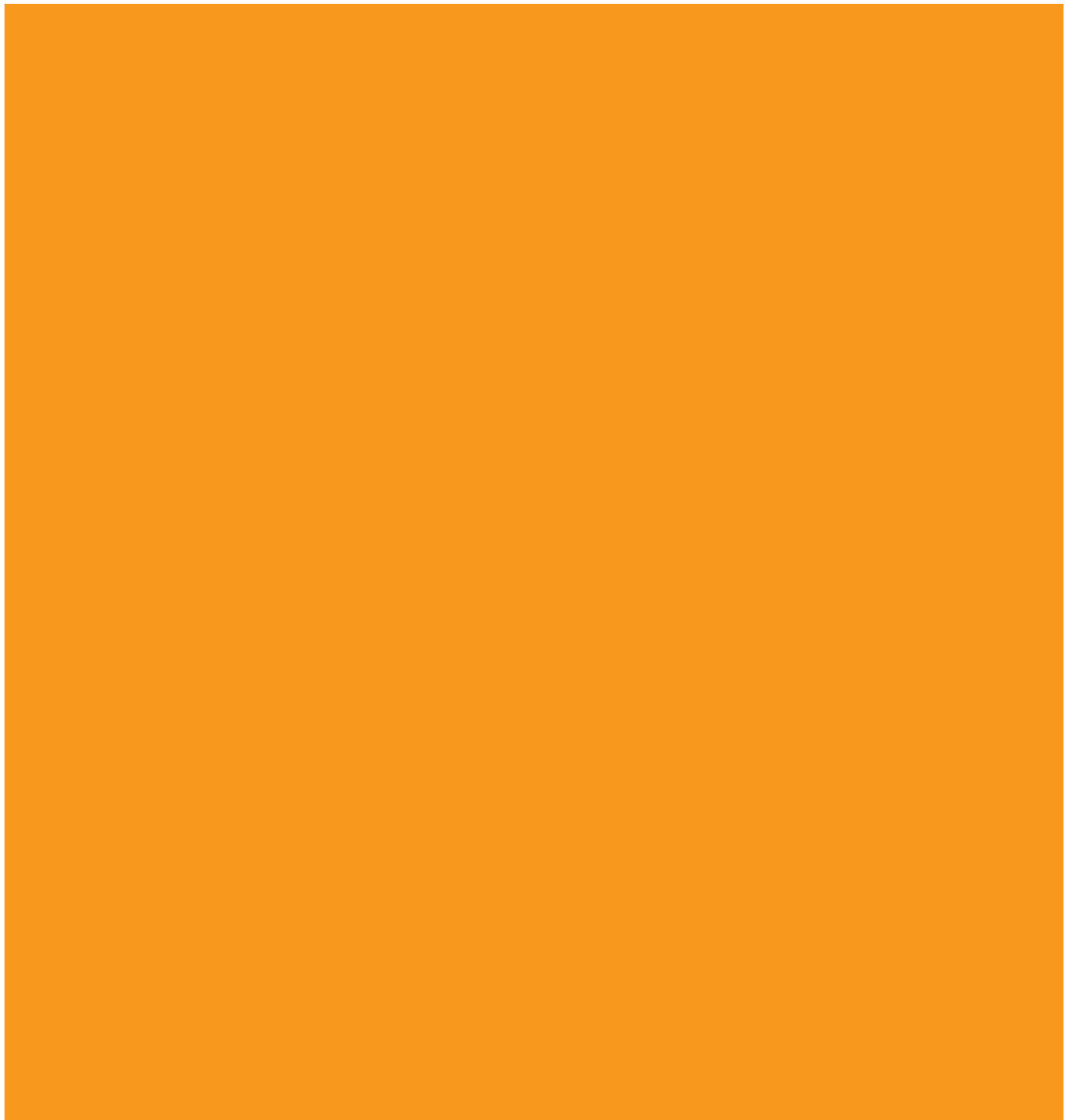


A photograph of the Teatro Solis building in Montevideo, Uruguay, at night. The building is illuminated with warm yellow lights, highlighting its classical architecture. The facade features a prominent portico with several tall, fluted columns. Above the columns, the name "TEATRO SOLIS" is inscribed in large, capital letters. The pediment above the entrance is decorated with a sunburst motif. A flagpole with a flag is visible on the roof. The sky is a deep blue, suggesting dusk or dawn. The overall atmosphere is grand and historic.

# Doing Business in Uruguay



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# 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 through the Price Waterhouse legacy firm. In 1998 we became a member firm of PricewaterhouseCoopers, following the worldwide merger of Price Waterhouse and Coopers & Lybrand. 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 addition 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](http://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 for the assistance of those interested in doing business in Uruguay. It does not cover exhaustively 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 complete 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 assembled in September 2008 and is based on information available and regulations in force at this date.

