

Doing Business in Uruguay



Contents

Presentation	4
Foreword	5
Country overview	6
Strategic location in the region	9
Respect for legal clarity	10
High human resource quality	12
An open economy	15
Impacts via foreign trade	18
Foreign trade	19
Investment framework	21
Foreign investment	26
Tax system	30
Investment promotion	35
Social security and labor regulations	41
Accounting and audit requirements	45
Main indicators of the economy	47
Hints for the business visitor	49
Offices	51

Presentation

PricewaterhouseCoopers in Uruguay

The República Oriental del Uruguay, hereafter referred to as Uruguay, is a small country both in size and population. Its culture, health and living standards, are among the highest in Latin America.

Uruguay's economy is based on the free enterprise principles while it has a number of state entities engaged in public services and business activities. Foreign companies as well as foreign investors are welcome and enjoy the same opportunities as local competitors. Foreign investments are encouraged. Uruguay offers significant advantages to those who are currently evaluating doing business and making investments. In this guide we address the factors that make of Uruguay a preferable location for those looking for centers for contacts, shared services, logistics, distribution, and regional treasury facilities.

PricewaterhouseCoopers has had a continuous presence in Uruguay since 1920. Throughout the years we have earned a solid reputation for excellence and superior services, making us the leading firm in audit, tax and business advisory services in Uruguay, serving the most prestigious local and foreign entities operating in the country. Our solutions are designed to meet the specific needs of each client by using a multidisciplinary and comprehensive approach. Maintaining and building on our position as the number one firm depends on our ability to create and sustain real differentiation from our competitors, creating the distinctive firm.

We are confident that this latest edition of Doing Business and Investing in Uruguay will be of assistance for business executives considering direct or indirect investment in our country. The content of this book is also available on the Internet at www.pwc.com/uy.

We welcome the opportunity to assist you with any questions or matters related to doing business in Uruguay.



José Luis Sablich
Senior Partner

Foreword

This guide has been prepared to assist those interested in doing business in Uruguay. It does not exhaustively cover all the subjects considered, but is intended to answer some of the important, broad questions that may arise. When a specific problem appears in practice, it will often be necessary to complement the information in this guide by consulting the laws, regulations and rulings established in the country and to obtain appropriate professional advice. The material contained in this guide was collected in September 2009 and is based on information available and regulations in effect at the time.

Country overview

Uruguay has long standing traditions of democracy and legal and social stability and a solid financial and legal framework that is attractive to foreign investors contemplating business ventures in the region.

The country has a land surface area of 176,215 km² and a total area of 318,413 km² when considering rivers and territorial waters. Uruguay is divided into 19 departments with Montevideo as its capital. It is the only South American country that lies entirely in the temperate zone. Small variations in temperature, precipitation and other climatic factors due to its location make it especially suitable for agriculture and livestock production.

There are no remarkable topographic features. Most of the country consists of gently undulating plains crossed by long rivers. The climate is mild and healthy throughout the year. Temperatures average 70° to 80°F (21° to 27°C) in summer and 50° to 60°F (10° to 16°C) in winter. There are occasional cold spells in winter. Rainfall occurs in all seasons but is generally heavier in the autumn months. Politically, Uruguay has a democratic republic system.

There is a presidential system and consolidated political parties. The government is divided into three independent branches: executive, legislative and judicial.

The Executive Branch is administered by the President of the Republic, who acts together with the Ministerial Council. The President is also the head of state and is elected with the Vice President through a popular, direct vote. The President and Vice President designate cabinet ministers. The President serves a five-year term and cannot be consecutively reelected. The Legislative Branch consists of the General Assembly, which includes the Vice President, a 30-member Senate and a 99-member Chamber of Deputies. Parliamentary elections are held at the same time as presidential elections. Justice is administered by the Supreme Court of Justice, courts (on a nationwide basis) and by judges. The members of the Supreme Court are elected by the General Assembly. The members of other courts are appointed by the Supreme Court with prior approval by the Senate, and judges are appointed directly by the Supreme Court.



A summary of Uruguay's advantages for investors

Why Uruguay?

- Its location, infrastructure and natural conditions enable complete and easy access to the largest economies in the region.
- A tradition of respect for political, social and economic freedom, as well as solid institutions, ensure a stable framework.
- Public education policies have led to a high degree of development of the country's human capital.

A solid economy

- Although Uruguay's economy is strongly rooted in raw material production, other strategic sectors have developed as a result of high human capital standards.
- These sectors, including services related to information technology, finance, logistics and transportation, among others, have shown significant growth over the last few years.
- In the beginning of the XXIst century, Uruguay went through one of the highest growth periods in its history, sustained by a favorable world context and by the implementation of stable macro-economic policies.

Investing in Uruguay

- Promotion and protection of investments has been a consistent State policy in Uruguay.
- Foreign investors receive the same treatment as domestic investors.
- Investors may access a series of tax benefits should they comply with the conditions established in the Investment Law and regulatory decrees.
- The Free Zone system offers an adequate framework for structuring investments with a focus on the international market for manufacturing, commercial and service activities. There is complete financial market freedom and no prior authorization is required to trade foreign currency or to inject or repatriate capital.
- Top international banks participate in Uruguay's agile and competent banking system, making it an important international financial market for channeling business to the region.

Strategic location in the region

Uruguay's strategic location offers easy access to major business and industrial centers in the region. Approximately 73% of Brazil's GDP, 71% of Argentina's and 60% of Chile's is generated in the area surrounding Uruguayan territory.

Natural conditions and an extensive infrastructure network enable full and rapid access to the entire territory.

The country's port facilities are strategically located along the Atlantic Ocean and the Paraguay-Paraná fluvial waterway to access both overseas locations and the center of the continent.

In addition to its natural conditions and infrastructure, Uruguay offers advantages in telecommunications, especially in the area of Information and Communications Technology (ICT).

A method for evaluating access is through the use of home ICT equipment.

About one-third of homes with children or teenagers have a personal computer and about 15% of these have access to Internet.

While ICT continues to grow in modern society, the latest surveys conducted in Latin American countries indicate that Uruguay maintains its privileged position in this sector.

Considering actual ICT use (not necessarily based on home equipment), Uruguay's utilization of this type of technology is higher than in other countries.

An official survey performed in 2006 indicates that about 40% of Uruguayans older than 5 years of age had used a personal computer in the previous six months, and that 76% of these had used Internet.



Respect for legal clarity

A high degree of identification with the values of democracy and respect for liberties have stimulated business investments in Uruguay. The country is known for its legal clarity and for the solid development of its institutions, both of which play a basic role in investment decisions.

Liberties in Uruguay

Political stability in the country is reflected in the political, civil and economic liberties of the population and in the degree of development of its institutions.

Regarding political and civil rights, individuals in Uruguay may freely associate, express themselves and participate in political activities. Moreover, satisfaction and support for democracy is higher than the regional average.

According to a report by The Economist magazine, Uruguay is considered the most democratic country in South America, ranked 23rd out of 167 countries worldwide.

The report evaluates factors such as trade, business, investment and property rights. Uruguay is considered a country where economic freedom prevails.

These factors differentiate the country from others in the region, where economic liberty is relatively more limited.

Uruguay is considered a country with a high regard for economic liberty.

High institutional development

A proper institutional framework is decisive for generating business competitiveness and for stimulating growth in the economy. In this sense, institutional strength is a differential characteristic of Uruguay, which ranks second in the region with regards to the degree of institutional development.

Institutional quality refers not only to the efficiency of the existing legal framework, but also to intellectual property protection and the considerable degree of independence of the Judicial Branch. Likewise, values such as ethical behavior in business prevail in the private sector.

Another aspect worth noting is perceived corruption, where Uruguay is tied for the lowest level of corruption in Latin America.

Economic freedom		Corruption Perceptions Index (low to high)		Institutional development	
1	Hong Kong	1	Uruguay - Chile	1	Singapore
2	Singapore	2	Puerto Rico	2	Sweden
3	Australia	3	Costa Rica	3	Denmark
4	Ireland	4	Cuba	4	Finland
5	New Zealand	5	El Salvador	5	New Zealand
6	United States	6	Colombia	35	Chile
11	Chile	7	Mexico	40	Uruguay
38	Uruguay	8	Brazil	47	Costa Rica
44	Mexico	9	Bolivia	69	Panama
57	Peru	10	Argentina	90	Peru
64	France	11	Venezuela	93	Brazil
105	Brazil			98	Mexico
138	Argentina			126	Argentina
174	Venezuela			133	Venezuela

Source: The Heritage Foundation (2009)

Source: Transparency International (2009)

Source: The Global Competitiveness Report (2009-2010)

High human resource quality

Uruguay has 3,241,003 inhabitants, of which 93.7% live in urban areas and 6.3% reside in rural zones. As a result of a low birth rate and high life expectancy, the Uruguayan population is rather mature. The country has one of the lowest percentages of young people in Latin America, with only 33% of the Uruguayan population under 14 years of age.

