

## Overview

Uruguay imposes taxes, primarily at a national level, over companies and individuals (residents and non-residents), based on the source income rule; that is, taxes will be levied on services performed, assets located and rights economically used within Uruguayan territory (with some exceptions).

- i. Corporate income tax (IRAE for its acronym in Spanish *Impuesto a la Renta de las Actividades Económicas*), taxes on an annual basis the net income arising from business activities, undertaken by Uruguayan residents, and by non-residents with permanent establishment, at a rate of 25%;
- ii. Personal income tax (IRPF for its acronym in Spanish *Impuesto a la Renta de las Personas Físicas*), taxes on an annual basis gross income (with certain limited deductions) of Uruguayan individual residents, at a fixed rate for capital income (generally at 12%) and at a variable rate for work income (rates according to progressive scales with a non-taxable minimum and a maximum rate of 36%);
- iii. Non-resident income tax (IRNR for its acronym in Spanish *Impuesto a la Renta de los No Residentes*), taxes on an annual basis the gross income from foreign entities and foreign individuals (except for non-residents with permanent establishment which are taxed with IRAE) at a fixed rate (generally at 12%);
- iv. Wealth tax (IP for its acronym in Spanish *Impuesto al Patrimonio*), taxes on an annual basis the net worth of entities and individuals, residents and non-residents. The net worth is calculated by deducting from assets located in Uruguay and rights exercisable against Uruguayans, certain liabilities, at the end of the fiscal year, with a rate of 1.5% for entities (with some exceptions) and at a progressive scale with a non-taxable minimum for individuals.
- v. Value-added tax (IVA for its acronym in Spanish *Impuesto al Valor Agregado*), taxes, in principle, on all delivery or import of goods into Uruguay and also services performed in Uruguayan territory, at a rate of 22% of the price (or 10% in certain cases).
- vi. Excise tax (IMESI for its acronym in Spanish *Impuesto Especifico Interno*), taxes the first sale of certain products at different rates depending on the goods and compositions (e.g., certain beverages, alcohol drinks, cosmetics, cigarettes, fuel, vehicles); and
- vii. Land transfer tax (ITP for its acronym in Spanish *Impuesto a las Transmisiones Patrimoniales*) taxes the acquisition of real estate and other property rights over realty at a fixed rate of 4% (3% for certain successions) over the cadastral value of the property.

Uruguay has an important double-taxation treaty network, which follows the Organisation of Economic Cooperation and Development Model (The United Nations Model in some cases), which may reduce or even eliminate Uruguayan income tax. Moreover, Uruguay is a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI), and has agreed to adopt, among other provisions, the minimum standards (principal purpose test and dispute resolution). The MLI has been ratified by the Uruguayan Parliament.

Our national tax regime includes also social security contributions, which are dependant on the activity of employees, as well as independent services from individual contractors, all of which are included within such system.

In addition to the national tax regime, there is also a local tax regime for each of the 19 Departments (territorial political subdivisions). However, the taxation powers of the Departments are limited by the Uruguayan Constitution, which are mainly reflected on the property or possession of real estate and vehicles, both levied on an annual basis. Therefore, there are no income or consumption taxes at a local level.

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## Legal system

Uruguay is a democratic republic that operates under a civil law system where the primary legal authority is the Constitution, our codified supreme document. The Constitution contains the rules and principles for the political, economic and social organization of the Uruguayan State, as well as the rights, guarantees and duties of its population. Following and immediately below the Constitution, we have legislative acts, ranking as a second legal authority and then administrative acts ranking thirdly in legal authority.

Legislative acts include the following:

- Laws*: legislative acts sanctioned by the Parliament at a national level;
- International treaties*: international agreements subscribed by Uruguay that must be ratified by law (it is understood that they have the same force and enforceability); and
- Local acts*: legislative acts sanctioned by the Local Congress of each Department (territorial political subdivision) related to the respective local matters.

Administrative acts, on the other hand, include the following:

- Decrees*: General rules issued by the Administration; and
- Resolutions*: Individual rules for a particular case issued by the Administration. Administrative acts can be issued both at a national level (e.g., Executive Power) and at a local level (e.g., Mayor of each Department).

There are certain matters that are in the exclusive domain of the National Government, and other matters that fall under the competence of Local Governments (mainly, urban related, such as, transit and transport rules, cleaning and street lighting services and garbage disposal). As seen, the most important regulations are issued at a national level, for example, the rules over trade and commerce, the incorporation of companies, property rights and civil rights of the population.

## Taxation authorities

The national tax system in Uruguay is administered by the Internal Revenue Service (DGI for its acronym in Spanish *Dirección General Impositiva*), a public entity embedded in the structure of the Ministry of Economy and Finance.

Social security contributions, on the other hand, are collected and administered by the Social Security Authority (BPS

for its acronym in Spanish *Banco de Previsión Social*), a public agency technically independent to the Administration. BPS also collects – but does not administrate – the Personal Income Tax (IRPF) of dependant employees.

Finally, taxes of Local Governments (Departments) are administered by the Mayor of each Department, that is, by the executive authority of each Local Government.

## Business vehicles

For doing business in Uruguay, investors can either establish (or acquire an off-the-shelf company) a Uruguayan business vehicle, or otherwise operate directly or through a permanent establishment in Uruguay (PE). All these regulations are set forth at a national level. Uruguayan business vehicles include different types of legal entities (with their own structure, governance and liability rules); otherwise, contractual types such as trusts and consortia are also available).

### Limited Liability Companies and other personal companies

Because of their strict regulation in the transfer of interests, limited liability companies (SRL), are often used as business vehicles in Uruguay for small and medium size projects. As an entity of personal nature, capital is represented in quotas that can be transferred to third parties through an assignment agreement. The liability of partners is limited up to the amount of the paid-in-capital (except for salary debts and the Corporate Income Tax, for which liability is unlimited).