# An overview of the country

Uruguay has a strong democratic tradition, and shows legal and social stability with an open economy together with a solid financial and juridical framework, offering an attractive scenario to foreign investors contemplating business ventures in the region.

It has a land surface area of 176,215 km<sup>2</sup> and a total area of 318,413 km<sup>2</sup> when accounting for waterways and territorial waters. The country is divided into 19 departments with Montevideo as its capital. It is the only South American country that lies entirely in the temperate zone. There are small variations in temperature, precipitation and other climatic factors due to its location, making it a country that is 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 F to 80 F (21° C to 27° C) in summer and 50 F to 60 F (10° C and 16° C) in winter, but there are occasional cold spells. Rainfall occurs in all seasons but is generally heavier in the autumn months.

Uruguay's government has a republican democratic 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 along 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 a 30-member Senate and a 99-member Chamber of Deputies. Parliamentary elections are held at the same time as the presidential elections.

Justice is provided 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 the judges are appointed directly by the Supreme Court.



The following is a summary of some of the characteristics of Uruguay that provide advantages to investors.

## Why Uruguay?

- Its location and its natural and infrastructure conditions provide complete and easy access to the most important economies in the region.
- A tradition of respect for political, social and economic freedom, as well as the high level of its institutions, ensure a solid stability framework.
- The public education policies applied have enabled a high degree of development of the country's human capital.

## A solid economy

- Although the economy in Uruguay has firm foundations based on the production of raw materials, other strategic sectors have been developed supported by the high human capital standards incorporated by the population.
- These sectors, including services related to Information Technology, Finance, Logistics and Transportation, among others, have shown significant growth during the last few years.
- Currently Uruguay is undergoing one of the highest growth periods in history sustained by a favorable world context and by the implementation of stable macro-economic policies.

## Making investments in Uruguay

- Promotion and protection of investments has been a consistent State policy in Uruguay.
- The foreign investor receives the same treatment as the domestic investor.
- Investors may access to a series of fiscal benefits should they comply with the conditions established in the Investments Law and regulatory decrees.
- The free zones regime also offers an adequate framework for structuring investments with a focus in the international market, either for industrial, commercial or services activities.
- The financial market is totally free and no previous authorization is required for exchanging foreign currency or injecting or repatriating capital.
- Uruguay has an agile and competent banking system where first line international banks are present constituting an important international financial market for channeling business in the region.

## Strategic location in the region

Due to the strategic location of the country it has an easy access to the main business and activity centers of the region. Approximately 73% of GDP in Brazil, 71% of GDP in Argentina and 60% of GDP in Chile is generated in the continental band surrounding Uruguayan territory.

Natural conditions and an extensive network of communications infrastructure enable full and quick access to the entire territory.

A further characteristic is the strategic position of its port facilities facing both the Atlantic Ocean and the Paraguay-Paraná fluvial waterway toward the center of the continent.

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

One of the methods to evaluate access to ICT is to survey the equipment available in the households for this technology.

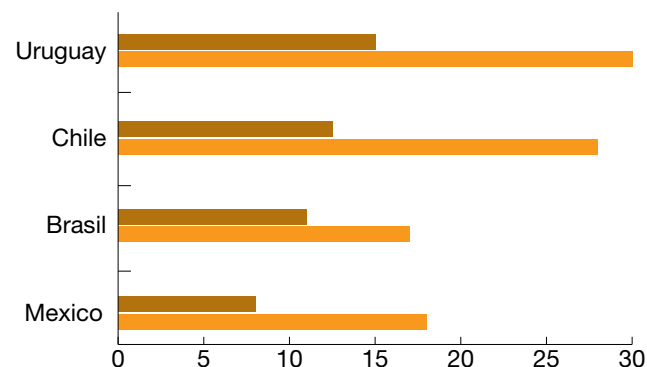
About one third of the homes having children or teen-agers were found to have a personal computer and about 15% of these had access to Internet.

While the process of incorporating ICT keeps growing in modern society, Uruguay continues having a privileged position according to the latest surveys made in Latin American countries.

Considering actual utilization of ICT, not necessarily based on home equipment, the conclusion is that utilization of this type of technology is higher in Uruguay.

An official survey made 2006 indicates that about 40% of Uruguayans more than 5 years old had used a personal computer in the last six months, and that 76% of these had used Internet.

Ratio of homes with children aged 6 to 19 having access to ICT



Source: CEPAL (2006) and INE - Uruguayan Institute of Statistics - 2006

### ITC use in the last six months

	Yes	No
PC use	38.6%	61.4%
Internet use	76.1%	23.9%

Source: Survey of households INE (2006)

# Respect for juridical security

High identification with the values of democracy and respect for liberties have built a framework that stimulates setting up business in Uruguay. The country is known for its juridical security and for the solid development of its institutions, both of which should 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, agents may freely associate and express themselves in Uruguay, as well as participate in the political processes. Moreover, satisfaction and support for democracy is higher than the average in the region.