The quality and coverage of public education have shown progress over the last few years, which is reflected in one of the highest literacy rates in the region. School enrollment levels also compare well with regional countries.

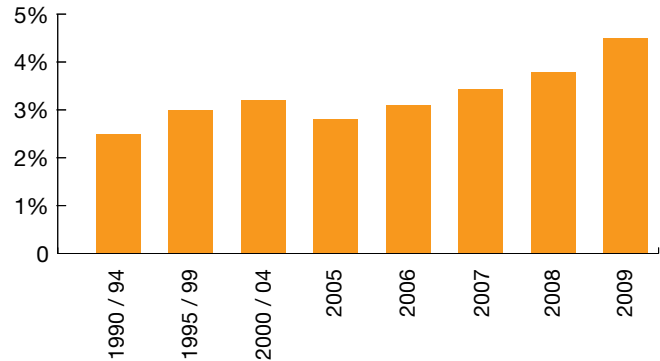
There is no indigenous population; most Uruguayans are of European descent (mainly Spanish and Italian).

Spanish is the official and most used language. French and English language instruction has traditionally been emphasized and English is the foreign language most used by the business community. Currently, Portuguese is also widespread as a result of the MERCOSUR integration process.

A significant investment in education

The fact that public education in Uruguay is free and mandatory has led expenditures in education to be a major component of social spending by the government.

The government has decided to increase budget appropriations for public education to a target of 4.5% of GDP by 2009.



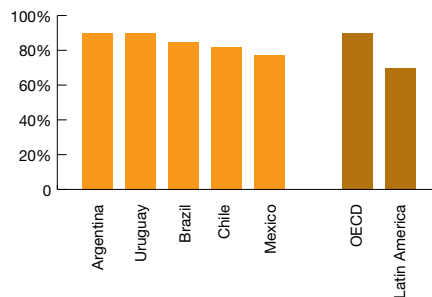
High literacy and school enrollment

Literacy has been high throughout history and has increased over the last few years. Currently, the literacy rate is one of the highest in Latin America.

Close to 1 million students are enrolled in the education system. This represents a large enrollment percentage in comparison with the school age population.

In this respect, the gross composite enrollment rate for primary, secondary and tertiary education is the second highest in the region and close to the level of more developed countries.

Combined gross enrollment rate (primary, secondary and tertiary)



Plan Ceibal

Uruguay is the first country to implement the One Laptop per Child (OLPC) initiative, known locally as the Plan Ceibal. It is a project developed jointly by the Ministry of Education and Culture (MEC), the Technological Laboratory of Uruguay (LATU), the National Telecommunications Administration (ANTEL) and the National Public Education Administration (ANEP).

In the first phase it covered 100% of public primary school students and their teachers. Currently, the plan is expanding to provide coverage to other students. The ultimate goal is to have full country wide coverage of school-age children and teachers.

The plan's strategic principles include equal opportunities to access technology, the democratization of knowledge and an enhanced learning experience in schools.

The project has also demonstrated a significant social impact on the schools' connection to families, promoting skills for a twenty-first century society, not only for students but for the entire family. The plan has been effective in bringing down the digital divide, and setting the foundations for an intelligence-based economy for the country.

Public education in Uruguay is free and mandatory.

Technology degrees

There were 44,870 graduates from the Uruguayan university system during the 2000-2007 period, of which 10% received degrees in engineering, IT and the physical sciences.

The quality of university education and the proficiency of its graduates have been two of the pillars of the software industry's development in Uruguay, which is the leading exporter of software on the continent.

Education level	Enrollment
Nursery	34,429
Pre-school	106,878
Primary	360,693
Secondary	323,344
Tertiary	123,139

Technology, communications and connectivity

Uruguay leads Latin America in technology and broadband penetration. Uruguay is "Latin America's top technology country" according to the Latin Business Chronicle's Fourth Annual Latin Technology Index.

The information technology (IT) industry grew 17% as compared to 2007. In addition, Uruguay is the top software exporter per capita in Latin America and ranks third in absolute terms behind Argentina and Brazil.

40% of software production in Uruguay is sold abroad. Major markets include Argentina, Colombia, Brazil and Chile. New markets for Uruguayan software include Central America and

the Caribbean, Mexico, Israel, the Philippines, South Africa and developed countries such as the U.S., Canada, Germany, Spain and France.

Meanwhile, Internet penetration in Uruguay rose from 29% in 2007 to 40% in 2008. For 2010, 80% penetration is expected with the implementation of the Plan Cardales.

Plan Cardales will massively expand triple play (bundling of telephone, cable TV and internet) coverage to all Uruguayan households.

Uruguay is among the top countries in South America in broadband connectivity penetration at 8.5%. With Plan Ceibal, this figure should increase to 13.7%, placing Uruguay in first place and comparable to European levels. By the end of 2010, data transmission capacity between the country and international networks is planned to be increased about five times current levels. This will be made possible by the installation of a 250-kilometer long undersea fiber-optic cable between Uruguay and Argentina without intermediate repeaters that offers a higher level of reliability for the absence of elements or points of electrical or optical failure in the underwater part of the infrastructure.

Related to communications, Uruguay has the highest total telephone penetration in Latin America, 105 mobile lines each 100 residents in 2008 (source ITU).

An open economy

In the context of a free economy, Uruguay produces mainly primary goods and strategic services such as those related to financing activities, information technologies and logistics. Initially, its small size led the country to an export-based economy focused mainly on agro-industry. However, over the last few years, exports of services related to information technology and finance activities have shown dynamic growth.

Land: a capitalized resource

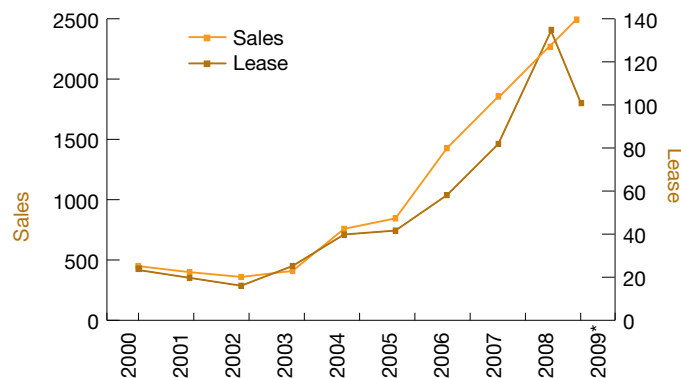
Despite having one of the smallest surface areas in South America, a large part of the land is used for productive purposes with high yields. About 96% of the territory (170,000 km²) is used for production of crops, livestock and forestry.

The rise in agriculture and forestry activities, along with others factors including the arrival of foreign investors, has led to upward price pressures for land purchases and leases. Average land prices have risen from USD 386 per hectare in 2002 to USD 2,299 last year, according to official estimates.

Land distribution by activity (hectare)

Crops	2008-2009 - 1,463,000 Potential area - 3 to 4 million
Livestock	13,500,000 - Cattle 11,712 - Sheep 11,086
Forestry	2007 - 900,000 Potential area - 2,500,000
Total area	17,000,000

Land prices (USD per hectare)



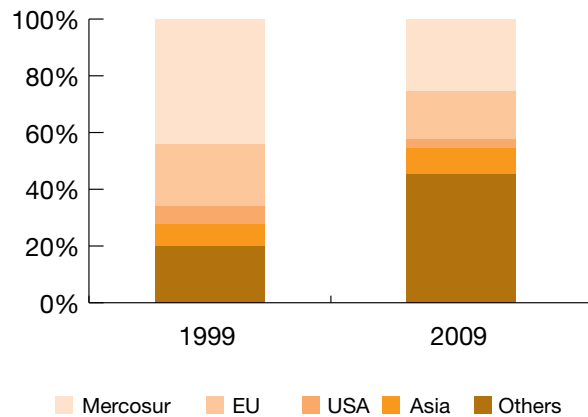
An export-based economy

The Uruguayan economy has a significant degree of trade liberalization. The trade liberalization coefficient (exports plus imports of goods and services in terms of GDP) reached over 60% in 2009.