Other types of personal companies include partnerships, limited partnerships, and labor and capital partnerships, all of which are seldom used in commercial activities. Ownership and governance of these companies are basically established in the partnership contract, which can be changed through an amendment agreed by all partners. For these personal companies, the liability of partners is, in principle, unlimited.

Personal companies are treated as fiscally transparent for corporate income purposes (IRAE), only if the following conditions are met: (i) the company must be a civil partnership or a company without a written contract; (ii) the partners of said company must be individual residents, or, if income is from a capital source only, partners may be non-resident entities too. If the aforementioned conditions are met, the entity will not be considered as a taxpayer and the income gained by it will be assigned directly to the partners who will be taxed with the personal income tax; IRPF if said partners are Uruguayan residents or IRNR, if said partners are not Uruguayan residents, or with the corporate income tax (IRAE) if the partner takes the form of a legal entity.

### Corporations

Corporations are the most frequently used business vehicle in Uruguay, especially for commercial and industrial activities as well as for medium size and large projects. As a company of capital nature, its equity is represented in stocks, in the form of bearer, registered or book registered shares.

The formation of a corporation requires a prior contribution of the 25% of capital and the subscription of 50% of capital. The liability of shareholders is limited up to the amount of the contributed capital (except for directors in charge, who may be also liable for IRAE purposes).

Corporations are governed by a Shareholders Meeting and administrated by a Board of Directors or an Administrator, appointed in the bylaws or by the shareholders. The Shareholders Meeting must take place once a year in an Ordinary Meeting to consider the Directors activities and the approval of the financial statements. Other topics can be considered in Extraordinary Meetings.

Although the procedure to constitute these companies is rather simple, it takes time, thus commonly, corporations are sold off-the-shelf, which lessens the time it takes to become operational.

### Trusts

Trusts are vehicles foreseen by law for the acquisition of assets (goods and rights for the purpose of investment, administration or security), following the terms and conditions set in the trust agreement. The beneficiary of the trust may be the settlor or a third party (a trustee cannot be a beneficiary except in security trusts). The transferred assets are legally considered a part of a separate independent fund, and not a fund under the ownership of the settlor, trustee or beneficiary. Consequently, creditors of these parties cannot claim assets under the trust structure. Only

creditors relating to the trust activity can bring an action over those assets; by the same token, creditors from the trust cannot claim assets from the settlor, trustee or beneficiary. Although trusts are contractual and not a legal entity, they are considered contributors for tax purposes under IRAE (except for security trust, which are fiscally transparent).

Funds operate similarly to trust structures as they are not legal entities either. Closed-ended funds are considered contributors for tax purposes under IRAE, while on the other hand, open-ended funds are fiscally transparent.

## Foreign entities (with or without a Permanent Establishment)

A foreign company can validly carry out business directly in Uruguay; however, if regular activities (other than isolated acts) were to be undertaken within Uruguayan borders, the foreign entity must constitute and register a branch in Uruguay, declaring its name, assigned capital and administrator.

From a tax perspective, if said foreign entity generates income from Uruguayan sources, it will be subject to income tax: IRAE if having a PE in Uruguay, or IRNR if not. Following the source income rule, taxable income can result from business activities carried out / capital located / services provided in Uruguay. Nonetheless, services performed abroad may be taxable too in some cases (e.g., if the payer thereof is an IRAE contributor, the service is of advertising or propaganda or of a technical or professional nature, and its linked with the income taxed with IRAE).

If a foreign entity establishes a PE in Uruguay, it must carry separate accounting, in Spanish. All income received by the foreign entity (that is, even income not deriving from the PE activity) of Uruguayan source shall be included in the tax liquidation of the PE (except in the cases of PE for Construction and PE for Service purposes).

Where the foreign entity is resident in a jurisdiction with which Uruguay has a double-taxation treaty, the entity will generally be exempted from Uruguayan taxation on its business profits except to the extent that the profits were earned through a PE under the terms of the treaty. The scope of the PE under Uruguayan tax law is wider than the concept provided by OECD Model (e.g., in the case of PE of Construction and PE of Services). However, double-taxation treaties ratified by Uruguay follow in most cases the OECD Model. Thus, even establishing a PE under local tax law, the foreign entity may not be considered to have established a PE under the terms of a double-taxation treaty, in which case business profits earned by the foreign entity may be exempted from taxes in Uruguay.

# Financing a corporate subsidiary

Uruguay does not have any restrictions or legal barriers on the transfer of capital to or from abroad (other than anti-laundering regulations and controls). Moreover, there are no restrictions or controls on money exchange, where prices range accordingly with the market value (the Uruguayan Central Bank – in its capacity as Monetary Authority oversees to intervene in the market to purchase or sell, only to avoid strong fluctuations on prices). Consequently, Uruguay has a flexible regime with regards to financing a corporate subsidiary, notwithstanding the different tax impacts as addressed hereunder.

## Equity financing

### Contributions for shares

Uruguayan corporations have an “authorized capital” fixed in their bylaws. Capital contributions made by investors form the paid-in capital which is represented in company’s shares. The paid-in capital can be increased through contributions up to the authorized capital. For increasing the authorized capital, an amendment of the bylaw is required.

Where an equity (capital) contribution is made in to a corporation in exchange for shares, the amount of the investment is added to the contributed capital (paid in capital), and said income is not subject to taxes. This is because equity increases of a company due to capital contributions, contributions of capital to cover losses, and reduction of paid-in capital for reimbursement of contributions, are not taxed with IRAE.

### Contributions without taking additional shares

Where an equity contribution is made by an investor to a company and shares are not issued in return (e.g., the authorized contractual capital has been fully contributed to and it is topped), then said amount is considered as a transitory account of the corporation and not as paid-in capital. In this case, the equity increase arising from such contribution will be taxed with IRAE, until registered as a paid-in capital account.

## Distributions of contributed capital

Corporations are permitted to make distributions of its paid-in capital to a shareholder without having an income tax impact on the recipient investor (IRPF if resident / IRNR if non-resident). However, if the amount distributed is higher than the capital contributed by the shareholder, then the capital gains arising from said return of the investment will be subject to tax.

