

Uruguay: a growing family office investment destination in Latin America

FAMILY OFFICE AND HIGH NET WORTH

Uruguay is among the wealthiest countries in South America, with the second-largest per capita GDP in the continent, ahead of its two neighbors with the biggest economies in the region—Brazil and Argentina—and second only to Chile. In the latest stop on its global tour of the family office sector, Dentons explores how this nation of just 3.5 million people plays an outsized role in South America as a conduit for family investment and for family offices looking to set up a base in the region.

Edward Marshall, the Global Head of the Dentons Family Office Group, spoke with two of his colleagues in the Montevideo office of Dentons Jiménez de Aréchaga who are driving the firm's work in Uruguay. Partner **Virginia Brause**'s practice covers Corporate M&A, Venture Technology and Emerging Growth Companies, and Trusts, Estates and Wealth Preservation, and is an expert on Uruguay's Free Zone Law, while partner **Héctor B. Viana** drives Dentons' work with multinational corporations across a variety of industry sectors looking to position themselves in Uruguay, including General Electric Co., The Walt Disney Co. and Google LLC.

During our conversation, we discovered how Uruguay earns plaudits for its stable political and economic environments as well as its favorable tax and regulatory policies, through its Free Zone Law and foreign direct investment (FDI) regime, which have attracted international family offices and multinational

corporations seeking a regional headquarters. Virginia and Hector outline some key themes and discuss how Dentons' presence in Uruguay and the firm's specific practice specialties align with the needs of high-net-worth families and family enterprises and the key factors why more are being drawn to opportunities in the country.

Global interest: Corporations and family offices are coming in droves

Family offices are increasingly viewing Uruguay as a starting point for diversifying their portfolio via asset allocation in Latin America. But why start in Uruguay? Hector sees its smaller size as an advantage. "It's a small market and you can contain the risks of a first venture before investing in the larger countries in the region," Virginia says, adding, "Uruguay also offers an ecosystem that thinks globally from the start and has the tax incentives and the institutional support for this."

Uruguay positions itself as a country with a creative and well-educated workforce that is in tune with innovation and technology developments. In September 2020 dLocal—a fintech in the payments space—was recognized as Uruguay's first tech unicorn and now firms like Google are making several investments in the country's tech sector.

On the traditional corporate side, companies such as Mercado Libre Inc., Globant, BASF Corp., Nestlé

SA and PepsiCo Inc. have chosen Uruguay to set up their factories. Arcos Dorados Holdings Inc., the Latin America franchisee holder for McDonald's across 20 Latin American countries, has chosen the Uruguay Free Zone to operate the regional franchise holding.

A significant amount of investments assets in Uruguay are traded in US dollars, especially in securities, real estate and automotive transactions. Profits can be kept in Uruguay, or resent to other jurisdictions without limitations or restraints, something that has survived for decades through governments regardless of their ideology. Uruguay was ranked No. 1 in individual freedom in Latin America and the Caribbean and No. 6 worldwide, according to the 2021 edition of Freedom House's Freedom in the World survey.

Real estate investment highlighted by two distinct opportunity types

Real estate is a key investment opportunity in Uruguay and is focused on two distinct regions: Uruguay's coastline along the South Atlantic Ocean, which stretches for over 400 miles (650 kilometers), and more specifically the Punta del Este region, which is generally recognized as one of the preeminent ocean resort spots in South America. Just an hour flight from Buenos Aires, visitors from around the continent flock to the region in the summer months. Real estate

investment on the family side has been prevalent on both the residential and leisure home fronts in Punta del Este, as well as in hotel and hospitality.

The variety of real estate investment opportunities in Uruguay is marked by the equally attractive angle of its agribusiness and cattle-ranching sectors. Hector points out that some prominent family offices are investing heavily in these sectors, and the publicity generated by their involvement has contributed to Uruguay being seen as well positioned on price and opportunity in these industries. Families are acquiring property and immediately applying for Uruguay's advantageous fiscal residency by investment laws, which Virginia explains in detail in our conversation.