According to a report by The Economist magazine, Uruguay is considered the most fully democratic country in South America, ranked at 27<sup>th</sup> place out of 167 countries worldwide. Taking into consideration factors such as trade, business, investment and property rights, Uruguay is considered a country where economic freedom reigns.

Taking into account factors such as trade, business, investments, and property rights, Uruguay is considered to be a country where economic liberty prevails, which differentiates the country from others in the region where economic liberty is relatively more delimited.

**Uruguay is considered to be a country privileging economic liberty.**

## A high institutional development

Establishing an adequate institutional framework is decisive for generating competitiveness for business enterprises and stimulating growth in the economy. In this sense, institutional strength is a differential characteristic of Uruguay, which ranks second in the region as regards degree of development of the institutions.

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

Another aspect worth noting is perceived corruption, with Uruguay ranking second lower in Latin America.

Economic liberty		Indicator of perceived corruption (low to high)		Institutional development	
1	Hong Kong	1	Chile	1	Finland
2	Singapore	2	Uruguay	2	Denmark
3	Ireland	3	Costa Rica	3	Singapore
4	Australia	4	Cuba	4	Switzerland
5	United States	5	El Salvador	5	Iceland
8	Chile	6	Colombia	29	Chile
40	Uruguay	7	Mexico	46	Uruguay
44	México	8	Peru	52	Costa Rica
48	France	9	Brazil	66	Panama
55	Peru	10	Jamaica	85	Mexico
101	Brazil			104	Brazil
108	Argentina			106	Peru
123	Bolivia			123	Argentina
148	Venezuela			131	Venezuela

Source: The Heritage Foundation (2007)

Source: Transparency International (2007)

Source: The Global Competitiveness Report (2007)

# High standards of human capital

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, as only 33% of the Uruguayan population is under 14 years of age.

The quality and coverage of public education shows progress in the last few years, which is reflected in one of the highest literacy rates in the region, as well as in school enrollment also good in comparison with countries in the region.

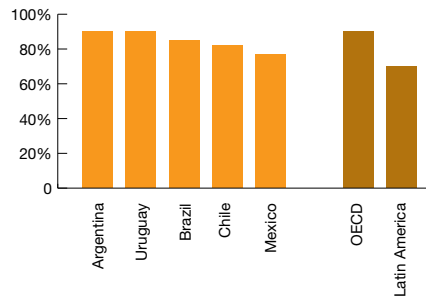
There is no indigenous population; most Uruguayans are of European descent, mainly Spanish and Italian.

Spanish is the official language and mostly used. The teaching of French and English has traditionally been emphasized, and English is the foreign language most used by the business community. Currently, learning 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 gratuitous and mandatory has caused expenditure in education to be a major component in State social expenditure. The Government has decided to increase the budget appropriations to public education with a target reaching to 4.5% of GDP by year 2009.

## Combined gross enrolment rate (primary, secondary and tertiary)



## High literacy and school enrollment

The literacy rate has shown historically high levels, with an increasing trend during the last years. Currently the literacy rate is one of the most significant in Latin America.

The number of students enrolled in the different stages of the education system is close to 1 million. This represents a large enrollment percentage in comparison with the population comprised in the scholars age band.

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

## Public education in Uruguay is gratuitous and obligatory.

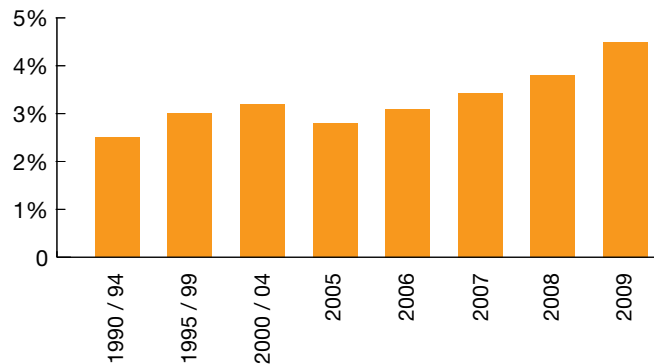
## Offer of technology careers

The Uruguayan university system records 40,000 graduates during the period 2000-2006, of which 10% were professionals in the areas of engineering, IT and physical science.