## Debt financing

### Loan tax implications

Corporations are permitted to borrow funds from related parties or from third parties, however the following tax implications should be considered.

Firstly, the deduction of the interest paid by a Corporation for its IRAE liquidation may be strongly limited under the following circumstances: (i) if the debtor Corporation receives income exempted of IRAE, then the interests will be considered always as an indirect cost; consequently, the amount to be deducted will be reduced by applying a coefficient resulting from the division between the average of the assets that generate taxable income and the average of the total assets valued according to tax law; (ii) if the creditor is a IRPF or IRNR contributor, the deduction of the interests as a expense will be limited up to the 48% of the amount paid, according to the "lock rule" (See Deductions section).

Additionally, the Corporation, as a debtor of the loan and IRAE taxpayer, must withhold in some cases the tax applicable to the income arising from the interest, namely IRPF if the borrower is an individual resident or IRNR if it is a non-resident without PE. As previously mentioned, the withholding tax rate of IRNR can be reduced or eliminated under an applicable double-taxation treaty.

Finally, there are no Uruguayan tax implications on the repayment of the principal amount of such debt.

### Thin capitalization

Uruguay does not have a thin capitalization rule for tax purposes (though consider that thin capitalization may be a cause for dissolution of the company under corporate law).

## Stamp tax

Uruguay does not impose a stamp tax in respect of equity or debt financing.

# Corporate income tax

### Income tax rate

IRAE taxes at a national level, the net income of business activities of Uruguayan source undertaken by Uruguayan residents, or by non-residents with PE in the country, at a rate of 25%. Net income is liquidated by applying certain deductions and adjustments to gross income. There are no income taxes at a local level, as per the constitutional limits on Local Governments.

All and any income received by the business vehicles above mentioned (see Business vehicles section) are taxed with IRAE whenever those vehicles are resident entities (except for the fiscal transparent entities addressed therein). The residence of entities is determined through the place of constitution. However, if a company constituted abroad is later domiciled in Uruguay, by fulfilling all the procedures and requirements under corporate law, it shall be considered a Uruguayan resident company. On the contrary, if a company constituted under Uruguayan law (and therefore resident) is later domiciled abroad, it shall not be considered Uruguayan resident once the procedures and requirements of applicable law are accomplished.

Resident individuals as well as any other entities aside from companies (e.g., associations and foundations) that receive income from a business activity (understood as the combination of labor and capital to obtain profits from the sales of goods or rendering of services) will be considered as IRAE taxpayers. Residence for individuals is determined when the individual stays in Uruguayan territory for more than 183 days in a calendar year, or when she/he locates in Uruguay her/his core activity as the centre of vital or economic interests.

Income arising from agribusiness activities are also taxable with IRAE, whether the taxpayer is a company, an

individual or any another entity.

In relation to non-residents, IRAE only applies to those who have established a PE in Uruguay. Otherwise, the applicable tax for all income received from a non-resident individual or entity will be the IRNR. Uruguayan law defines PE following the OECD Model, with the some main exceptions: (i) the Construction PE is established after 3 months instead of 12 months; (ii) it is included a Service PE – not foreseen in OECD Model – that applies when a company provides services in Uruguayan territory through employees or contactors for a 6-month project (or related projects) within a period of 12 months; and, (iii) the Agency PE is wider (accordingly with previous versions of OECD Models) including all persons – other than an independent agent – who have representative powers to conclude contracts, or in its defect, manage a storage from which the goods are delivered on behalf of the non-resident and on a regular basis.

Uruguayan source income is considered the income deriving from assets located, services rendered and rights economically used in Uruguayan territory.

As said, there are certain exceptions to the above principle, that is, the source will be taxed with IRAE despite not being strictly an Uruguayan source, namely:

- i. Income of insurance companies for risks covered within Uruguayan territory or related to Uruguayan residents EXPLICAR;
- ii. Income arising from services of technical or professional nature, performed abroad to IRAE contributors and linked to profits charged with said tax;
- iii. Income arising from services related to advertising and propaganda, performed abroad to IRAE contributors and linked to profits charged with said tax;
- iv. Income arising from the lease, use, assignment of use or transfer of federative, image and similar rights of athletes registered with sport entities, as well as the mediation activity linked to it;
- v. Income arising from the transfer of shares of companies with residence, domicile or constitution in jurisdictions of low or null taxation regime whenever its equity is integrated with 50% (or more) of assets located in Uruguayan territory; and
- vi. Income arising from derivative financial instruments.

## Capital gains

A Uruguayan company, as IRAE taxpayer, must include all capital gains in the tax liquidation (filing). In other words, capital gains are taxed in the same manner as any other business income, although it is generated from capital source only.

When a non-resident receives capital gains or income from capital source only of Uruguayan source, it will not be considered as PE and therefore not be subject to IRAE, but to IRNR instead.

## Branch tax

Uruguay does not have a “branch tax.” As explained above, PE (branches, among others fixed places of business, constitute PE) are IRAE taxpayers. Thus, IRNR – that is, the withholding tax for non-residents – does not apply to branches. It is important to note that when a PE is established, all income of Uruguayan source received by the non-resident is assigned to the PE, despite whether the income is linked or not to the PE’s activity (except in the case of Construction PE and Service PE).

PE scope under Uruguayan law is wider than the one provided under the OECD Model. Thus, the reduction or suppression of taxes under an applicable double-taxation treaty may affect not only IRNR, but also IRAE whenever a PE does not match with the requirements for such qualification under the applicable double-taxation treaty. For example, a construction project of 3 months will establish a Construction PE under Uruguayan law and will be IRAE taxpayer; however, if a double-taxation treaty applies requiring a longer term (e.g., 12 months following OECD Model), then Uruguay will not be able to tax with IRAE the income arising from the PE.

