

URUGUAY

Uruguayan Legal Framework and its favorable aspects for foreign investments

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General characteristics

- No licenses for new companies.
- Inexistence of restrictions for the flow of capital.
- Free exchange market.
- No fiscal discrimination to foreign investor.
- No limit to participation of foreign capital.
- Freedom to enter into contracts in foreign currency.
- Free Trade Zones within which all types of activities and services are benefited by a total tax exemption.

Companies in Uruguay

Legal regime:

Law N° 16.060 sets out the main vehicles (entities) under which investments and commercial activities are carried out in Uruguay.

Most common legal vehicles are:

- Corporations
- Limited Liability Companies
- Branches of Foreign Entities

Corporations – Main Aspects

- Liabilities of shareholders limited to their capital contribution.
- There are no minimum capital requirements.
- Bearer or registered shares.
- May have a sole shareholder.
- Shareholders and UBOs (more than 15%) must be informed to the Central Bank of Uruguay.

Corporations – Main Aspects

- Sale of shares by foreigners taxed at 2.4% over sale price (tax heaven 7.5% and with DTT might not be taxed).
- Directors must be registered, one is enough.
- No nationality or residence requirements for shareholders or members of the Board of Directors.
- No need to appoint an Uruguayan resident as tax representative.

Limited Liability Companies – Main Aspects

- Liability limited to the capital contributions.
- At least 2 partners.
- Partners and UBOs (more than 15%) must be informed to the Central Bank of Uruguay.
- Certain types of activities are limited to corporations (banking, insurance, etc.).

Limited Liability Companies – Main Aspects

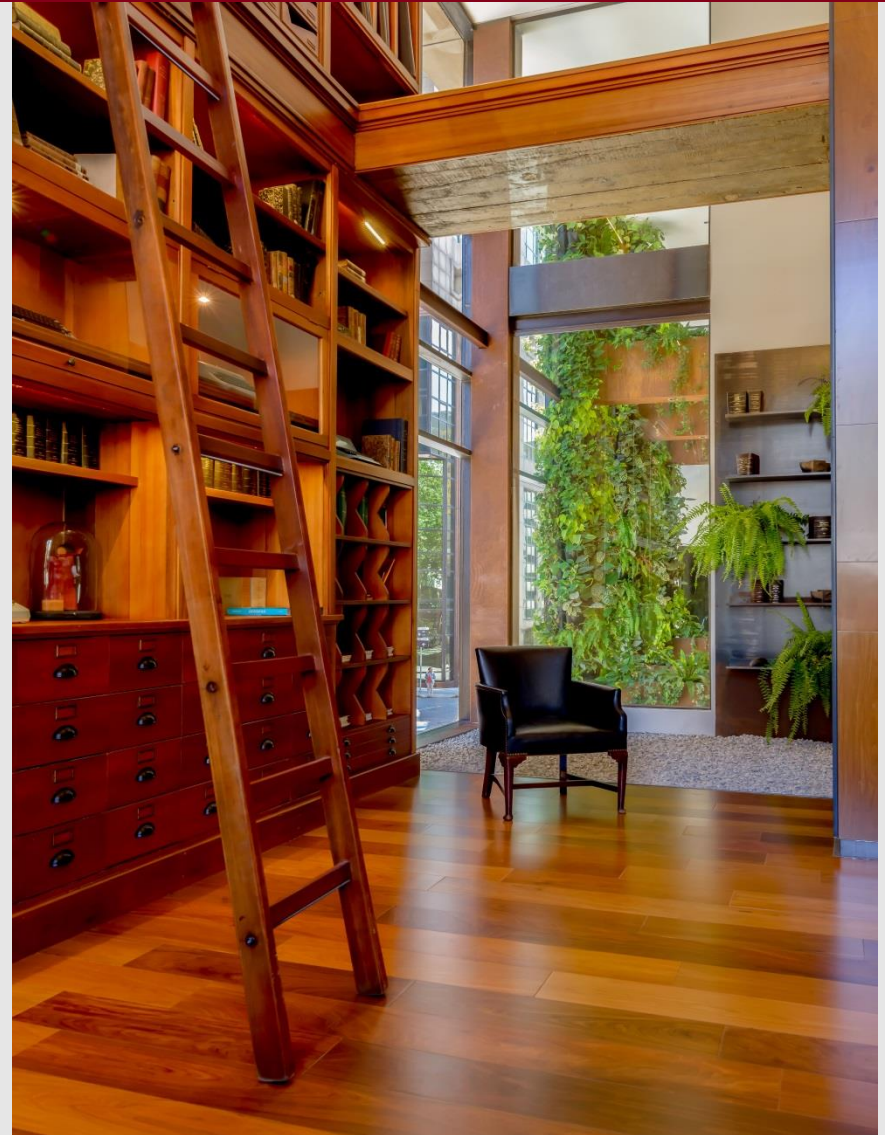
- Transfer of Quotas by foreigners taxed at 2.4% over sale price (tax heaven 7.5% and with DTT might not be taxed).
- No restrictions on nationality or residence for the partners or administrators of the LLC.
- No need to appoint an Uruguayan resident as tax representative.

