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Uruguay's Legal Framework

Montevideo,  
April, 2019



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# Investment Agreement between Japan and Uruguay

- ❑ **Date of signature:** January 26, 2015 / **Date of entry into force:** April 4, 2017
- ❑ It sets the protection of investment for “enterprises” carrying out substantial business activities in the area of Japan or Uruguay, through the establishment, acquisition, expansion, operation, management, maintenance, use, enjoyment and sale or other disposal of investments.
- ❑ Guidelines:
  - ✓ **National Treatment:** investors of the other Contracting Party and to their investments shall be given a no less favorable treatment than to its own investors and to their investments.
  - ✓ **Most-Favored-Nation Treatment:** no less favorable treatment than the one provided in like circumstances to investors of a non Contracting Party.
  - ✓ **Minimum Standard of Treatment:** each Contracting Party shall in its area accord to investments of investors of the other Contracting Party treatment in accordance with customary international law, including fair and equitable treatment and full protection and security.
  - ✓ **Access to the Courts of Justice:** Each Contracting Party shall in its Area accord to investors of the other Contracting Party treatment no less favorable than the treatment which it accords in like circumstances to its own investors or to investors of a non-Contracting Party with respect to access to the courts of justice and administrative tribunals and agencies in all degrees of jurisdiction, both in pursuit and in defense of such investors’ rights.
  - ✓ **Entry, Sojourn and Residence of Investors:** Each Contracting Party shall give sympathetic consideration to applications for entry, sojourn and residence of a natural person having the nationality of the other Contracting Party who wishes to enter the former Contracting Party and remain therein for the purpose of investment activities.

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# Labor Law and Social Security System

- ❑ Labor relations are individually regulated by Uruguay's rule, with trade union freedom constitutionally set.
- ❑ Dismissals of workers may be direct, when the employer expressly or implicitly notifies his/her intention to terminate the employment relation; or indirect, when the employer breaches the employment agreement in that the worker is deemed dismissed and ceases to work.
- ❑ Outsourcing contracts enable the employer to act pursuant the following manners:
  - i) **Subcontracting:** employer carries out works or services by his own interest and risk, with workers under his authority, for a third party (called the "main employer"), as long as said works or services are part of the organization of these third parties or are included in the regular primary or ancillary (maintenance, cleaning, safety, or surveillance) operations, within or outside the establishment.
  - ii) **Intermediating:** the businessperson hires or intervenes in the recruitment of workers so that they provide services to a third party. Services are not directly rendered to public but hiring the workers who shall provide services to third parties.
  - iii) **Staffing: specialized** companies providing third parties with manpower pursuant to their request to carry out a job and cover within a determined term.
- ❑ The main employer should exercise the right to be informed about the compliance of labor obligations, pension and insurance, referred to the workers. If such right is exercised, eventual liabilities for debts on abovementioned obligations is only subsidiary, not jointly and severally.
- ❑ Main employer may withhold payments, paying directly to the workers and public offices (pensions and insurance obligations) in the event of a fail on paying any of the obligations.

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# Social Security System

- ❑ The social security administration (“*Banco de Previsión Social*” or “BPS”) is the public agency responsible for the social security system, including the following benefits: pensions, unemployment, sickness and maternity or paternity leaves.
- ❑ Unemployment insurance system contemplates unemployed workers, either on a temporary or permanent basis, shall receive a subsidy paid by BPS
- ❑ Workers and their spouse and children have the right of being affiliated to a medical care institution without cost.
- ❑ Certain foreign workers may opt out from the Uruguayan social security system by way of international treaties signed by the country.



## Foreign personnel

- ❑ In order to work in the country, foreigners must apply for legal residency, first temporary and then permanent.
- ❑ Act 18,250, main immigration law provision, states that Resident Status is granted without major requirements: proof of good behaviour in the country of previous residence, a certificate of good health and a certificate of means of subsistence.
- ❑ Act 19,254 sets a simplified procedure for getting permanent legal residence for all nationals of Mercosur member country and its associates, and for cohabitants, parents, brothers/sisters and grandchildren of Uruguayans.
- ❑ Limited activities with restrictions for foreign workers (i.e. Fishing, Free Zones).

## Specific regulations

- ❑ Uruguayan exporters can reach the market with their meats
- ❑ Uruguay is the first country with vaccination against foot-and-mouth disease (aphthous fever)
- ❑ Sixteen slaughter houses were habilitated to export beef into Japan

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# Intellectual Property and Trademarks

The protection of copyrights, trademarks and patents is specifically legislated.

**Copyrights** Under the intellectual property law, copyright protection in Uruguay applies to original works of art in the literary, scientific and artistic fields for a prescribed period. Within this period, the author or the copyright holder has certain exclusive rights to the copyrighted material, which is protected against unauthorized use or infringement.

The exercise of the protected rights does not depend on any formality or registration.

Uruguay has ratified the Bern Convention for the protection of literary and artistic work, whereby the authors of signatory countries publishing their work in Uruguay enjoy the same rights granted to the local authors.

These rules are applicable to software and to creative works in the areas of electronics and information systems sourced from foreign countries.