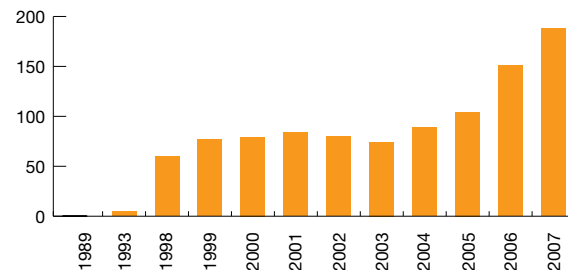
While insertion of the country in the region is significant, uruguayan exports have achieved relevant diversification regarding destination markets. Meanwhile, a large part of foreign sales are agriculture-livestock products due to the favorable geographical and weather characteristics the country features. Such is the case of forestry product exports.

In turn, the exporter profile of the economy has expanded to the service business. While tourism makes up a significant part of service exports, other services have gained momentum in recent years, including transportation and logistics, IT (particularly software) and finance.

Exports per destination



IT exports (USD millions)



Exports of highly specialized services have increased during the last few years.

Uruguay: moderate impact from world crisis

In contrast to many other countries in the region, the impact of the world crisis on Uruguay has been moderate. This crisis has two major transmission channels to the domestic market: finance and trade. One of the main strengths in the current environment lies paradoxically in the weakness of the effects of the financial channel, thus mitigating the impacts of the decline in economic activity. Likewise, the country's productive characteristics have been less vulnerable to the decline in foreign demand.

Financial system: greater strength

The local financial system has been able to mitigate the negative impacts that have been felt in developed countries. Given the characteristics of the reduced capital market of Uruguay, the effects of global securities markets have not had significant local impacts.

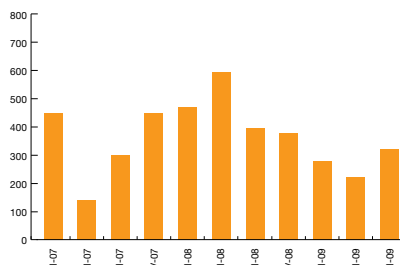
Meanwhile, in the current environment, the local financial system has created greater relative confidence. Deposits by both residents and non-residents have continued to rise after the deepening of the crisis in September 2008, enabling very good liquidity in the financial system, favored by continued rising credit.

Foreign direct investment has also continued to increase, with inflows of USD 326 million in the third quarter of 2009, totalizing USD 831 million until September 2009.

The most visible impact in the financial channel has been observed in the exchange rate. In Uruguay, the dollar increased approximately 12.5% in 2008, accompanying the rise seen in the international and regional markets. Since then, the exchange rate started to fall, accumulating a decrease of 19.0% in 2009.

It should be noted that this is the first crisis Uruguay has faced with a floating exchange rate system, which alleviates the negative shocks in the domestic market.

FDI (USD Millions)



Impacts via foreign trade

The widespread downturn in global demand has affected Uruguay's exports as well.

Nevertheless, the decline is mostly due to the fall in prices rather than to a fall in volumes. This is because most of the country's exports are foodstuffs, not high technology products or vehicles (items that have experienced a significant contraction in worldwide demand).

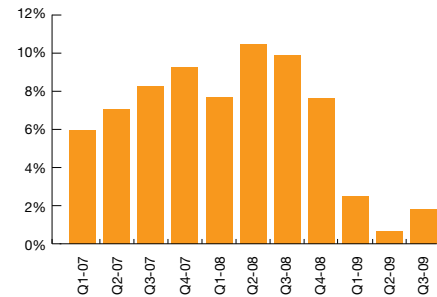
The decline in exports has mainly affected manufacturing and the agriculture-livestock sector. However, in 2009 exports in terms of volume started to recover and major export products expanded 9% as compared to 2008. Measured in value, these products show a decrease of 14%. The most affected industrial areas include tanneries, textiles and the automotive and wood industries.

With respect to the other demand components in the economy, consumption and investment continue to rise, albeit at a slower pace. Particularly noteworthy are projects that utilize benefit promotion systems that by early 2009 had already exceeded averages of last year, both in number and investment amount.

Uruguayan GDP showed a significant slowdown over the last few months and increased only 0.5% year-on-year in the second quarter and 1.9% in the third quarter of 2009 after having 6-7% growth rates in prior quarters.

Due to this fact, forecasts call for a slight increase in GDP for the year (2.0%) and a slightly greater recovery in 2010 (3.5%).

GDP (real growth)



Foreign trade

Imports

Goods may be imported with no significant restrictions, except for a few special products that may only be imported if authorized by the Executive Power.

Customs duties are imposed on the customs value of the imported goods, which is determined in accordance with valuation criteria provided by the World Trade Organization (WTO).

Along with Argentina, Brazil and Paraguay, Uruguay is a full member of MERCOSUR (Southern Common Market). In principle, imports of goods from any of these countries are generally free from customs tariffs, except for goods included in exception regimens, or those pertaining to the sugar industry (which are subject to the import tariff prevailing in Uruguay) and the automotive industry (which are subject, in some cases, to a reduced import tariff). For some goods imported from Argentina, special duties known as Specific Rights may be applicable. Meanwhile, goods from countries not belonging to MERCOSUR are subject to a common external tariff (CET) that varies between 0 and 20%, with exceptional levels that range from 23 to 35% corresponding mainly to certain types of shoes, sugar and automotive goods, and a 55% tariff in effect exclusively for the import of a special peach preparation.

Capital and information technology goods are subject to special tariff systems in Uruguay that range between 0 and 2%, except for some capital goods that are subject to an import tariff of between 10 and 14%, and some information technology goods that are subject to import tariffs of between 10 and 16%.

In addition to custom tariffs, imports are subject to VAT at a rate of 22% plus import surcharges.

The Free Zone system offers a significant advantage for companies operating in foreign trade.

Exports

Exports are not subject to any taxes and there are almost no prohibitions regarding the type of goods to be exported. On the contrary, several instruments are offered to promote exports:

- Reimbursement of taxes: exports are exempt from VAT. Furthermore, there is a system for reimbursement of indirect taxes, whereby the exporter may recover internal taxes that are added to the cost of the product exported. The amount to be reimbursed is a percentage of the FOB value set by the Executive Power for the product.
- Temporary admission: supply imports for exportable products are exempt from customs tariffs provided the final products are exported within an 18-month period.
- Draw-back: for certain products, the draw-back system allows for the reimbursement of tariffs paid on imports at the time of export.
- Special financing: exporters can access credit at preferential interest rates.

Transfer pricing regulations

Law 18,083 includes a specific chapter on transfer pricing under the corporate income tax rules for fiscal years starting as of 1 July 2007, in line with OECD guidelines.

As a general principle, transfer pricing rules are applicable to international transactions between related parties. However, the law has expanded the scope of these rules to transactions carried out with parties in low or zero-tax jurisdictions or regimens (either international or domestic), regardless of the relationship between them. Domestic transactions with Uruguayan Free Zones fall under this category.

The definition adopted by the law for determining related party status is quite broad, and may be applicable either directly or indirectly, and in matters of form or substance.

For import and export transactions of goods where prices can be determined through transparent markets, stock exchanges or similar, such prices should be utilized to determine the corresponding net income of Uruguayan source, unless proof can be provided to the contrary.

Special attention must be paid to transactions between related parties involving primary farming products and goods with known price quotations in transparent markets, made through a foreign intermediary other than the actual recipient of the goods.

Regional and global integration processes

With the aim of deepening the integration process started by MERCOSUR, the regional block has entered into agreements with Chile, Bolivia, Mexico, Venezuela and the countries from the Andean Community of Nations. This integration process conveys important advantages for entrepreneurs located in Uruguay, since they benefit from reduced customs tariffs when trading with these countries.

In addition, an Interregional Framework Cooperation Agreement with the European Union was signed to regulate spheres of cooperation in the areas of trade, economy and integration

Investment framework

A main challenge for the economy in Uruguay is to achieve sustained investment growth. A State policy of promotion and protection of investments has been established to provide a secure environment for investors in Uruguay. Commitment to these principles was reaffirmed in 1998 when the definitive regulatory framework of the Investment Law was promulgated.