## Computation of taxable income

### Taxable base

A taxpayer is subject to tax on its net income from carrying on its business during the fiscal year. Net income is liquidated considering the gross income less its deductible expenditures. Tax law defines gross income in a wide

manner including profits arising from business, capital gains arising from the sale of fixed assets and any other wealth gained by the taxpayer that is linked with the business activity. There are few wealth gains which are excluded from the gross income, mainly, the revaluation of fixed assets, capital contributions received by companies, payment of capital from shareholders to offset losses of a company, and the reduction of the paid-in capital of a company for the reimbursement of contributions (See Contributions for shares section).

## Deductions

A taxpayer is generally permitted to deduct its current expenses and losses when liquidating the net income. As a general rule for deduction, the following requirements must be fulfilled: (i) the expense must be accrued during the fiscal year; (ii) the expense must be deemed necessary (under reasonable standards) to obtain or preserve the business profit taxed with IRAE; (iii) the expense must be duly documented in invoices accordingly with IVA (value added tax) requirements; and, (iv) the counterparty of the relation from where the expense results must be taxed with IRAE, IRPF, IRNR, or any another foreign income tax-- known as “lock rule” and referred by OECD as “Proportional deductibility – Uruguayan rule”.

Under the “lock rule” concept, Uruguay has established a unique provision which reduces the deduction amount considering the difference between the IRAE tax rate (25%) and tax rate of the applicable income tax rate for the counterparty, on a prorated basis. For example, if the expense (as income for the counterparty) is taxed with IRPF or IRNR at rate of 12%, the IRAE contributor will only be able to deduct a 48% of the amount of said expense. This provision only applies for capital income taxed with IRPF (not work income) and for IRNR (in this case it is considered the tax rate of IRNR plus the rate of the income that should be applicable in the other jurisdiction).

Notwithstanding, there are several exceptions to the general rule of deduction explained above. Furthermore, tax law allows – under certain circumstances and restrictions – to deduce several losses of the business’ assets: (i) damages due to force majeure and crimes of third parties; (ii) bad credits from debtors; (iii) amortization of the fixed assets (iv) fiscal losses from past years (limited to the 50% of the taxable net income and with a maximum term of 5 years); and (v) certain investments related to agricultural activities.

Finally, there are certain deductions which are expressly forbidden, such as expenses related to non-taxable or exempted income, losses resulting from unlawful operations, sanctions due to tax infringements, and payments of leases, transport services or salaries without complying with the bank transfer/deposit or electronic money wiring, as required by law, among other restrictions.

## Income tax reporting

IRAE taxpayers are required to make payment in advance on a monthly basis and file an affidavit before the DGI within six months of the fiscal year-end of the corporation in order to avoid late filing penalties.

# Cross-border payments

## Transfer pricing

Uruguayan transfer pricing regime generally conforms to the arm’s length principle set forth by the OECD. Tax law permits the DGI to impose transfer pricing adjustments in the IRAE liquidation in respect of a transaction that is not entered into on arm’s length terms or conditions. A transfer pricing adjustment can also be made in respect of a transaction that would not have been entered into at all by arm’s length parties if it can be reasonably considered that the transaction was not entered into primarily but for non-tax purposes. IRAE taxpayers are also required to maintain contemporaneous documentation in respect of transactions subject to transfer pricing rules.

## Withholding tax on passive income

Payments made by a resident of Uruguay to a non-resident without a PE in the country in the nature of interest payments, rents, royalties, dividends, management or administration fees and trust income distributions (or any other capital revenue as defined in section 7.2.1) are subject to IRNR in the category of capital income at the rates explained above (please refer to section 10.3.4). If said resident is an IRAE taxpayer, then the tax on this income must be withheld. However, the withholding rate may be reduced (or even eliminated) under an applicable double-taxation treaty.

## Withholding tax on services fees

Where an IRAE taxpayer makes a payment to a non-resident of Uruguay without a PE in the country in respect of independent or dependent services performed in Uruguay, the payer must deduct and withhold a 12% (or 25% if the recipient resides, domiciles or it is constituted in a jurisdiction of low or null taxation) of the gross payment on account of IRNR (see Business profits and Work income sections). A non-resident would be able to claim an exemption from IRNR on such business profits or work income if the non-resident is a resident of a country with which Uruguay has entered into a double-taxation treaty following OECD Model and does not maintain a PE in Uruguay in the terms of said treaty.

## Payroll taxes

### Uruguayan Social Security System

Employers are obliged to make contributions for employees with BPS (see Taxation authorities section) under the Uruguayan Social Security system. The system covers retirement, pension, health insurance and subsidies for illness, temporary inability to work and unemployment. Inability to work due to labor accidents or professional diseases are not included within this system (see Labor accidents and professional diseases insurance section).

The system is financed by contributions of employers, employees and the Uruguayan State. Contributions from employers and employees are liquidated considering a rate over the salary wages received by the worker (with some exceptions in case of salary in kind and reimbursement of expenses). The contributions are the following:

Employer contributions:

- i. Retirement contribution: 7.5%
- ii. Health insurance: 5% (employer may be obliged to pay a surplus amount in certain cases)
- iii. Fund for Labor Capacitation: 0.10%
- iv. Insolvency fund: 0.025%

Employee contributions:

- i. Retirement contribution: 15%
- ii. Health insurance: ranges between 3% and 8% (depending on the income of the employee and coverage for couples or/and minor children)
- iii. Fund for Labor Capacitation: 0.10%

Please bear in mind that there are other specific social security systems, mainly for banking activity, construction activity and independent professional services.

### Labor accidents and professional diseases insurance

Employers are also required to contract a labor accident and professional disease insurance with the public insurer named State Insurer Bank (BSE for its acronym in Spanish *Banco de Seguros del Estado*). The contribution is paid only by the employer and it is fixed by BSE, depending on the risks arising out from the relevant labor activity. The insurance covers medical healthcare for a labor accident or a professional disease, as well the payment of subsidies due to the inability to work and other indemnifications.

### Provincial payroll taxes

Uruguay does not have a “payroll tax,” notwithstanding, as explained above ( Work income section) salary wages earned by employees must be included within the IRPF work income liquidation, withheld by the employer on a monthly basis, and paid along with the social security contributions made to the BPS (see Taxation authorities section).