“Uruguay also offers an ecosystem that thinks globally from the start and has the tax incentives and the institutional support for this.”

Regulatory incentives for family offices include Free Zone Law, tax benefits, residence by investment, and FDI-friendly measures

“Among the reasons why our family office practice here in Uruguay is booming right now are certain specific measures that the Uruguayan government has put in place to foster foreign direct investment,” reports Hector on what keeps the Montevideo office humming on the family office front.

Uruguay has created a flexible tax environment that provides tax benefits to foreigners that are similar to those extended to its own citizens. This tax incentive structure and regulatory environment is attractive to families setting up family office investments or family enterprises in the country. As Hector summarizes,



“There is no distinction between foreigners and locals, regardless of what type of business you’re undertaking, apart from a few exceptions relating to security issues, which is the norm in many other countries. But on the grand spectrum, foreign families and investors are treated no differently from locals, without limitations on shareholders or requirements for having locals on director boards.”

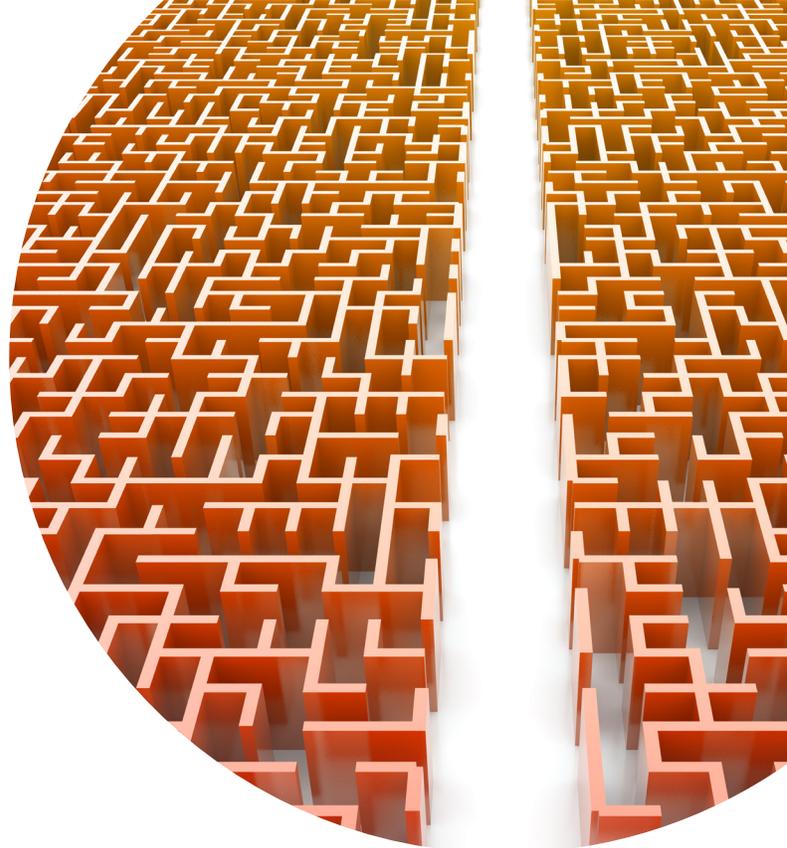
Free Zone Law

To draw in foreign investment in Uruguay, a series of incentives was set up around a free zone system. The free zone system was designed not just for investors coming to Uruguay, or purely for Uruguay as a market, but with the idea of Uruguay serving as a hub for the region, or even as a global hub.

“The free zone system,” Virginia explains, “is very attractive for investors. Upon authorization, foreign companies (as well as family enterprises) can perform any industrial or commercial service activity on an international basis, and they have no obligation to pay taxes in Uruguay. The law provides that the Uruguayan state explicitly ensures the total exemption of current and future taxation. That is a huge benefit. It merely requires the filing and approval of a business plan. This policy accounts for approximately 30 percent of Uruguay’s export base and it is helpful that the government is supporting these types of investments. Dentons is currently providing counsel to companies such as PepsiCo and Arcos Dorados, the largest McDonalds franchisee in the world, which have invested in the Uruguayan Free Zones to leverage these opportunities. That is precisely the reason why Dentons Jiménez de Aréchaga decided earlier this year to open its second office in Montevideo—to serve the growing needs of clients interested in investing in the Uruguayan Free Zone.”