Equal conditions for foreign and local investors

Apart from sector regulations, foreign investors (both individuals and legal entities) may set up companies in Uruguay without prior additional formalities or special government permits. Investments may be made in any currency.

Shareholders, partners and managers of companies in Uruguay may be either locals or foreign nationals, and either residents or non-residents in the country.

Foreign investors may set up operations by adopting the structure of a local corporation or a branch of a foreign enterprise. Corporate shares may be issued in nominative or bearer form, and may be fully owned by only one shareholder.

Investments by locals and foreigners are treated equally and both have access to the same benefits.

There are no limits to hire foreign personnel.

Likewise, the Uruguayan government guarantees the free repatriation of capital and free remittance of dividends, profits and other sums related to investments. Fund transfers can be made in any currency in view of the free convertibility system in Uruguay.

Banking secrecy

Uruguay has a long-established tradition of bank secrecy. Client information at financial institutions is protected and the supervising entity requires strict compliance standards and provides for queries through the Central Bank of Uruguay (BCU) regarding the level of indebtedness in the Uruguayan financial system.

Information subject to bank privacy rules may be revealed only in the following cases:

- By express authorization of the interested party, issued in writing.
- By duly sustained resolution of the courts.
- By BCU employees, auditors or other representatives who require access to such information because of their tasks related to the organization, operations and monitoring of financial institutions.

A prison penalty has been established for breaching bank privacy rules.

Equal investment incentives for local and foreign capital.

Tax privacy rules

Tax privacy precludes the DGI tax bureau from revealing information of their proceedings.

Breach of tax privacy may result in the firing of the employee responsible.

Prevention of money laundering

Uruguay has adopted measures to prevent money laundering; which include the creation of two public offices to fight terrorism: The National Intelligence Bureau (Ministry of Defense), and the Information and Intelligence Bureau (Ministry in charge of internal security).

Besides, the country has a juridical and regulatory framework in place against money laundering that satisfies the basic requirements of the 40 recommendations issued by the Groupe d'Action Financière (GAFI).

Courts have ample faculties to seize and confiscate goods or financial instruments involved in money laundering and in offenses involving this felony.

Uruguay offers legal protection to all individuals reporting suspect operations, without requiring a specific offense as a condition for reporting the operation.

A special Information and Financial Analysis Unit (UIAF) was created under the Central Bank of Uruguay to request information from public sector officials, analyze reports on suspect operations and communicate them to judicial authorities.

Money laundering prevention supervision is highly developed in the banking sector.

Casinos and real estate sectors are subject to specific obligations under these regulations.

As of 2011, a specific type of offshore holding company (SAFI) will be eliminated.

It has signed the Conventions of Vienna and Palermo and the International Convention for the Suppression of the Financing of Terrorism, as well as nine of the 11 UN protocols related to crimes of terrorism.

Uruguayan law establishes that all criminal actions are subject to extradition including felonies related to money laundering and financing of terrorism.

Intellectual Property

The protection of copyrights, trademarks, 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. In order to exercise the protected rights, registration of both Uruguayan and foreign work is mandatory. 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.

Trademarks

Trademarks are defined as names of objects or persons and words or symbols of any description. Registration with the DNPI National Industrial Property Bureau is necessary to acquire the exclusive right to a trademark and affords the registrant protection for a ten-year period, with subsequent ten-year extensions that are renewable indefinitely. The use of trademarks may be assigned to third parties by private contract or notarized deed, but it is always advisable to register the transfer with the DNPI in order to obtain protection against infringement. The use of trademarks may also be assigned through a license contract which cannot be registered with the DNPI. Unless otherwise agreed, it is understood that the transfer or sale of a business includes its trademarks.

Patents

Industrial patents are defined as the group of institutes that protect the rights stemming from inventions, creation of useful models and creation of industrial designs and models. Industrial patents granted in Uruguay give holders the exclusive right of use for a period of 15 years. After that period, the patent becomes public domain. Once patented, models of use (also called minor innovations) and industrial models or designs (visible form that incorporated to a product of use gives a different aspect or appearance) afford their owners the exclusive right of use for a period of five years renewable for an equal term only once. In order for rights of exclusive use to be enforceable on third parties, the inventions, models of use and industrial models or designs must be registered with the DNPI National Industrial Property Bureau. The Paris Convention for the protection of industrial property ratified by Uruguay grants the persons belonging to the signatory countries a priority right on an invention, model of use or industrial model registered in one of those countries with respect to applications filed in Uruguay by other persons for the use of the same invention, model of use or industrial model.

Fair competition

The Defense of Fair Competition Law seeks to promote the well being of consumers and users and to stimulate economic effectiveness, freedom and equality of the conditions to access markets. The Ministry of Finance, through the Commission for the Promotion and Defense of Competition, ensures compliance.

Legal framework for employment outsourcing

Uruguayan employment law seeks to protect workers while meeting the needs of the market. Due to the high specialization of companies in order to obtain greater profits, Uruguay uses the following employment methods that offer the employer the possibility to use the legal framework that best fits the enterprise.

Employment outsourcing contracts are:

- Subcontracts: when an employer, due to a contractual agreement, is responsible for carrying out work or services by his own interest and risk, and with workers under his authority, for a third person, called main employer, and the already mention work or services are related with the normal activity of the enterprise, whether these are principal or secondary.
- Intermediation: when a businessman is the one that contracts or takes part in the workers hiring, in order to provide services to a third party. The entrepreneur does not serve directly the services or work to the public, but to another employer or enterprise, also called main employer.

- Employment supplier firm contract: when a private employment supplier firm provides services that consist on hire workers in order to be them available for a third person, called user enterprise or main employer, that determines their tasks and work, and the supervision of the execution of its.

The main employer should exercise his right to be informed by the subcontractor, intermediation businessman or the employment supplier firm about the compliance of labor obligations, pension and insurance, referred to the workers. When this right is exercise, the liability for any debit of the abovementioned obligations will be vicarious. Likewise, the law establishes that, when the subcontractor, intermediation businessman or the employment supplier firm, fail to pay any of the obligations, the main employer will be able to withhold the payment to them, paying directly to the workers and publics offices (pensions and insurance obligations).

With reference to pensions obligations, fines and charges are excluded, as well as sanctions imposed by public offices.

Protection of the environment

The Uruguayan Constitution sets forth that the protection of the environment is a matter of general interest. The Ministry of Housing, Territory and Environment supervises all related matters, acting through the DINAMA National Environment Bureau.

The legal framework in Uruguay establishes the civil responsibility of the individual or commercial entity that causes damages or pollution to the environment or breaches environmental laws or rules, notwithstanding the existence of administrative or criminal responsibility established by the laws.

The Investment Promotion Law grants tax benefits to national or foreign investment projects in the country that use non-polluting technologies (“clean technologies”). In this manner, the State promotes the protection of the environment.



Foreign investment

Choice of entity

In general, individuals and legal entities may set up an enterprise in Uruguay without any prior formalities or special authorizations from the government, except for the case of (i) projects that may have an impact on the environment, (ii) public concessions, (iii) insurance and banking activities and (iv) sectors in which there is a State monopoly. The corporation is the most commonly used type of legal entity by foreign investors. However, there are no significant local tax differences between corporations, branches or partnerships.

Capital and holding requirements

There are no specific rules establishing percentages for foreign investment participation. For the majority of companies, there are no minimum or maximum capital requirements. However, special regulations apply to mining, telecommunications, banking, insurance and pension fund administrators. There is no minimum number of Uruguayan shareholders or partners required. There is no general requirement stating that directors or managers must be Uruguayan residents or nationals. In some cases, however, Uruguayan residence of the legal representative is recommended for practical reasons.

Repatriation of funds

Repatriation of funds is unrestricted, but the requirements of Uruguayan corporate law (law 16,060) must be fulfilled in order to repatriate earnings or capital.

Uruguayan Corporate Law

This law regulates the incorporation and administration of business entities in general. The main types of legal entities are Corporations (Sociedad Anónima, as per the Spanish denomination) and Limited Liability Partnerships (Sociedad de Responsabilidad Limitada, as per the Spanish denomination). In the case of foreign investors, the Branch is also widely used and is regulated by local corporate law. Limited and General Partnerships as well as Cooperatives are also addressed by the provisions of the Uruguayan corporate law. Likewise, Consortiums and Groups of Economic Interest can also be formed.