## Indirect taxes

In Uruguay indirect taxes are the main source of taxation collection, especially the Value Added Tax (IVA). Resources from all direct tax referred to above (IRAE, IRPF, IRNR and IP), are nonetheless lower than the collection from IVA.

Value-added tax (IVA for its acronym in Spanish *Impuesto al Valor Agregado*), taxes, in principle, all delivery or import

## Value-added tax

of goods into Uruguay and also services performed in Uruguayan territory, at a rate of 22% of the price (or 10% in certain cases).

- i. "Delivery of goods:" handing out of goods entitling the acquirer with the ownership over it or, at least, the right to use and act as owner.
- ii. "Service": all kind of activities of economic nature, except for delivery of goods (residual category).
- iii. "Import of goods:" final introduction of goods, of any kind, from abroad in to Uruguayan territory.

Certain goods and services are exempted, and therefore not subject to IVA at all. The main exemptions are the following: (i) sale of: foreign money and precious metals, real estate (with exceptions), assignments of rights, agricultural machinery and accessories, milk, agricultural input, books, newspapers, magazines, educational materials and water, among others; (ii) services related to: interest of public and private securities and of banking deposits, land leases, banking transactions (with certain restrictions for individuals), cultural and educational services, among others.

IVA, as a domestic consumption tax, is levied on the delivery of goods and rendering of services in Uruguay and the import of goods in to Uruguay. Exports are considered an activity outside of Uruguayan territory, hence all exports of goods are not taxed. Additionally, certain services may qualify, as determined by the Administration as "export services" and are therefore also non-taxable.

The tax rate is applied over the price (in money or in kind) received by the taxpayer. In case of import of goods, however, the taxable base is the custom value plus custom duties. If the import is accomplished on behalf of a third party, or if it is a taxpayer only for said import, then the taxable base must be increased by 50%.

Taxpayers (except for any person or entities that verifies an import of goods) are required to register before the DGI, and charge the applicable IVA in an invoice and collect it on each price collection. In the case of export of goods and services the taxpayer is generally entitled to recover the IVA paid on its purchases by means of a tax credit mechanism. In other tax exemptions, however, and (as a general rule), IVA charged in previous purchases cannot be deducted, thus, it will be a cost factor.

## Excise tax

Excise Tax (IMESI) is another tax that is levied on consumption along with IVA. Different from IVA, this tax is charged only on the first transfer, subject to a price or not, of certain goods from producers and importers. The main goods included in this tax are alcoholic or non-alcoholic beverages, cosmetics, cigarettes, fuel and vehicles. The goods with higher rates are alcoholic beverages, cigarettes and fuel, with a maximum rate of 80%, 70% and 133%, respectively.

## Land transfer tax

ITP is a tax that is levied on the acquisition of real estate (or of minor property rights over immoveable property) through: (i) purchase; (ii) promise to purchase; (iii) assignment of rights; (iv) judicial ruling for acquisition or (v) succession. Taxpayers are the seller or assignor and purchaser and assignee (in cases i, ii and iii), and the purchaser (in cases iv and v). The tax rate is of 4% (except in certain succession, which rate is 3%) over the cadastral value of the immoveable property (certain adjustments may apply in case of minor property rights over immoveable property).

# Personal income tax (IRFP) and non-resident income tax (IRNR)

## Main features

Parallel to IRAE, Uruguayan income tax regime also regulates the IRPF and IRNR taxes that apply on a national level to income from Uruguayan source (with some exceptions) generated by resident individuals (in the case of IRPF) and non-resident individuals and entities and without a PE in Uruguay. Deductions to these taxes are strongly limited as will be explained.

IRPF is a personal income tax that applies only to individual residents and is limited to income arising from capital or work considered separately (as the combination of both productive factors is considered a business activity and

consequently taxed with IRAE). On the other hand, IRNR is a non-resident income tax that applies only to non-residents (both, individual and entities) without a PE in Uruguay, including income from capital source and work activity considered separately, and also income from their business activity in Uruguay.

## IRPF

As explained, IRPF is an annual, personal and direct tax that applies only to individual residents. Additionally, IRPF taxes income deriving from capital or work productive factors considered separately, of Uruguayan source (with some exceptions), that is – in principle – goods located, activities performed and rights economically exercised in Uruguayan territory.

For IRPF purposes, income is categorized under a dual system accordingly with the above said productive factors: Category I: Capital income; and, Category II: Work income. As explained above (see Income tax rate section) the combination of capital and work will be considered a business activity and therefore the resident individual that carries out said business will be taxed with IRAE (business income), and not with IRPF (personal income).

### Capital income

Capital income includes all kind of profits of any nature deriving from moveable or immoveable property, personal rights or any other asset with economic value. Capital income is sub-classified in “capital revenues” and “capital gains”. Capital revenues envisage all income arising from the use of assets (e.g., interests, leases, dividends, returns on investments), while capital gains include income on a real or presumptive basis arising from the transfer of said assets (e.g., sale of real estate or vehicles, stock purchase agreement or assignment of rights).

Capital income follows the source income rule (goods located and rights economically used in Uruguayan territory) with the following main exceptions: (i) income deriving from deposits, loans or other capital investments on non-resident entities; (ii) income deriving from derivative financial instruments; (iii) income from the transfer of shares of companies with residence, domicile or constitution in jurisdictions with low or null taxation regimes whenever its equity reflects contribution of 50% (or more) of assets located in Uruguayan territory; and, (iv) income corresponding to the lease, use, assignment of use or transfer of federative, image and similar rights of athletes registered with sport entities.

As per the capital revenues from dividends, Uruguay has a “presumptive dividends” regime under which non-distributed dividends with certain aging are taxable, considering the equity of a company valued with fiscal rules, under several conditions. Said taxes are later attributed to income arising from the distribution of dividends on a real basis, thus this presumption is considered a sort of payment in advance of this tax.