Residency by investment

Some recent changes were made to Uruguay’s residency by investment program by the new government of President Luis Lacalle Pou, who took office in March 2020. In September of that year, the government lowered the requirements for foreign families considering operations in or relocating to Uruguay. In the past, the minimum threshold for investment under the residency law was US\$1.8



million. Under the new guidelines, it was lowered to just below US\$400,000. The minimum amount of time one must spend in Uruguay to meet the residency requirement has also been reduced to 60 days from 6 months.

As Hector sees it, “[W]ith this, family office clients have been coming in at increasing numbers. They start by simply having one property to reach the threshold and then they get to like the environment more, and they increase their investments. Plus, you can file for legal residency after only ten days. For the past month, we have been receiving requests from foreign clients in different areas of Latin America—mainly Argentina but also Peru and Chile—interested in coming and living in Uruguay. We believe it is because of the political landscape in the region. But whatever the reason, there has definitely been an increase in these types of requests.”

Government stability

A key selling point for Uruguay is the relative stability of its political landscape, especially compared to the turmoil in some other countries in the region in recent years. President Lacalle Pou has been in power since March 2020, when his National Party (along with what has been called the “Multicolor Coalition”) won a runoff election that marked a transformation to a more conservative government after 15 years of rule by the

left-of-center Broad Front coalition. The transition from a progressive to conservative government proceeded far more smoothly than in some other nations in the region that underwent recent changes in party control of government.

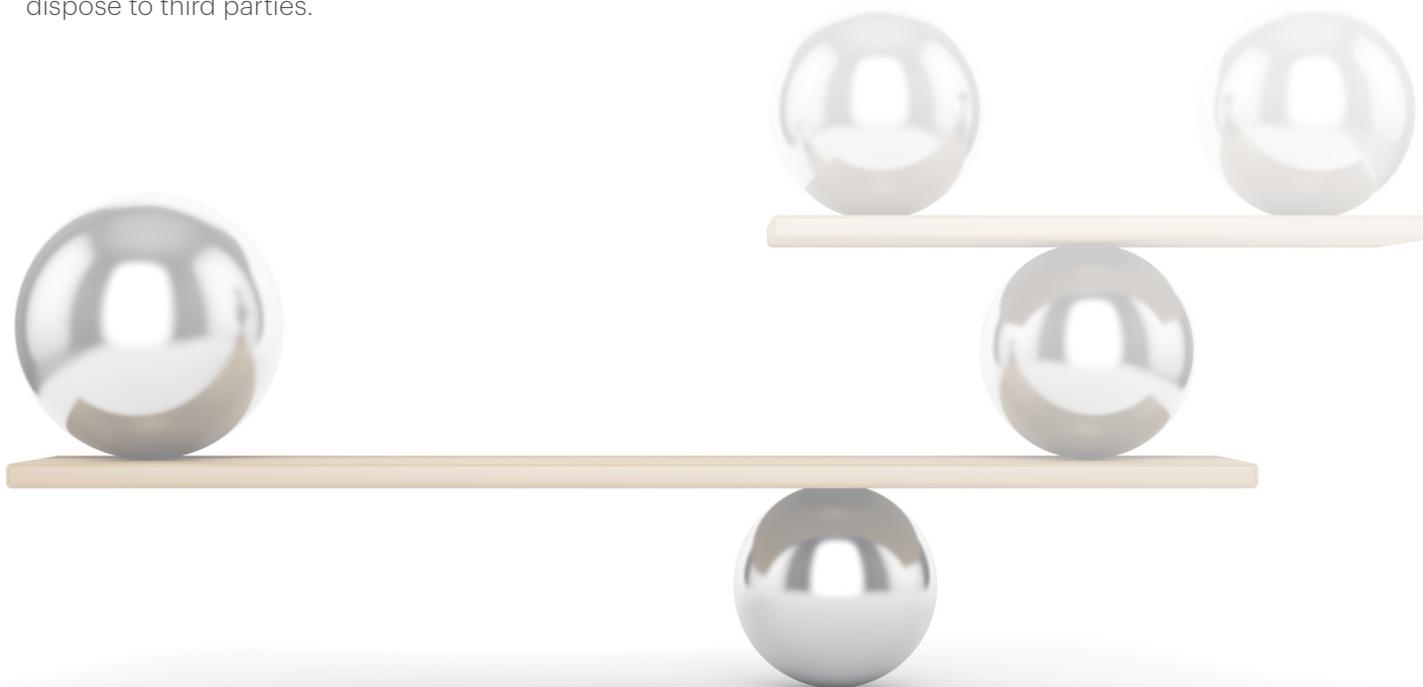
For any family investor coming from a more sophisticated market, Dentons' team in Montevideo sees the country positioned in a very positive light, with legal vehicles in place for business purposes, a strong economic environment, no exchange controls, respect for the rule of law, and the independence of its judiciary.