Trust Law

This law has been in effect in Uruguay since November 2003 and regulates this type of alternative structure for doing business in the country.

Corporations

Corporations have no operating limitations whatsoever and the legal system is similar to that of capital stock companies found in foreign legislation.

Shares can be issued as nominative or bearer as well as common or preferred. The amount of preferred shares cannot exceed 50% of the total share capital. Voting rights for different share classes are normally established in the bylaws, with each share being entitled to one vote. For banking, insurance, pension fund administrators, pharmacies, radio, television and rural real estate property rights, shares must be nominative. These shares may be freely transferred and depend on the type. Bearer shares can be transferred simply by delivery of the certificates. Nominative shares must be endorsed and their transfer must be communicated to the corporation.

25% of share capital according to the bylaws must be paid in at the moment of signing of the bylaws. This capital shall be expressed in Uruguayan pesos and accounting must be performed in this currency. After formation, one shareholder may own the entire capital of the corporation.

Uruguayan corporate law establishes two different types of common corporations: open (basically those using public savings or with shares listed on the stock exchange) and closed (defined as those that are not open).

Shareholders exercise the control of a corporation through the general shareholders' meeting, which is the corporation's highest authority. The management of the business is normally delegated to a board of one or more directors and to the managers. Powers of each body are defined under Uruguayan corporate law and through the by-laws of the corporation. The directors can be individuals or legal entities, either local or foreign, and may be domiciled outside of Uruguay.

Meetings can be ordinary or extraordinary. The ordinary meeting must be held within six months of the end of each year to consider the state of the business and the performance of the board of directors as well as to approve the annual financial statements of the year, the syndic's report (if the company has one), profit distribution (if any) and to designate the members of the board of directors. Extraordinary meetings are held when required by the corporation, with the reason stated for calling the meeting. They are convened to consider matters other than those addressed exclusively by the ordinary meeting. The meetings must take place in Uruguayan territory and must be convened by the board of directors or the administrator.

Shareholders may be represented at the meetings by third parties through simple letters of authorization that do not require certification by a notary public, nor any consular legalization when issued abroad.

In general, corporations are subject to the control of the AIN National Internal Audit Office with respect to the formation, incorporation and modification of the company contract or by-laws as well as for early dissolution, transformation, merger, spin-off or any variation in the capital.

Books and records must be kept by all companies. They include the general ledger, inventory ledger and the copy letter book. Likewise, corporations must keep minutes of shareholder and director meetings, as well as records of shareholder attendance.

Although formation procedures may be complex and lengthy, "shelf corporations" are available to start operations immediately.

**One shareholder may own 100% of the capital.
Shares can be nominative or bearer.**

Limited Liability Partnership

The Limited Liability Partnership (SRL) is the type of legal structure most often used by small and medium-sized business entities in the country.

The only operating restriction is that they cannot perform financial activities.

Partners are liable up to the amount of their capital contributions. The partnership can have from two to 50 partners, which can be legal entities, with no restriction on nationality. They can operate temporarily with only one partner.

This type of legal entity does not have minimum or maximum capital requirements, which is represented by ownership interest which is nominative. There is no limitation on transfer of ownership interest between partners. In case of the transfer of ownership interest to third parties, it is necessary to have the approval of 75% of the partners.

Partnerships are administered and represented by one or several persons, partners or non-partners, designated in the deed. Resolutions in partner meetings are adopted generally by partners holding the majority of the ownership interest if there are less than 20 partners. If there are 20 or more partners, resolutions generally are adopted by simple majority of votes of the partners in attendance, computed at one vote per ownership interest share.

Limited Liability Partnerships are not subject to the control of the AIN National Internal Audit Office. Profits are distributed as provided in the partnership deed, which can be different from the proportional criteria based on the amount of capital holdings.

Branch of a foreign corporation

Companies constituted abroad can perform isolated business operations in Uruguay and can appear in court as plaintiffs or defendants, but to perform the activities outlined in their bylaws or company deeds on a regular basis, they must establish a branch in Uruguay. The Branch has no operating restrictions, but must be engaged in the same activities as its Head Office.

The foreign head office, whose net worth cannot be separated from that of the branch, is responsible (with no limits) for the obligations of the branch. Being the branch a foreign company, aspects such as personal involvement, anonymity and profits will depend on head office regulations. The branch is a foreign company and consequently is unable to adopt a different type of legal structure.

The capital assigned to the branch is not represented by shares or ownership interest that can be transferred or negotiated: the business entity operating as a branch must be transferred following the legal regulations which govern the sale of business concerns.

The branch must keep separate accounting records in Uruguayan currency and in the Spanish language.

Trusts

Because of restricted credit due to the 2002 financial crisis and recession in Uruguay, the necessity to channel investment and credit for major production sectors arose. This led to the passage of the Trust Law as a complementary financing mechanism to traditional bank credit.

Trusts have been useful and effectively applied in diverse sectors of the local economy including dairy, manufacturing, services and infrastructure. Foreign investors normally use this instrument in a private manner so as to provide guarantees to their own investors in the country and to make rapid investments. Above all, trusts are much more flexible than traditional corporate forms of doing business.

Likewise, this instrument is starting to be employed in equity structuring involving foreign assets due to the advantage of its territorial criterion for profit attribution. A financial trust issues equity securities in the trust's domain, debt representative titles guaranteed with trust goods or titles with mixed characteristics (credit rights and participation of the remainder). Consequently, and in contrast with ordinary trusts, financial trust beneficiaries have their rights represented in securities.

Tax system

Overview of the tax system

Uruguay is one of the few countries in the region that still collects taxes following the source principle: investments located and activities performed outside Uruguayan territory are not subject to taxation, regardless of nationality, domicile or residence of the parties participating in the transactions and the place where the transaction agreements are made. A major tax reform went into effect on 1 July 2007 and ratified this principle. The main purpose of the reform was to restructure the taxation of resident individuals.

The tax system is structured on the concept of “residence.” Legal entities are deemed to be resident in Uruguay when they are incorporated according to local legislation. Individuals are deemed to be residents: (i) if they remain within Uruguayan territory for a period longer than 183 days during the calendar year (except when residence in other country can be justified) or (ii) when their basis of activity or their center of vital interest is in Uruguay (basically, when the habitual residence of their family is in Uruguay).

Main direct taxes are the IRAE Income Tax on Economic Activities and the IP Capital Tax.

The main indirect taxes are the IVA Value Added Tax and the IMESI Excise Tax.

There is no taxation on capital contributions or stamp duties.

Indirect taxation is the main source of revenue.

Uruguay has signed treaties to prevent double taxation with Germany and Hungary that are currently being renegotiated, and has also signed a treaty with Mexico that is pending ratification by each country. Additionally, the government announced the negotiation of new agreements with Chile, Portugal, Spain and India, among others.

Income Tax

There are three categories of taxpayers:

Companies	25% Entities Permanent establishments
Individuals	0-25% labor 12% capital Residents
Non-residents	12%

The entire tax system
is based on the source principle.

Income tax

Corporate income tax

IRAE is levied at a 25% rate on business income from local sources obtained by Uruguayan resident entities and permanent establishments of non-resident entities and individuals.

The definition of permanent establishment follows that of the Organization for Economic Cooperation and Development (OECD) and a non-resident is deemed to have a taxable presence in Uruguay when carrying out all or part of activities from a fixed place of business or through a dependent agent.

Income obtained in the agriculture business (including forestry) is also in the scope of this tax but depending on the nature and size, those engaged in this type of activity may elect to be subject to the IMEBA Agricultural Products Sales Tax. However, this option is prohibited for companies organized under any of the forms of legal entities regulated by Uruguayan Corporate Law for permanent establishments of non-residents, trusts, closed investment funds and State enterprises.

There is also an option to be taxed under IRAE rules that is available for those who obtain income subject to the IRPF Individual Income Tax, with the exception of salaries and dividends or profits. For those which obtain income from personal services, such as independent contractors, the option depends on the level of fees effectively obtained.

To determine net taxable income, duly documented accrued expenses required for the generation of Uruguayan source income are allowed as deductions. To determine the taxable basis in transactions with foreign related parties, transfer pricing rules in line with the OECD guidelines must be applied. In addition, transactions between companies located in Uruguay and companies located in low tax jurisdictions, whether related or not, must be analyzed within the scope of transfer pricing regulations.