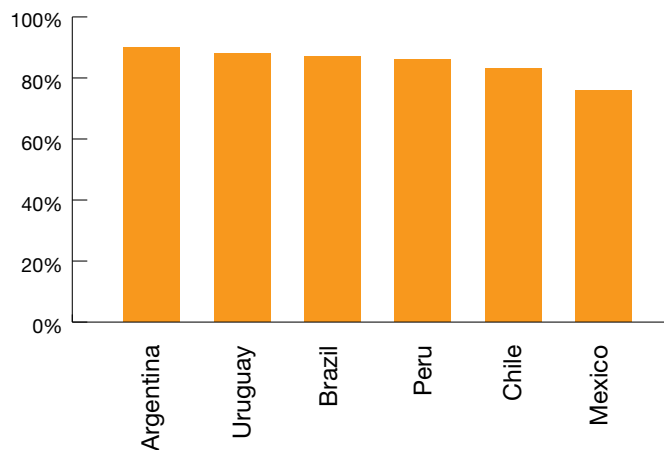
The quality of university education and the proficiency provided to its graduates has been one of the pillars of development of the software industry in Uruguay which is the leading exporter of the continent in the software line.

School enrolment	Numbers
Infants-nursery	37,416
Initial (pre-school)	106,636
Primary	365,879
Middle (secondary)	329,521
Tertiary	110,288

## Expenditure in public education (% of GDP)



## Composite gross enrollment rate (primary, secondary and tertiary)



# An open economy

In the context of a free economy Uruguay produces mainly primary goods and strategic services such as those related to finance activities, information technologies and logistics. Its small size condition has led the country to an export-based economy mainly in the agro-industry product lines. Further, in the last few years, exports of services related to information technology and finance activities, have shown dynamic growth.

## Land: a capitalized resource

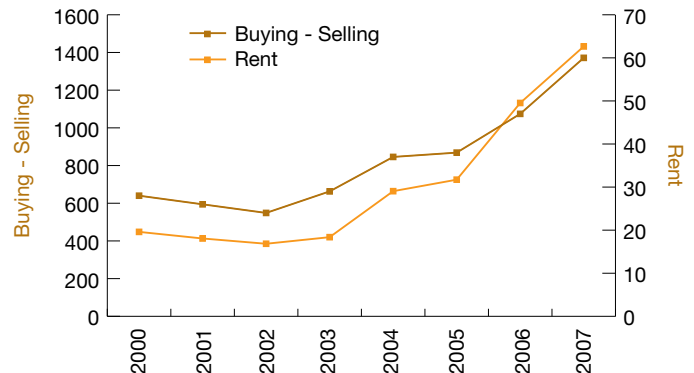
Despite having one of the smallest surface areas in South America, a large part is used for productive purposes with high yields. About 96% of the territory (170,000 km<sup>2</sup>) is used for production of crops, livestock and forestry.

The rise in agriculture and forestry activities, along with other factors including the arrival of foreign investors, has led to upward price pressures for land purchases and rentals. Average land prices have risen from USD 386 per hectare in 2002 to USD 1,432 last year, according to official estimates.

### Land distribution by activity (hectare)

Crops	2007- 1,200,000 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 price (USD per ha)



## An export-based economy

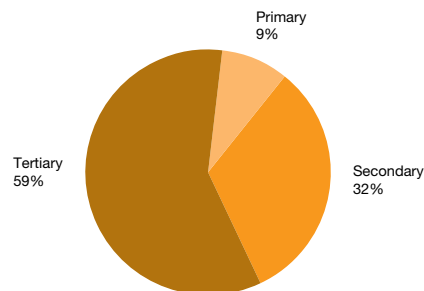
The Uruguayan economy displays a significant degree of trade liberalization. The trade liberalization coefficient (exports plus imports of goods and services in terms of GDP) reached nearly 60% in 2007.

While insertion of the country in the region is important, Uruguay's exports of goods have achieved significant diversification as regards the markets of destination.

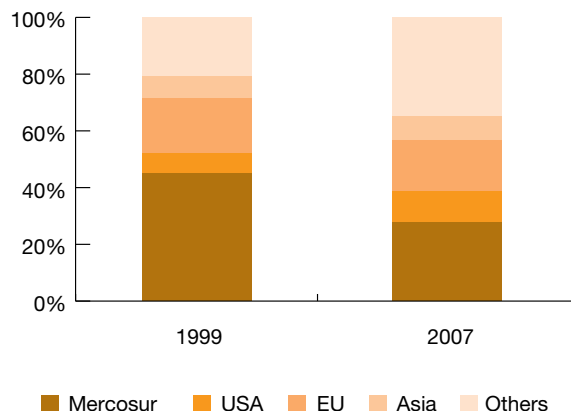
Uruguayan exports have achieved significant diversification regarding destination markets. Meanwhile, a large part of foreign sales are agriculture-livestock products due to the favorable geographical and weather characteristics the country boasts. Such is the case of forestry product exports.