The tax rate for capital income is fixed, up to the rate of 12%. Dividends and certain interest income, however, have a lower tax rate of 7%. Deductions are strongly limited, in principle, only bad credits may be deducted. Moreover, in the case of land leases, some expenses may be deducted such as: intermediary or administrator commission, and professional fees (including VAT) linked with the subscription or renewal of the contract and taxes over the property (contributor may choose to reduce the tax rate to a 10.5% estimation, instead of applying these deductions to come to the real tax payment).

Companies, as IRAE contributors, must withhold the tax that is levied on capital gains arising from moveable property (e.g., interests and dividends) due to creditors that are considered IRPF taxpayers (including presumptive dividends). In respect of capital gains derived from immoveable property (e.g., land leases) lessees companies must withhold the tax provided that they qualify as a large taxpayer under DGI's standards. However, in case of rural land leases for agribusiness activity, all companies – as IRAE taxpayers – must withhold the tax on income arising from the lease payment.

### Work income

Work income is divided in to that of dependent activity (employees under a labor relationship), independent activity (contractors without a labor relationship), and social security subsidies due to inactivity (e.g., payments of social insurances such as health insurance, work accidents insurance and unemployment insurance). Retirements and pensions are excluded from IRPF and are currently taxed with a specific tax named IASS.

Work income follows the source income rule principle (activities performed in Uruguayan territory) with the following main exceptions of activities performed abroad: (i) income from dependent activity performed abroad in favor of IRAE taxpayers; (ii) income from independent activity of technical or professional nature, performed abroad in favor of IRAE taxpayers and linked to the profits charged with said tax; (iii) independent services related to advertising and

propaganda, performed abroad in favor of IRAE taxpayers and linked to the profits charged with said tax; and, (iv) income arising from mediation activities related to the lease, use, assignment of use or transfer of federative, image and similar rights of athletes registered with sport entities.

Different from capital income, work income tax rates adopt a progressive scale regime with a non-taxable minimum, considering the gross income accrued by the taxpayer in the calendar year. Tax rates that apply to each scale are the following: 10%, 15%, 24%, 25%, 27%, 31% and 36%.

Furthermore, deductions are strongly limited. Thus, a taxpayer may only deduct the following: social security contributions (see Uruguayan social security system section) and expenses for the maintenance of minor child of the taxpayer on a presumptive basis (which is rather low).

Companies, as employers, must withhold on a monthly basis the tax that levies on work income arising from dependant activity (e.g., salary wages) paid to their employees that qualify as IRPF taxpayers. An annual adjustment of the effective applicable tax arising from the labor activity of the employees is made. In respect of work income arising from independent activity (prices and fees due to contractor or service providers), if a company payor qualifies as a large taxpayer, then it must withhold a 7% of the payment due as IRPF of recipient of said price or fees payment.

## **IRNR**

IRNR is an annual and direct tax that applies only to non-residents without a PE in Uruguay. All income of Uruguayan source generated by non-residents are taxed with IRNR. As explained above, this tax falls into two categories of income (Capital income - 10.2.1 and Work income - 10.2.2), but includes also the profits from business activity which are not taxed with IRAE (as long as the non-resident does not verify a PE).

Uruguayan source is defined, following general rules, as goods located in, activities performed in and rights economically used in Uruguayan territory. However, tax law provides certain extensions to the source income rule principle, similar to IRPF regime, that is: (i) work income from independent activity, of technical or professional nature, performed abroad in favor of IRAE taxpayers and linked to profits charged with said tax; (ii) independent services related to advertising and propaganda, performed abroad in favor of IRAE taxpayers and linked to profits charged with said tax; (iii) income corresponding to the lease, use, assignment of use or transfer of federative, image and similar rights of athletes registered with sport entities, as well as the mediation activity linked to it; (iv) capital gains from the transfer of shares of companies with residence, domicile or constitution in jurisdictions of low or null taxation regime whenever its equity reflects 50% (or more) of assets located in Uruguayan territory; and (v) capital gains deriving from the transfer of intangible assets to IRAE taxpayers to be economically used in Uruguayan territory.

IRNR is structured as a withholding tax, therefore certain subjects – mainly IRAE taxpayers – are legally appointed as withholding agents for this tax whenever a payment taxed with IRNR is due. In the event that no withholding agent is appointed for said purpose, the IRNR taxpayer, prior to the initiation of its activity, must appoint a representative with the DGI, which must be an individual or entity with residence in Uruguay.

### **Tax rate**

Different from IRPF, IRNR taxes all income at a fixed rate generally 12% on the gross income. Dividends and certain interests have a lower tax rate of 7%. Except for dividends (for which the same tax rate of 7% applies), income received from individuals or entities with residence, domicile or constitution in jurisdictions of low or null taxation have a higher rate (30.25% if it is income received from a foreign entity and reflecting payments related to immovable property located in Uruguayan territory / 25% for other income).

### **Business profits**

Business profits for IRNR purposes are – in principle – the income generated by the non-resident arising from activities that combine capital and work productive factors with an economic purpose. However, tax law includes within this category other activities: (i) services rendered by non-residents entities; and, (ii) services provided by non-residents individuals, whenever said individual subcontracts individuals or entities who have residence in Uruguay.

As explained above (Capital income section), this category of income is levied at a rate of 12% (or 25% if the IRNR taxpayer resides, domiciles or it is constituted in a jurisdiction of low or null taxation) instead of the progressive scale regime described in IRPF. Despite this 12% rate is lower than the tax rate for IRAE regime (25% on net income), this tax applies on gross income (only bad credits may be deducted).

Companies, as IRAE taxpayers, must withhold IRNR on business profits when such profit is generated.

### **Work income**

Work income for IRNR has the same definition and scope that for IRPF purposes. Notwithstanding, as explained above (Capital income section), this category of income is levied at a fixed rate of 12% (or 25% if the IRNR taxpayer resides, domiciles or it is constituted in a jurisdictions of low or null taxation) instead of the progressive scale (with non-taxable minimum) described for IRPF Work income regime.