Branches of Foreign Entities – Main Aspects

- Head Office is liable for all obligations assumed by the Branch (same legal entity).
- Identity of Head Office and UBOs (more than 15%) must be informed to the Central Bank of Uruguay.
- No restrictions on nationality or residence for the administrators of the Branch.
- Branches **MUST** appoint an Uruguayan resident (individual or legal entity) as tax representative, which is jointly liable for tax obligations of the Branch.

Tax Regime

- **General aspects of the tax regime in Uruguay**
- **Trading Regime**
- **Free Trade Zones**



General aspects of the tax regime in Uruguay

- Uruguayan tax system is based on the source criteria.
- General Principle: Income derived from activities carried out or assets located abroad are tax exempted from a Uruguayan point of view, except for some minor exemptions.

General aspects of the tax regime in Uruguay

Tax Treaties signed by Uruguay

- Uruguay has Tax Treaties regarding double taxation in force with more than 20 countries.
- Argentina, Germany, Hungary, Mexico, Switzerland, Great Britain, Chile, Ecuador, Paraguay, Arab Emirates, Luxembourg, Spain, Singapore, Belgium, Romania, Finland, Korea, Malta, India, Portugal, Liechtenstein and Vietnam.

Trading Regime

Resolution 51-97 from the Tax Authority

- Determines net income from Uruguayan source in case of trading operations performed in Uruguayan territory in relation to:
 - Purchase and sale of goods abroad, provided that their origin and destination is not Uruguay.
 - Services, as long as the said services are both rendered and economically used outside the Uruguayan territory.

Resolution 51/97 - Example

• Invoice issued by Uruguayan entity to client	1.000
• Invoice from supplier to Uruguayan entity	<u>(900)</u>
• Gross Uruguayan source income	100
• Net Uruguayan source income (3%)	3
• Income tax (25%)	0,75
• WHT on dividends (7% of Uy source income)	0,21

Free Trade Zones

General Concepts

- The **Free Trade Zone Law** was recently reviewed and amended, to introduce the recommendations of the OECD, in the framework of Action 5 of BEPS Project, so that Free Trade Zones are not considered as harmful practices.
- **Main changes** introduced were related to the activities allowed to be performed to non free trade zone territory and the procedure to be followed to obtain the user status as well as the terms and conditions of the contracts.
- The main and relevant activity should be undertaken within the Free Trade Zone (substance).

Free Trade Zones

Allowed Activities

- Commercial, industrial and services operations are allowed in the Free Trade Zones.
- **Free Zone user companies** may not perform any industrial, commercial or service activities in non-free zone territory with the exemption of the activities that are considered exceptional, auxiliary or complementary, which are exhaustively listed.

Free Trade Zones - Exemptions

- **FTZ Law provides** a generic and total tax exemption covering all national contributions, either already existing or to be created in the future, with the only exception of social security contributions.
- Uruguay guarantees that all **tax exemptions** shall govern and remain unchanged during the term of the user agreement.
- **Uruguayans at least 75% of the payroll.** Executive Power could allow transitory exceptions to those limits.
- **Foreign personnel not required** to contribute to the social security system in Uruguay and may pay income tax at 12% flat rate instead of progressive rates (0 to 36%).



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Thank you very much

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