Profits of small companies (annual income below approximately USD 25,000) are not subject to IRAE. Nevertheless, a monthly fixed tax of approximately USD 70 must be paid. In general, IRAE taxpayers must make advanced payments on account of the final balance at the end of each fiscal year.

Individuals income tax

Resident individuals are subject to the IRPF. Income subject to tax is divided into two categories: capital and labor income. Capital income includes earnings from holding movable and immovable property and transfers, and is levied at a flat rate of 12% with some exceptions (i.e., interest on deposits in local currency, interest on debt issued by public offering and dividends or profits paid by IRAE taxpayers).

In some cases, tax rates to be levied on capital income obtained by residents may be lower than the aforementioned flat rate of 12%.

Labor income includes earnings from rendering personal services as an employee or as an independent worker and is levied at progressive rates that vary from 0 to 25%, depending on total annual gross income. Deductions are minimal and include retirement plan contributions and deductions for underage or handicapped dependent children.

Although originally included in the scope of the IRPF, as of 1 July 2008, Uruguayan source income derived from pensions is subject to a specific tax aimed at financing the pension fund at progressive rates that range from 10 to 25%. The annual non-taxable threshold of this tax is of approximately USD 8,200. In order to calculate the progressive tax on labor income, the following rates are applicable to annual gross income:

Bracket	Reference in equivalent USD	Tax
1 st	7,000	0%
2 nd	7,000 – 10,000	10%
3 rd	10,000 – 15,000	15%
4 th	15,500 – 50,000	20%
5 th	50,000 – 100,000	22%
6 th +	100,000	25%

Regarding applicable deductions, the following rates must be applied to the aggregate amount of such deductions to determine the tax.

Taxpayers must make advance payments during the fiscal year (either by themselves or through withholding by employers), which are deducted to calculate the final tax payable to the DGI Tax Bureau.

As from 1 January 2009, taxpayers have the choice to pay this tax as a family unit. Rates to be applied vary from the aforementioned rates and depend on the income of each member of the family unit.

Bracket	Reference in equivalent USD	Tax
1 st	3,000	10%
2 nd	3,000 – 8,000	15%
3 rd	8,000 – 43,000	20%
4 th	43,000 – 93,000	22%
5 th +	93,000	25%

Non-residents income tax

All Uruguayan sourced income obtained by non-residents (other than those obtained through a permanent establishment in Uruguay) are taxed by the IRNR Non-Resident Income Tax at a general flat rate of 12% on gross income. Technical service fees related to obtaining income local source are deemed Uruguayan sourced even when the service is rendered outside Uruguay.

The following items of income are subject to reduced tax rates or are exempt:

- Interest on loans (exempt for the creditor when the debtor obtains mainly non taxable income).
- Dividends or profits paid out of exempt income (exempt, otherwise 7%).
- Technical service fees paid by beneficiaries that mainly obtain exempt income (0.6%).
- Capital gains upon transfer of Uruguayan bearer titles (exempt).

IRNR is basically collected by way of withholding and IRAE taxpayers are appointed as withholding agents.

Other taxes

Net Wealth Tax

The Net Wealth Tax (IP) is levied on the amount of net assets located or economically used in Uruguay at each fiscal year-end at a rate of 1.5%. Deductibles are limited and include debts with suppliers of goods and services, taxes not yet due and debts with governments, International Credit Offices of which Uruguay is a member and foreign financial institutions, with the objective of financing long-term productive projects. In order to determine the tax basis, exempt assets as well as assets located abroad are deducted from these liabilities.

IP is not only levied on corporate taxpayers but also on the net wealth of individuals at each year end at a progressive scale of rates from 0.7% to 2.5%.

IP is also levied by way of withholding of loans held by foreign entities or individuals against debtors located in Uruguay at each year end, unless they were originated in imports, loans or deposits, all of which are exempt from this tax. The applicable rate is 1.5% in case of creditors that are legal entities and range from 0.7% to 2.5% in case of creditors that are individuals.

Value added tax

Uruguayan VAT is a non-cumulative tax levied at a general rate of 22% on the provision of services and on the circulation of goods within the limits of Uruguayan territory. Imports of goods and value added in the construction of immovable assets are also within the scope of this tax.

A reduced 10% rate applies to specific goods and services, such as basic food items, medicines, hotel services, health services, initial sales of immovable assets, sale of natural fruits, flowers, vegetables, etc.

There are some goods and services which are exempt from VAT, such as foreign currency, real estate (different from initial sale), agricultural machinery and accessories, milk, books and magazines, newspapers and educational material, interest on public and private securities and deposits, real estate rentals and certain banking operations. Exports and agricultural products, under certain conditions, are exempt, whereby the related tax credit is reimbursed.

Uruguayan VAT follows a debit / credit system, by which input VAT may be offset from output VAT.

Excise tax

In general, the Excise Tax (IMESI) applies on the first transaction made in the domestic market by manufacturers or importers of the goods. Exports are not taxable.

Rates vary for each item (from 10 to 80%) and are generally set by the government within maximum parameters established by law. Goods subject to the highest rates are alcoholic beverages, tobacco, gasoline, fuel, lubricants, and other petroleum products.

Tax on real estate transfer

The Real Estate Transfer Tax (ITP) applies to the transfer of immovable assets. Transfer is defined in a broad sense including the sale, cession of the right to use, transfer of inheritance rights, etc. Both parties to the transfer contract are subject to this tax at a rate of 2% each on the property value (generally lower than market value). When the property is transferred without payment, the beneficiary pays the tax at a rate of 4% on its tax valuation, except for direct heirs or legatees, who pay a 3% rate.

Investment promotion

Incentives for foreign investors

As a consequence of the source principle applied to taxation, Uruguay is used by multinational companies to structure investments in the region and internationally.

The main tax incentives for investments in the country stem from two different instruments:

- Investment law.
- Free Zone law.

Investment law

Uruguay has a specific legal framework for the promotion and protection of local and foreign investment. Relevant regulations establish that companies may obtain a government declaration granting promotional status that opens access to significant tax benefits.

To qualify for these benefits, the investor must file an application at the Bureau of Investor Assistance, which monitors the evaluation process for projects. After filing, the Application Commission evaluates whether the applicant qualifies for the promotional status declaration in accordance with objective evaluation criteria and submits its conclusions to the Executive Power.

If approved, the Executive Power issues a resolution declaring the status of promoted project, specifying the project's objectives, the criteria followed, the maximum amounts and validity period for the tax benefits granted.

Recent regulations establish short and peremptory due dates for carrying out the procedures and approvals of the projects filed with the Application Commission giving priority to time expediency.

The decree also regulates the follow-up monitoring of the project and the benefits granted.

The following benefits are available under this law:

Automatic (only for manufacturing, extractive and farming / ranching activities):

- Exemption from IP tax for chattel property directly engaged in the production cycle and data-processing equipment.
- Exemption from VAT and IRAE taxes on the import of said goods and reimbursement of VAT in the case of items purchased locally.

The following discretionary benefits are also available:

- Tax exemptions on the import of fixed assets.
- IP tax exemptions, permanent for chattel property items, 8 years for construction work in Montevideo and 10 years in the rest of the country.
- VAT reimbursement on the local purchase of goods or services for civil construction work.
- Increased IRAE deductions regarding fees and remunerations related to the technological developments.
- Exemption from IRAE tax depending on the nature and size of the project. The Executive Branch has declared that the following criteria will be taken into account regarding the aforementioned tax benefits: (i) addition of technology to improve competitiveness; (ii) contribution to export growth and diversification; (iii) contribution to geographic decentralization; (iv) improvement of research, innovation and development; and (v) generation of employment.

To determine the tax benefit applicable to each project, projects are assessed with regard to the amount of investment made by the company. Consequently, the tax benefit given to the project depends on the amount of investment and the quality and quantity of the desirable features (mentioned earlier).

Furthermore, the IRAE exemption applies upon the payable tax and does not apply upon the income subject to such tax, granting a major benefit.

In an effort to minimize the effects of the global financial crisis on Uruguayan investments, a new regulation was established by the government in December 2008.

The regulation establishes that the amount invested between 1 January 2009 and 31 December 2009 will be computed at 120% of the total when determining the IRAE exemption.

Finally, the aforementioned tax exemptions do not depend of the following:

- The legal vehicle set up by the company through which the investment is carried out.
- The investment's funding (it can be self financed or financed through third capitals).
- It is not necessary to capitalize accumulated earnings or reserves.