Registration with the National Industrial Property Bureau (DNPI) is necessary to acquire the exclusive right to a trademark and afford the registrant protection for a ten-year period, with subsequent ten-year extensions that are renewable indefinitely.

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# Free Port Regime

- ❑ Free flow of goods within the Port. No requirements of authorizations to introduce and circulate the merchandise in the Port
- ❑ Accurate infraestructure to store and manipulate the goods
- ❑ Easy process to embark the merchandise to third countries
- ❑ No need to have a final destiny of the goods when they are introduce to the Port
- ❑ Authorized activities in the Port: store, package, repackage, label, classify, consolidate, disaggregate, handle, fractionate
- ❑ Not allowed to transform the essence of the goods
- ❑ Origin of the products is not affected by introduce them into the Port (as it is in the Free Zone Regime)
- ❑ Total Corporate tax exemption on the activity of buying and selling products which are stored on the Port

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# Temporary Admission

- ❑ Industrial activities
- ❑ Products may be imported into Uruguay under temporary admission exempt from import duties, in order to be processed, assembled, transformed or integrated, but they must be re-exported within 18 months.
- ❑ The system applies to raw materials; parts and accessories; motors; packaging and packaging materials; matrix, moulds and models; intermediate goods; agricultural products and products that are part of the manufacturing process.
- ❑ Several cases of multinationals that produces in Uruguay to obtain “Uruguay origin” and commercialize to the Mercosur countries (Argentina, Brasil, Paraguay) without import duties.



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# Software Development - Corporate Tax Exemption

- Income from research and development of biotechnology and bioinformatics and the production of software, it is exempted from the Corporate income Tax provided that the assets resulting from this activities are liable to be registered according to the Copyrights regulation (Law 9.739).
- The amount of the exemption results from calculating, for each of the assets, the following coefficient to the income:
- Exemption Coefficient =  $\frac{\text{Direct costs and expenses incurred to develop each asset}}{\text{Total direct costs and expenses incurred to develop each asset}} \times 1.3$
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# Software Development - Corporate Tax Exemption

- The regulation requires some formal conditions that the taxpayer must accomplish in order to get the exemptions:
  - ✓ - Submit an annual affidavit, detailing the cost and expenses that determined the coefficient, and information of the assets registration according to Copyrights regulation.
  - ✓ - The exemption percentage must be recorded in the invoices and other operation back-up documents as well as it Copyrights registration number.
  - ✓ - All the costs and expenses incurred for the development of the activities must be duly documented to ensure their relevance, traceability and control.

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# Software Services - Corporate Tax Exemption

- ❑ Income generated in software development services and related services is totally exempted from corporate income tax, provided that the activity is carried out by the taxpayer in national territory.
- ❑ To obtain the exemption, the following conditions must be accomplished:
  - ❑ - Company hires full-time, qualified, and well-remunerated employed human resources
  - ❑ - The amount of the expenses and direct costs incurred in the country for the provision of the services, must be reasonable and over the 50% of the total amount of expenses and direct costs incurred in the provision of the service.

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# Software Services - Corporate Tax Exemption

- ❑ The services included in this exemption are as follows:
- ❑ Software development services for third parties (registered by the third party). It includes research, innovation, analysis, design, construction, homologation, adaptation and customization, parameterization.
- ❑ Related services as implementation, integration, technical support, update and correction of versions, maintenance, conversion and data migration.

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# Share Services Center

- ❑ Special regime with exemption on corporate income tax (90% or 70%) and asset tax
- ❑ Multinationals located in Uruguay and 12 other countries
- ❑ Authorized activities: professional advisory (technical, consultancy, translation, design, engineering, audit, training); data processing; management; logistic and storage; financial administration; support to I+D

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# Foreign Investment Law – Tax exemption regime

- ❑ Uruguay has taken measures to encourage private investment, within a framework of legal and financial security.
- ❑ Law N° 16,906, known as the “Investments Law”, of 1998, constitutes (together with a series of decrees issued by the Executive Branch) the basic legal framework for investment in Uruguay.
- ❑ It declares that the promotion and protection of national and foreign investment is in the national interest.
- ❑ Equal treatment of national and foreign investments.
- ❑ Foreign investors Investors may freely transfer their capital and profits abroad.
- ❑ Tax exemption on Corporate income tax, Networth Tax, and VAT.

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# Foreign Investment Law – Tax exemption regime

- ❑ Purpose of the investment: Construction of new facilities of a slaughterhouse
- ❑ Investment: Approx. USD 7:
- ❑ Indexes: Decentralization, I+D, Clean technologies
- ❑ Tax benefits obtained:
  - Corporate income tax: 48%
  - Asset tax: 10 yers of exemption
  - VAT: emption on the import of non competitive raw material, reimbursement of local VAT on the construction







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# Foreign Investment Law – Tax exemption regime

- ❑ Purpose of the investment: Construction of a windmill and silos
- ❑ Investment: Approx. USD 2:
- ❑ Indexes: Decentralization, Employment generation, Increase of exports
- ❑ Tax benefits obtained:
  - Corporate income tax: 35%
  - Asset tax: 10 yers of exemption
  - VAT: emption on the import of non competitive raw material, reimbursement of local VAT on the construction





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