It is worth of noting that foreign employees working in Free Trade Zones, once they verify residence in Uruguay they may choose to contribute to IRNR instead of IRPF for their dependent services in the Free Trade Zone, on the condition that they have chosen to contribute to the social security system of their home jurisdiction.

IRNR for Work income must be withheld when the payment is due, as follows: (i) Companies, as IRAE taxpayers, must withhold IRNR arising from Work income from independent services; (ii) Free Zone Users, as employer of workers who have chosen to maintain IRNR regime, must withhold the IRNR arising from said Work income.

### **Capital income**

Capital income for IRNR purposes has the same definition and scope that for IRPF. The presumptive dividends regime also applies for IRNR. As explained above (Tax rate section), the general tax rate is 12% but in certain cases it can be lower (7%) or higher (25% or 30.25%).

Companies, as IRAE taxpayers, must withhold IRNR tax that levies is levied on capital income when such income is due, in the following cases: (i) capital gains relating to immoveable property (land leases at a rate of 10.5%, and other capital revenues at the rate of 12%) due to those that qualify as IRNR taxpayers; and, (ii) capital gains relating to moveable property (e.g., interests and dividends) due to those that qualify as IRNR taxpayers (including presumptive dividends).

## **Wealth tax – IP**

### **Main features**

Uruguay taxes the net wealth of individuals and entities with IP tax, which basically taxes the net balance of assets of Uruguayan source (goods located, placed or economically used in Uruguayan territory), valued accordingly with tax rules, once certain specific liabilities are deducted. IP is an annual tax that considers only the situation of taxpayer at the closing of annual fiscal year (with some exceptions).

It is important to highlight that certain assets shall not be considered for IP purposes: (i) accounts receivable stemming from imports, outstanding balances of loans and deposits of foreign individuals or entities domiciled abroad; (ii) bearer debt titles and similar securities subject to this tax paid through withholding (see Withholding agents section); (iii) deposits in banks of individuals; (iv) shares of intermediary financial institutions.

Deductions to determine the net wealth are limited to a few categories of debts. Furthermore, if the IP taxpayer has assets located abroad, or are non-taxed or exempted from said tax, then the debts will only be deductible on the amount that exceeds said assets (subject to few exceptions). Thus, in essence, more than a net wealth tax, the IP tax is viewed as a tax on assets.

The IP regulation provides for two regimes: IP for individuals and IP for entities. Those regimes will be briefly summarized below.

### **IP for individuals**

IP on individuals taxes the net wealth of natural persons, families and undivided successions whenever the taxed assets are not linked with a business activity performed by said taxpayers; otherwise, IP on entities will apply to those assets linked to the business activity. The closing of the fiscal year in this regime matches with the end of the calendar year, that is, December 31st of every taxable year.

Under this regime, the valuation rules for immoveable property establish that these assets will be assessed with cadastral value, which is significantly lower to market value. As said, deductions are strongly limited, to the extent that only financial debts taken with financial institutions are allowed. Moreover, this deduction will be admitted on an

annual average of the debt, considering the closing of each month throughout the taxable year.

The tax rate in this regime follows a progressive scale system with a non-taxable minimum. As such, the rates range from 0.2% to 0.6% except for non-resident individuals not taxed with IRNR, who are taxed at rates ranging from 0.7% to 1.5%.

## IP for entities

IP for entities taxes the net worth of IRAE taxpayers, both residents and non-residents. Also, natural persons, families and undivided successions with assets used for agribusiness activities are included in the IP for entities regime with regard to said assets. The closing of the fiscal year is chosen by the IRAE taxpayer, otherwise, by default, closing is fixed at the end of the calendar year, that is, December 31st of every taxable year.

Valuation rules for this regime match with the valuation rules provided for IRAE purposes, which as a general rule is the value on acquisition or market value (few exceptions apply for immovable property used for agribusiness activity). Admitted deductions are wider under this regime, including not only financial debts with financial institutions (in the same manner as IP for individuals), but also the following deductions are allowed: (i) debts with government agencies and international organizations for large investment projects; (ii) commercial debts with service providers and suppliers linked to the ordinary activity of the taxpayer (not loans, investments, warranties and outstanding price pending of payment of imports); (iii) tax debts whose expiration date is not fixed for the current fiscal year; (iv) debt securities issued on public tender and with stock market quotation under certain conditions.

The tax rate in this regime is fixed at 1.5%, except for financial institutions which tax rates is 2.8% (non-taxable minimum does not apply). If the taxpayer is an entity with residence, domicile or constitution in a jurisdiction of low or no taxation, then the tax rate will be 3%.

## Withholding agents

IP must be withheld by the following subjects: (i) entities that issue bearer securities; (ii) IRAE taxpayers debtors of individuals or entities domiciled abroad without a PE in the country. In the case of (i), the applicable tax rate is 1.5%, which is to be withheld by the issuer and recovered when the interest payments arising from said securities are due.

# Tax incentives

Uruguay has specific tax regimes which grant benefits to investors upon the fulfillment of certain conditions. The main regimes are related to: (i) Free Trade Zones; (ii) investments promotion; (iii) free port and airport; and (iv) trading activities.

## Free Trade Zones

Free Trade Zones is a special regime under which users and goods located therein are exempted from all taxes, on condition that certain legal provisions are fulfilled. To qualify under this regime, the user must be previously authorized by the Free Trade Zone Area Agency (a public agency within the Ministry of Economy and Finance) and for which authorization applicant must present a detailed business plan. The business plan shall include the development of a real and substantial activity (industry, commerce or service) within the Free Trade Zone territory; said activity must be consequent and in support of the promotion and development of investments, exports, employment, added national value, technological and innovation activities, among the principal objectives under the Free Trade Zone regime. The authorization to operate as a Free Trade Zone user is for a maximum term of 15 years for industrial activities and of 10 years for commercial and service activities. Terms may be renewed upon fulfillment of same conditions.