Investment law – IRAE exemption

The following chart details IRAE exemption amounts:

Type of project (years)	Investments (in USD thousand) ⁽²⁾	Maximum percentage deduction in the investment	Maximum percentage deduction for income tax	Maximum period (years)
Small	I < 300	60%	90%, 80%, 60%, 40%, 20%, 10% ⁽¹⁾	5
Medium 1	300 < I < 1,150	70%	90%, 80%, 60%, 40%, 20%, 10% ⁽¹⁾	15
Medium 2	1,150 < I < 5,800	80%	90%, 80%, 60%, 40%, 20%, 10% ⁽¹⁾	20
Large 1	5,800 < I < 12,000	90%	90%, 80%, 60%, 40%, 20%, 10% ⁽¹⁾	25
Large 2	12,000 < I < 41,000	90%	90%, 80%, 60%, 40%, 20%, 10% ⁽¹⁾	25
Large 3	41,000 < I < 575,000	100%	90%, 80%, 60%, 40%, 20%, 10% ⁽¹⁾	25
Very large	I > 575,000	100%	100%	25

⁽¹⁾ Percentages depend on the timeframe and magnitude of the project.

⁽²⁾ Approximate amount, depending on a fixed tax unit that varies monthly and on the tax exchange rate.

Furthermore, in 2009 the Executive Branch declared the following activities to be included in the scope of the Investment Law:

- Electronic industry: production of electronic and electrical equipment, computers, medical equipment, telecommunications equipment, measurement instruments, etc.
- Naval industry: construction, maintenance and repair of water crafts and vessels and related parts.

The IRAE exemption will be applied in accordance with the following table:

Fiscal year initiated between:	IRAE exemption on promoted activities (percentage)
1 January 2009 and 31 December 2014	100%
1 January 2015 and 31 December 2016	75%
1 January 2017 and 31 December 2018	50%

Free Zone system

Following the approval of the Free Zone law in 1987, this system has become an important tool for attracting investments to Uruguay.

It has been utilized both for carrying out traditional activities in the Free Zones (warehousing, logistics and distribution) and for providing services related to software, finance, call centers, etc. and manufacturing activities such as cellulose pulp and leather production.

In a clear sign of stability, none of the administrations in office over the last two decades has modified the basis of the Free Zone system.

The law defines Free Zones as privately or publicly owned isolated and fenced off areas of Uruguayan territory determined by the Executive Branch with the purpose of carrying out all types of manufacturing, commercial and service activities within the zone, while enjoying tax exemptions and other benefits envisaged in the law.

Companies in these areas cannot carry out industrial, trading or service activities in the non-Free Zone Uruguayan territory, except for services expressly authorized by the government, but are allowed to render all types of services within the Free Zone or to third countries.

As mentioned earlier, Free Zone users are allowed to render the following services¹ to the non-Free Zone Uruguayan territory:

- International call centers, except for those whose main destination is the non-Free Zone Uruguayan territory.
- E-mail, distance learning, electronic signature certificate issuance.
- Software production, technology consulting and related training services.
- Accounting, administration and management services rendered to related companies who carry out port and shipping logistics activities if said services are lower than 20% of the total income obtained during the fiscal year.

Free Zone users are exempt from all current and future national taxes, including those taxes for which a specific legal exemption is required, in connection with the activities performed within the Free Zone territory.

The Uruguayan government guarantees all the exemptions and benefits afforded by law during the term of their contracts. The user is however allowed to perform taxable activities provided the corresponding taxes are paid.

(1) Such services will be subject to the general tax system.

In order to maintain status and benefits (including tax exemptions), users must have at least 75% of Uruguayan nationals or citizens on their payrolls, in connection with the activities carried out in the Free Zone. Only in exceptional cases may the Executive Power reduce this percentage.

The exemption excludes BPS social security contributions employee wages.

These contributions are not applicable to foreign personnel working in the Free Zone provided they declare in writing that they do not wish to use the Uruguayan social security system. If that choice is made, they will also receive more favorable treatment regarding income taxation.

The entrance and departure of goods to and from the Free Zone is exempt from taxation. If goods are introduced to these areas from non-Free Zone Uruguayan territory, they are considered exports for tax purposes. Meanwhile, goods introduced to non-Free Zone Uruguayan territory from the Free Zone are considered imports, and must pay the corresponding customs duties and comply with the legal formalities required for imports.



Exemption from all current and future national taxes guaranteed by the Uruguayan Government.

The following are some of the countries with which Uruguay has signed treaties of promotion and protection of investments:

Europe

Spain
Belgium
France
Germany
Italy
Sweden
Switzerland
United Kingdom
Finland
Bulgaria
Czech Republic
Romania

Asia and Australia

Australia
Malaysia
Israel
Saudi Arabia
Egypt
India
Iran

South America

Argentina
Brazil
Paraguay
Chile
Bolivia
Venezuela

Central America

El Salvador
Panama
Nicaragua

North America

United States
Canada
Mexico

Africa

Angola



Social security and labor regulations

Labor regulations

The Ministry of Labor ensures that employers meet labor laws and regulations and provides technical assistance to employers and employees to ensure their corresponding rights.

Once the labor relationship is initiated, it is possible to establish temporary contracts for three months. In justified cases, it is also possible to establish labor contracts for pre-determined periods.

Unions are organized by company and industry sector. Employee affiliation to unions is voluntary. Since May 2005, industry-based Salary Boards consisting of delegates from the government, the workers and the companies themselves began to set wages for each industry. The Boards seek to establish mandatory wage adjustments for each industry sector and to set minimum wages for each category of staff.

Labor related accidents and professional sickness which may affect the worker are covered under a mandatory government system that is administered by the state insurance company. This system provides medical assistance and covers temporary and permanent disabilities stemming from work.

Social security system

Affiliation to the social security system is mandatory except for foreign workers rendering services in the Free Zones. Certain foreign workers may opt out from the Uruguayan social security system by way of international treaties signed by the country. The social security administration (BPS) is the public agency responsible for the social security system and collects all contributions from companies and their employees and maintains an up to date record of the employment history of each worker.

The social security system includes the following benefits: pensions, unemployment, sickness and maternity.

Affiliation to the social security system is mandatory.

Pensions

The pension system was reformed in 1996 and covers disability, old age and retirement. It divides workers into three levels according to their pay.

Workers in the first level are included in the so-called “intergenerational solidarity system” which is a distribution system with pensions paid by the BPS social security administration. Workers in other levels are included in the “mandatory individual savings regime,” which is an individual capitalization system administered by Pension Savings Fund Administrators (AFAPs) through which personal accounts and the amounts to be received by the worker are related directly to the contributions paid into his or her personal account.

Workers who are included in the first level may opt to contribute up to 50% of their pay to the individual savings system (AFAP) but for the remaining 50% they must contribute to the intergenerational solidarity system (BPS).

Workers with pay in excess of approximately USD 2,450 may opt to pay or not to pay on remunerations exceeding this amount. Total contributions are paid to BPS, which later transfers the corresponding payment to the AFAPs. The worker will receive a pension paid by the BPS, plus an annuity for life (paid by an AFAP).

Unemployment

There is an unemployment insurance system whereby an unemployed worker, either on a temporary or permanent basis, receives a subsidy paid by BPS. This coverage is granted for 6 months and in case of temporary unemployment by the end of the six months, the worker may be reincorporated to his original labor position or terminated by the employer. When the unemployed worker is more than 50 years old, the coverage can be extended another 6 months.

Health coverage

Workers and their children have the right of being affiliated to a medical care institution without cost. In the case of a common illness the labor contract is interrupted and the BPS pays an illness compensation.

Maternity

Pregnant female workers have the right and obligation to stop working six weeks before and six weeks after childbirth and to receive medical assistance and a stipend representing wages, year end bonuses and vacation pay plus vacation bonus. These remuneration is paid by BPS and do not represent an additional cost to the employer.

Contributions and benefits

Monthly employers must pay contributions and must withhold and pay employee contributions, which are applied on all remunerations paid to the worker.

Contribution rates are as follows:

	Employer contributions	Employee contributions
Social security contributions: retirement pensions, old age or disablement and unemployment Insurance	7.5% cash benefits 2,5% kind benefits (*)	15%
Health insurance	5%	3%, 4.5% or 6%
Labor restructuring	0.125%	0.125%

(*) To increase to 5% in January 2010 and to 7.5% in January 2011.