In turn, the exporter profile of the economy has expanded to the service business. While service exports have a significant tourism component, other items have gained momentum in recent years. This is the case of transportation and logistics plus the aforementioned IT services, particularly software, and finance services.

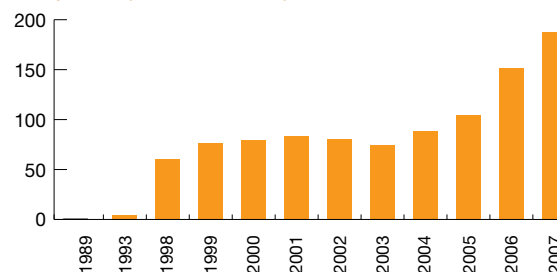
### GDP by sectors



### Exports by destiny



### IT exports (millions USD)



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

# Drawing on a positive external context

Drawing on a favorable world context and on prudent macro-economic management, the economic activity in Uruguay entered an extraordinary phase of growth as from year 2004. Further, in recent years the economy has received unprecedented foreign capital inflows destined to various productive activities.

GDP totaled USD 23,144 million in 2007, putting per capita GDP at USD 5,841. The good times in the economy are reflected in the reduction of the related vulnerabilities: lower fiscal deficit levels, reduced debt-to-GDP ratios and historically low levels of inflation.

## A favorable global context

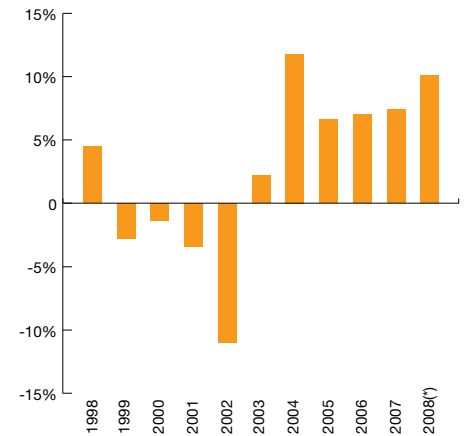
After suffering a recession between 1999 and 2002, and the worse financial crisis in 2002, the economy started a vigorous recovery as from year 2004.

In recent years, this trend reached a major portion of business sectors and led to one of the greater periods of sustained growth in the economy at rates exceeding any historical records.

Such unusual growth is due both to an extraordinary world context and to an expanded internal demand enticed by the significant recovery of the purchasing power of Uruguayan families.

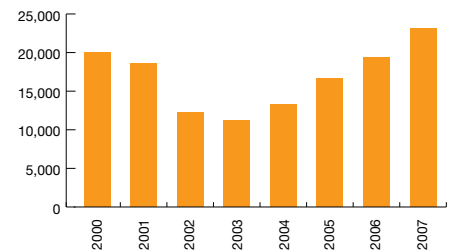
In addition, Uruguay goes through this expansion period with historically significant inflows of foreign capital, especially those aimed at production of goods within the country.

## GDP (real growth)



(\*) Forecast

## GDP (millions USD)



(\*) Forecast

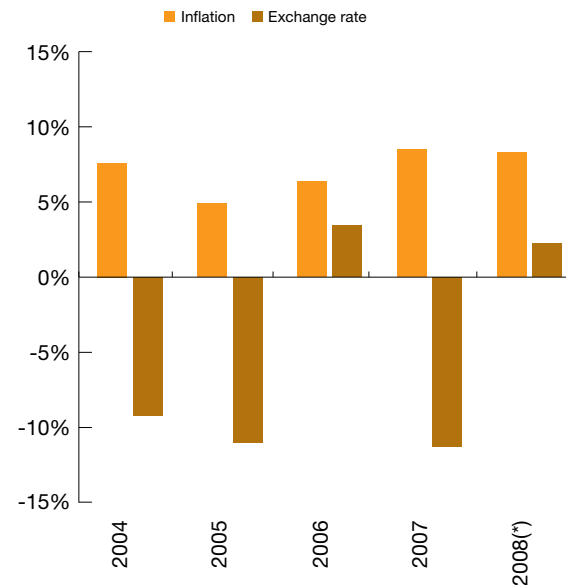
## Inflation and the US dollar in a context of capital inflows

The worldwide boom in prices and domestic demand growth have resulted in higher inflationary pressures. Although inflation in the Uruguayan economy is between 7% and 8%, it is very low in a historical context.

Inflation has been accompanied by a decline in the exchange rate and is controlled by an inflation goals system. The decline in the exchange rate has been caused by the significant attractiveness of financial instruments denominated in Uruguayan pesos for investors, who have shed dollar-denominated securities. These types of investments have been seen along with significant capital inflows resulting from high levels of foreign direct investment seen over the last few years.