In addition to the required governmental authorization, the user must negotiate and execute a contract with a Free Trade Zone operator (which can be a public or private entity) to acquire the right to actually operate within a specific Free Trade Zone facility (there are currently eleven Free Trade Zones facilities). This contract must be filed before the Free Trade Zone Agency.

All activities of the free trade zone user must be undertaken within the Free Trade Zone territory and counterparties to said services include foreign entities/individuals or other free trade zone users; services cannot be provided to counterparties located in Uruguayan territory (out of the Free Trade Zone location). There are few exceptions to this rule, that allow the rendering of services to parties located in Uruguayan territory, but out of the Free Trade Zone territory namely, international call centers, mailbox providers, long distance educational services, issuance of

electronic signature certification. These exempted services will be subject to general rules on taxation, and the specific tax regime of the Free Trade Zone will not apply. Furthermore, the Administration has allowed to provide other services from the Free Trade Zone for the benefit of clients located in Uruguayan territory on condition that the recipient of said services is an IRAE taxpayer and said services are linked to taxable income recipient.

The Free Trade Zone regulation also contemplates a special customs regime, under which all goods introduced from abroad in to the Free Trade Zone territory will be not considered imports. Thus, all taxes, duties and procedures required for import will be applicable only after said goods are introduced to the Uruguayan territory from the Free Trade Zone territory. By the same token, introducing goods from Uruguayan territory in to the Free Trade Zone territory must be in fully compliance with the export procedures and requirements.

The personnel employed by the Free Trade Zone users must be Uruguayan citizens in at least 75% of the payroll. This percentage may be temporarily reduced if authorized by the Administration, which will grant it upon a due justification of the particular characteristics of the activity to be rendered in the Free Trade Zone. Foreign employees of a Free Trade Zone user may choose to contribute to the social security system of their home country, instead of the Uruguayan social security system. In this scenario, local social security contributions (see Payroll taxes section) will not apply. Moreover, foreign employees that choose to remain in their social security system of origin, may also choose to contribute under the IRNR regime instead of IRPF (when IRPF becomes applicable upon gaining Uruguayan fiscal residence). Finally, foreign entities providing technical services in Free Trade Zone to Free Trade Zone users are also exempted from all taxes whenever those technical services are necessary. This exemption is useful to the Free Trade Zone user, otherwise those services will be charged with IVA (which would constitute a cost, as it cannot be discounted by the user), and the user would have to withhold taxes on behalf of the service provider (mainly RNR and IP).

## Investments promotion

Uruguay has declared of national interest the promotion and protection of national and foreign investments in Uruguayan territory, under a legal framework that grants tax benefits to certain investments. In principle, industrial and agribusiness activities have tax incentives granted in the acquisition of the following fixed or intangible assets: (i) movable assets directly linked with the productive cycle; (ii) equipment for electronic data processing; (iii) improvements and updates directly linked with the industrial and agribusiness activities; (iv) intangible assets such as licenses, patents, industrial designs, privileges, copyright, goodwill, trade name, concessions for prospecting, harvesting, extracting and exploiting natural resources; (v) other assets, procedures, inventions or creations that add technological innovation and convey technological transfer under the Administration criterion.

These tax incentives envisage:

- i. IP exemption for assets referred to in (i) and (ii) above, except for those valued on a presumptive basis; and,
- ii. IVA and IMESI exemption for all assets imported. If assets were to be acquired in Uruguay, then the IVA paid will be later reimbursed by the fiscal authority.

The Administration can include under this special regime other sectors aside from industrial and agribusiness activities, granting similar tax incentives.

In addition to the above general legal framework, companies can request a specific declaration of promoted activity for a particular investment project before the Administration. The tax benefits to be granted will come from the assessment of the following indicators as applicable to the presented project: employment generation, exports increase, decentralization, clean technologies use, research activities, development and innovation. If, upon weighing these factors the investment project were to accomplish the score required under the standards set forth in the regulations, then the following benefits will apply:

- i. Exemption of IRAE calculated on a percentage over the amount invested;
- ii. Exemption of IP for all assets included in the investment project;
- iii. Exemption of all taxes and custom duties – including IVA – related to the import of assets and raw material for civil construction, on the condition that they are declared as non-competitive with the national industry by the Ministry of Industry, Energy and Mining.
- iv. Reimbursement from the fiscal authority of the IVA paid for the acquisition of goods and services for the civil construction.

## Free port

The free port special regime is applicable on certain ports (Montevideo, Fray Bentos, Nueva Palmira, Colonia, Sauce,

and La Paloma) and to the International Airport of Carrasco, in which space it is allowed the free movement of goods without restriction.

The tax benefits in the Free Port regime are the following:

- i. Goods introduced into the port area from abroad are exempted of all taxes and custom duties applicable to the import. All taxes, duties and procedures as required for import will be applicable once those goods are finally introduced in to the Uruguayan territory from the port area. Accordingly, introducing goods from Uruguayan territory to the port area must be in full compliance with export procedures and requirements;
- ii. Delivery of goods and rendering of services within the port area are exempted from IVA;
- iii. Assets located in the port area are not considered for IP purposes;
- iv. Business income generated by foreign individuals/entities with respect to goods of foreign origin in transit or in custom deposit, to be transported abroad, are exempted from IRAE/IRNR.

The activities that can be performed under the Free Port regime are transactions related to deposit, repackaging, remarking, classification, handling, fractioning, among other activities, without changing the nature of the goods. However, certain basic changes to the goods are allowed under the warehouse (mainly, allocations, mixtures, placements or replacement of parts, hardware configuration, software installation, elaboration of packaging, labeling or other accessories of the goods deposited).

### Trading activities

Uruguayan companies that perform trading activities abroad have a specific regime for the liquidation of income taxed with IRAE. A trading activity will ensue whenever the goods purchased/sold do not have the Uruguayan territory by origin or destination. In this case, the taxpayer may choose to liquidate IRAE from the trading activity on a presumptive basis, calculating the net income as 3% of the difference between the selling price and the purchase price of the goods. Thus, the tax rate for IRAE (25%) will be applicable only over such presumptive net income.

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