Wages are defined as all economic compensation received by the worker pursuant to the labor contract. There are no legal regulations, restrictions or general agreements to establish employee profit sharing systems. Except for management positions, profit sharing is not frequently used in Uruguay.

Working hours exceeding legal or conventional hours results in double time pay on normal working days and two and a half times pay on non-working days. There are no general regulations for additional payments to employees who work at night between 10:00 p.m. and 6:00 a.m.

Workers have the right to an annual remunerated vacation consisting of 20 consecutive days, which increases one day for every four years of length of service starting in the fifth year. Holidays must be remunerated at the normal wage in force by the time the vacation is taken. Workers have the right to receive, apart from their normal payment during the vacation period, a supplement known as “vacation bonus.”

Year-end bonuses (also known as supplementary annual salary or 13th salary) are payable to all workers in the private sector. The first half is paid in June and the other in December.

The employer has the faculty of terminating workers and is obliged to pay an indemnity. Monthly workers receive an indemnity of one month’s salary for each year or fraction of length of service, with a maximum of six months.

Foreign personnel

In order to work in the country, foreigners must apply for residency, first temporary and later permanent. Residency is granted without major requirements: proof of good character in the country of previous residence, a certificate of good health and a certificate of means of subsistence.

The activities with restrictions for foreign workers are:

- Fishing: the captain and at least 50% of the crew must be Uruguayan.
- Uruguayan airlines: the crew must be Uruguayan and at least 75% of employees must be Uruguayan citizens.
- Free Zones: 75% of employees must be Uruguayan citizens in order to receive tax benefits.

International covenants and agreements

Uruguay has signed a series of international covenants and agreements on social security that, depending on the corresponding specific agreement, enable personnel to accredit in their host country the periods of service rendered in Uruguay, make temporary transfers of personnel, pay pensions and similar concepts abroad without rebates or restrictions and undertake proceedings from different locations. Further negotiations are under way with Austria, Sweden, Mexico and Australia.

South America

Argentina
Brazil
Paraguay
Bolivia
Colombia
Chile
Ecuador
Peru ⁽¹⁾
Venezuela

Europe

Belgium
Netherlands
Italy
Portugal
Switzerland
Greece
Spain

Asia

Israel

Central America

Costa Rica

North America

United States
Canada

⁽¹⁾ Pending ratification

Accounting and audit requirements

Accounting practices have been developed significantly since 1991. In that year, a Commission on Accounting Standards was established, with the purpose of advising the Executive Branch on the issuance of generally accepted accounting principles. In the same year, International Financial Reporting Standards (IFRS) began to be applied. In 2001, the Financial Statements Registry was created. In May 2004, the Executive Branch established the mandatory application of IFRS applicable and issued to that date. From July 2007, IFRS issued to that date are mandatory for fiscal years starting in 2009.

During the same period, the Central Bank of Uruguay has also been creating a set of regulations regarding the publication of information by financial entities, debtors of the financial system and companies that issue stocks and bonds. In all of these cases, the change in regulations shows a tendency to converge to generally accepted accounting principles applied internationally.

Books and records must be kept in Spanish and in local currency. Financial statements are prepared on the basis of the historical cost convention, partially adjusted for inflation.

Financial entities, companies with a certain level of indebtedness with the financial system, companies that issue shares or debentures on the stock exchange and public transportation companies must file audited financial statements.

Uruguayan accounting rules follow IFRS.

Companies where the total accounting value of assets exceeds approximately USD 585,000 or where net revenues exceed approximately USD 2,000,000 must register their financial statements with the National Internal Audit Office.

Financial statements for large and medium-sized companies (as per classification by the tax bureau) must be accompanied by a Limited Review Report, issued by a Uruguayan certified public accountant for tax purposes.

Free Zone companies must consider that in case the accounting value of assets exceeds approximately USD 585,000 or if net revenues exceed approximately USD 2,000,000, financial statements must be audited. In other cases, financial statements must be accompanied by a Limited Review Report and must be registered with the tax bureau.

A full audit, limited review or compilation report issued by a certified public accountant is required for companies that submit their financial statements to government entities, in accordance with the specific requirements of each government entity.



Main indicators of the economy

Gross Domestic Product	2010*	2009	2008	2007	2006
Real annual growth	3.5%(*)	2.0%(*)	8.9%	7.6%	4.6%
USD millions	39,953(*)	32,299(*)	32,213	24,314	20,076
GDP per capita (USD)	11,903(*)	9,656(*)	9,662	7,315	6,057
Domestic Demand					
Private Consumption (annual change)	2.5%(*)	1.2%(*)	8.8%	7.7%	7.2%
Total investment (annual change)	n.f.	-20%(*)	25.0%	6.3%	13.3%
Inv. in fixed assets (annual change)	n.f.	-2.0%(*)	18.1%	6.8%	14.2%
Foreign Direct Investment (USD millions)	n.f.	1,300(*)	1,840	1,329	1,493
Foreign Trade					
Exports of goods FOB (USD millions)	6,023(*)	5,402(*)	5,949	4,514	3,989
Imports of goods CIF (USD millions)	7,532(*)	6,847(*)	9,069	5,628	4,806
Commercial trade balance (% GDP)	n.f.	-1.5%(*)	-2.9%	-0.6%	-0.4%
Current Account balance (% GDP)	n.f.	0.5%(*)	-4.7%	-0.9%	-2.0%
Labor Market					
Average Unemployment Rate	7.4%(*)	7.7%(*)	7.9%	9.6%	11.4%
Real Salaries (annual change)	2.2%(*)	6.0%(*)	4.4%	4.1%	3.7%
Prices					
Consumer (annual change)	6.0% (*)	5.9%	9.2%	8.5%	6.4%
Wholesaler (annual change)	9.0% (*)	10.5%	6.4%	16.1%	8.2%
Depreciation (annual change)	1.5% (*)	-19.0%	12.5%	-11.3%	3.4%

Monetary Indicators	2010*	2009	2008	2007	2006
Loan interest rate (local currency)	n.f.	26.6%	27.5%	22.3%	26.9%
Loan interest rate (foreign currency)	n.f.	5.6%	6.9%	6.6%	7.6%
International Reserves (USD millions)	n.f.	8,037	6,360	4,121	3,091
Public Finance					
Surplus or deficit (% GDP)	-1.7%(*)	-2.1%(*)	-1.3%	-0.1%	-0.5%
Total Public Debt (% GDP)	n.f.	63.0%(*)	51.3%	67.1%	68.3%

Source: Official statistics

(*) In-house forecast

n.f.: no-forecast

Hints for the business visitor

Visitor visas

Visiting businesspersons do not require any documentation other than a valid passport. Nationals of Argentina, Brazil, Chile and Paraguay require only their identity card.

Currency

The unit of local currency is the Uruguayan peso. The “\$” sign is the official symbol for the currency within Uruguay. Exchange rates as of September 2009 were as follows:

	\$
USD 1	21.20
EUR 1	30.65
GBP 1	33.20
ARS	5.50
BRL	11.20

Business hours

Stores are normally open from 9:00 a.m. to 7:00 p.m. Monday through Friday, and from 9:00 a.m. to 1:00 p.m. on Saturday. There are several shopping centers, which open from 10:00 a.m. to 10:00 p.m. everyday.

Government offices are open to the public usually between 12:30 p.m. to 7:00 p.m. in winter and from 7:00 a.m. to 2:30 p.m. in summer.

Bank hours are from 1:00 p.m. to 5:00 p.m. (certain banks open at 11:00 a.m.) but a vast ATM network is available.

Factories and business offices are usually open from 9:00 a.m. to 6:00 p.m.

Legal holidays

Public holidays for which the employees are entitled to full pay are:

1 January, 1 May, 18 July, 25 August and 25 December.

There are also official holidays that are paid only if worked:

Carnival (two days in February or March), Easter week (two days in March or April), 6 January, 19 April, 18 May, 19 June, 12 October and 2 November.

Weights and measures

Weights and measures are based on the metric system. There are no unusual measures or terminology, except for certain archaic terms still occasionally found in rural areas.

Business information services

Business information for foreign businesspersons visiting Uruguay can be obtained at the nearest consulate or diplomatic office.

Tips

Tips are usually not included in the price of services. Customary tips are 10% for restaurant meals and taxi fares.

Taxis

The fare from the international airport to downtown Montevideo is about USD 20.

Offices

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