S.C.

254 Muñoz Rivera Avenue, 6th Flr
PO Box 363507
San Juan 00918
José A. Acosta Grubb
jacosta@fgrlaw.com
Tel: +1 787 753 3113
www.fgrlaw.com

TURKS & CAICOS ISLANDS

Miller Simons O'Sullivan

PO Box 260, Butterfield Square
Providenciales
Neil Coles
NRC@msslaw.tc
Tel: +1 649 946 4650
www.msslaw.tc

URUGUAY

Posadas, Posadas & Vecino

Juncal 1305 - 21st Flr
Montevideo

Juan Carlos Oreggia Carrau
joreggia@ppv.com.uy
Tel: +598 2 916 2202
www.ppv.com.uy



800 Hennepin Avenue, Suite 600
Minneapolis, Minnesota 55403 USA
+1.612.339.8680 www.meritas.org

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