Although a significant part of these capital inflows are centered on the forestry industry, other sectors have attracted large sums of capital including the meat packing and dairy sectors, among others. This will be a substantial pillar for long term growth in the Uruguayan economy, as long as the capital helps support a new way of producing and doing business.

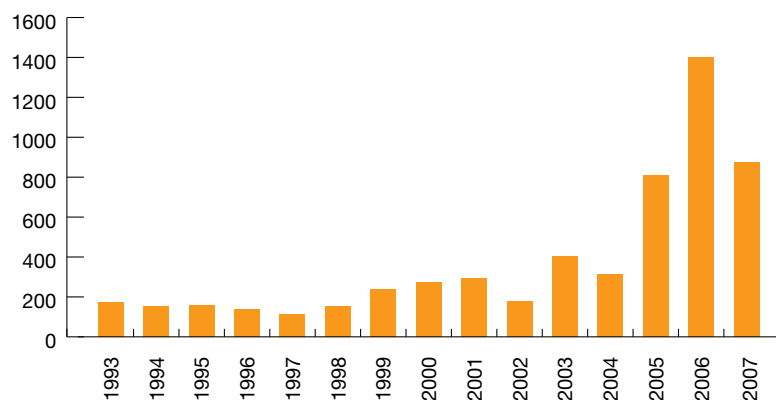
### Inflation and exchange rate



(\*) Forecast

## Inflation is low in a historical and regional context.

### Foreign direct investment (millions USD)



Recent years show vigorous growth in direct foreign investment due to significant investments in the forestry sector.

This economic bonanza, combined with a prudent macroeconomic administration has enabled substantial improvements in crucial aspects of the economy such as drastic decreases of fiscal deficit and of the debt-to-GDP ratio.

Another outstanding aspect is the substantial reduction of inflation levels in comparison with the high figures recorded in previous decades. Additionally, the flotation of the exchange rate as from year 2002 has enabled the authorities to resume monitoring and utilization of the monetary policy.

Currently, in the transition to a regime of inflationary targets, Uruguay is seeking shelter from world-wide inflation. In the context of a weakening US dollar, appreciation of the local currency has been mild compared to other countries in the region.

The economy in Uruguay shows one of the more significant growth phases.

# Foreign trade

## Importations

There are no significant restrictions in force, except for a short list of special products that only can be imported if authorized by the Executive Power.

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

Together with Argentina, Brazil and Paraguay, Uruguay is a full member of MERCOSUR (South Common Market). Importation of goods, whose origin is any of these countries, is in general free from custom tariffs, except for goods included in exception regimes, or pertaining to the sugar or automotive industries which still pay the import tariffs prevailing in Uruguay. For some goods imported from Argentina, special duties call Specific Rights might be applicable. Goods from countries not belonging to MERCOSUR are subject to a common external tariff (CET) which varies between 0% and 20%, with exceptional levels of 26% and 35% corresponding to some sort of fabrics and shoes.

Goods from the Capital and Information Technology industries are subject to special regimes with tariffs between 0% and 2%.

In addition to the payment of custom tariffs, imports are subject to Value Added Tax (VAT) at a rate of 22% plus importation surcharges. The introduction of goods to free zones is not subject to custom duties or VAT.

## Exportations

Exports are not subject to taxes or customs duties and there are almost no prohibitions on to the type of goods to be exported. On the contrary, several instruments promote exports:

- Reimbursement of taxes: exports zero rated for VAT. Furthermore, there is a system for reimbursement of indirect taxes, whereby the exporter may recover internal taxation that is added to the cost of the product exported, and the amount to be reimbursed is a percentage of the FOB value fixed by the Executive Power for the product.
- Temporary admission: inputs for the export industry are subject to a regime that exempts its importation from paying custom tariffs provided the final products are exported within a term of 18 months.

- Draw back: for certain products the draw-back regime allows for the reimbursement of tariffs paid upon importation at the time of exporting.
- Special financing: exporters are allowed to access credit at preferential interest rates.

## Regional and global integration processes

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

In addition, a Frame Agreement for the Interregional Cooperation with the European Union was subscribed to regulate spheres of co-operation in the trading, economic and integration areas.

# Frame for investments

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

## Equal conditions for foreign and local investors

Apart from sector regulations, foreign investors (both individuals and legal entities) may install their enterprises in Uruguay without requiring previous compliance with additional formalities or special Government permits. Their investment can be made in any currency.

The shareholders, partners or directors of enterprises in Uruguay may be either local or foreign nationals, and either residents or non-residents in the country.

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

The admission regime and treatment of investments made by foreigners is the same regime applied to local investors, and both may have access to the same benefits.

There are no impediments for hiring foreign personnel.