Managing family offices services and legal frameworks in Uruguay

The Family Office practice in Dentons' Montevideo office has seen both growth and change in types of service requests. Family offices coming into Uruguay for the first time traditionally had asked for help establishing "fiscal residency" or were in need of transactional assistance in connection with buying property. But investors and families increasingly are discovering that family law proceedings in Uruguay are fast and flexible and this has led to more types of requests for legal work relating to risk management, philanthropy and employment law, or on particular issues, such as how a portion of inheritance is free to dispose to third parties.

"I think that what clients appreciate most is the way in which we deliver the work, our readiness," Virginia says. "Most of our clients joined us 20—and some even 30—years ago. We've built trust in our clients not only by demonstrating how flexible the laws are in Uruguay, but also because we are client-oriented. Our goal is not only to get the deal done, but to act as strategic partners and trusted advisors. We set goals and monitor progress. They very much value the agile way in which we go the extra mile, telling them, for example, 'There's a new bill that's about to be approved by the General Assembly that would provide you with the following opportunities and advantages.' I think clients are more receptive to counsel in areas that, in the past, they wouldn't have requested counsel for." And that is what they appreciate—our not only being there to help them on a specific deal, but to go with them all the way. That is a particular way of serving Family Offices we have developed at Dentons."

Hector finds working with families, as opposed to just a business itself, especially rewarding. "With family office work, you need to know exactly what's going on. It's a much closer relationship, and it's a very gratifying one as well, because you get a lot of satisfaction not only for the work you do, but also from the friendship that results."



About the authors



Virginia Brause

Uruguay
D +598 2916 1460 x 148
virginia.brause@dentons.com

Virginia Brause is a partner in the Montevideo office, where she leads the Corporate team. Her activity also encompasses Venture Technology and Emerging Growth Companies and Trusts, Estates & Wealth Preservation. She is a recognized authority on Uruguay's Free Zone Law.



Héctor B. Viana

Uruguay
D +298 2916 1460 x 125
hectorb.viana@dentons.com

Héctor Viana is a partner in the Montevideo office. He is responsible for handling matters for leading multinational companies. His main practice areas are Corporate, Finance, Real Estate and Restructuring.



Edward V. Marshall

New York
D +1 212 768 6825
edward.marshall@dentons.com

Edward V. Marshall is the Global Head of the Family Office and High Net Worth group at Dentons. He is a family office insider and a leading family office researcher, advisor, and author.

For more information on how Dentons works with family offices, please visit www.dentons.com/familyoffice

© 2022 Dentons. Dentons is a global legal practice providing client services worldwide through its member firms and affiliates. This publication is not designed to provide legal or other advice and you should not take, or refrain from taking, action based on its content. Please see dentons.com for Legal Notices.

CSBrand-78107-DFO-Uruguay Article_03 — 11/01/2022