Likewise, the Uruguayan State guarantees the free repatriation of capital and free remittance of dividends, profits and other amounts related to the investment. These fund transfers can be made in any currency in view of the free convertibility regime existing in Uruguay.

## Banking secrecy

Uruguay has a long-established tradition of banking secrecy assuring and protecting privacy of information on clients of financial institutions, while the supervisor entity requires strict compliance standards and provides for consultation mechanisms through the Central Bank of Uruguay (CBU) regarding the level of indebtedness with the Uruguayan financial system.

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

- by express authorization of the interested party, issued in writing.
- by duly sustained resolution of the criminal justice.
- to CBU employees, auditors or other representatives having access to such information because of their tasks related to the organization, functioning and controls of financial institutions.

A penalty of prison has been established for breach of banking privacy rules.

# Incentives to investment do not discriminate between local and foreign capital.

## Tax privacy rules

Tax privacy precludes the Tax Administration from revealing information resulting from their proceedings.

Breach of tax privacy attracts responsibility and is a cause of discharge of the disloyal employee.

## Prevention of money laundering

- Uruguay has adopted measures to tighten prevention of money laundering.
- Uruguay has two public offices involved in fighting terrorism: The National Intelligence Bureau (Ministry of Defense), and the Information and Intelligence Bureau (Ministry of the Interior).
- Uruguay has in place a juridical and regulatory framework against money laundering satisfying the basic requirements of the 40 recommendations issued by the Groupe d'Action Financière (GAFI).
- The judicial courts have ample faculties to seize and confiscate goods or financial instruments involved in money laundering and in offenses determining this felony.
- Uruguay offers legal protection to all individuals denouncing suspect operations, without requiring a specific offense as a condition for reporting the operation.
- A Unit for Information and Financial Analysis (UIAF) was created within the realm of the CBU, empowered to request information from all public sector authorities, which will receive and analyze the reports on suspect operations and communicate them to the judicial authorities.
- The supervision on preventing money laundering is highly developed in the banking sector.
- The casinos and real estate sectors are subject to specific obligations under these regulations.
- As from 2011 a specific type of holding company with an offshore social purpose (SAFI) will be eliminated.
- Uruguay has subscribed the Conventions of Vienna and Palermo and the International Convention for repression of financing for terrorism, as well as 9 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 during a prescribed period. Within this period the author or the copyright buyer 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 work 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 Industrial Property Office (Dirección de la Propiedad Industrial, as per the Spanish denomination) is necessary in order to acquire the exclusive right to the trademark and affords the registrant protection during a ten-year period, with subsequent ten-year extensions 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 Industrial Property Office 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 Industrial Property Office). 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 during a period of 15 years. After that term the patent becomes public domain. The models of use (also called minor innovations) and the industrial models or designs (visible form that incorporated to a product of use gives a different aspect or appearance) once patented, afford their owners the exclusive right of use for a period of 5 years renewable for an equal term only once. For these 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 Industrial Property Office. 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.

## Defense of competence

The law in force for the Defense of Competence is aimed at promoting the well being of consumers and users and at stimulating economic effectiveness, freedom and equality of the conditions to access markets. The supervision of the system is in charge of the Ministry of Finance acting through the Commission for the Promotion and Defense of Competence.

## Protection of the environment

The general principle in this matter is established in the Uruguayan Constitution, which sets forth that the protection of the environment is a matter of general interest. The Ministry of Housing, Territory and Environment is the competent body to supervise all related matters, acting through the National Direction of Environment (Dirección Nacional de Medio Ambiente – as per the Spanish denomination).

The legal framework in force in Uruguay establishes the civil responsibility of whomever (individual or commercial entities) that cause damages or pollution to the environment or breaches environmental laws or rules, irrespective of the existence of administrative or criminal responsibility established by the laws.

The Law for Promotion of Investments grants tax benefits to national or foreign investments projects in national territory that use non contaminating technologies (“clean technologies”). By this way the State promotes the protection to the environment.



# Forms of foreign investment

## Choice of entity

In general, individuals and corporations 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 the business, 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 the Uruguayan Corporate Law (UCL) have to be fulfilled in order to repatriate earnings or capital.

## Uruguayan corporate 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 also regulated by the local corporate law. Limited and General Partnerships as well as Cooperatives are also addressed by the provisions of the UCL. Likewise, Consortiums and Groups of Economic Interest can also be formed.

## Trusts law

Is valid in Uruguay since November of 2003 and rules this type of alternative structure for doing business in the country.

## Corporations

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

Shares can be issued nominative or to the bearer, common or preferred. The amount of preferred shares cannot exceed 50 percent of the total share capital. Voting rights for the different classes of shares are normally established in the by-laws, 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. Their transfer is free and depends on the type; while 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.

Twenty five percent of the social capital according to the bylaws must be paid in at the moment of signing the bylaws. This capital shall be expressed in Uruguayan Pesos and its accountability shall be in this local currency. After being formed, one shareholder may own the entire capital of the corporation.

The UCL establishes two different types of common corporations: open (which are basically those resorting to public savings or quoting their shares at the stock exchange) and closed (defined as those that are not open).

The shareholders exercise the control of a corporation through the general shareholders' meeting which is its 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 in the UCL and in 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, the performance of the board of directors and approval of the annual financial statements of the year, eventually the syndic's report (if the company has one), the profit distribution (if any), and also to designate the members of the board of directors. The extraordinary meeting is held when required by the corporation, with the agenda stating the reason for calling the meeting. The meetings must take place in Uruguayan territory and must be convened by the board of directors or by the administrator.

In general, corporations are subject to the control of a Government agency denominated National Internal Audit Office (Auditoría Interna de la Nación as per the Spanish denomination) 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 are the general journal, the inventory book, and the copy letter book. Likewise, corporations must keep minutes of the shareholders' and directors' meetings, as well as a register for shareholders' attendance.

Although the formation procedures may be complex and lengthy, "shelf corporations" are available ready 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 is the type of legal structure most often used by small and medium size 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 fifty partners, which can be legal entities, with no restriction of nationality. Temporarily they can operate with only one partner.

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

They are administered and represented by one or several persons, partners or not, designated in the deed. Resolutions in the partners meetings are adopted, in general, by partners holding the majority of the capital quotas if there are less than 20 partners. If the partners are 20 or more, the resolutions, in general, are adopted by simple majority of votes of the partners in attendance, computed at one vote per quota.

Limited Liability Partnerships are not subject to the control of the National Internal Audit Office. Their 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 foreseen 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 as a personal involvement, anonymity and Profits, it will depend on Head – Office regulations. The branch is a foreign company and consequently it is unable to transform itself adopting a different type of legal structure.

The capital assigned to the branch is not represented by shares or quotas 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 Uruguay currency and in Spanish language.

## Trusts

Because of the restricted credit context due to the financial crisis Uruguay went through and the economic depression suffered in 2002, the necessity to channel investment and credit towards the principal productive sectors arose. This fact made the government give a boost to the mentioned law's approbation, as a financing mechanism complementary to traditional bank credit.

The instrument of the trust has been useful and of effective appliance in diverse sectors of local economy; dairy, industry, services, infrastructure building and values and titles issue in capital markets. Foreign investors usually use this instrument in a private way so as to guarantee their own investors in the country and implement them in an agile way and, above all, because it means a much more flexible way than traditional corporation forms of doing business.

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



# Tax regime

## Overview of the tax regime

Uruguay is one of the few countries in the region still imposing taxes following the source principle: investments located and activities performed outside Uruguayan territory are not subject to taxation, regardless of the nationality, domicile or residence of the parties participating in the transactions and the place where the transaction agreements are subscribed. A major tax reform was enacted as from July 1<sup>st</sup> 2007, which ratified this principle being its main purpose 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 incorporated according to the local legislation. Individuals are deemed to be residents: (i) if they have stayed 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).

The main direct taxes are the Tax on Income of Economic Activities (IRAE, as per the Spanish abbreviation) and the Net Wealth Tax (IP as per the Spanish abbreviation).

The main indirect taxes are the Value Added Tax (VAT) and the Excise Tax (IMESI as per the Spanish abbreviation).

There is no taxation on capital contributions or stamp duties.

Indirect taxation is the main source of revenue.

Uruguay has signed treaties avoiding double taxation with Germany and Hungary and has announced negotiation of new agreements with Chile, Mexico, Spain and India.

## Taxation on income

There are three categories of taxpayers:

Enterprises	25% Entitie Permanent establishments
Individuals	0-25% labor 12% capital Residents
Individuals and legal entities	12% Non-residents

The whole tax system  
is based on the source principle.

## Taxation on income

### Corporate income tax

IRAE is levied at a 25% rate on business income of local source 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 the Economic Cooperation and Development (OECD) and a non resident is deemed to have such taxable presence in Uruguay when it undertakes all or part of its activity through a fixed place of business or has a dependent agent.

Income obtained in the agricultural business (including forestry) is also in the scope of this tax but depending on its nature and size, those engaged in this type of activities may elect to be subject to the Tax on Sale of Agricultural Products (IMEBA, as per the Spanish abbreviation). However, this option is banned for business organized under any of the forms of legal entities regulated by Uruguayan Corporate Law, for permanent establishments of non residents, for trusts, for closed investment funds and for State enterprises.

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

To determine the net taxable income, as a general principle, accrued expenses necessary for the generation of Uruguayan source income that have to be duly documented 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 the transfer pricing regulations.

Profits of small companies (that are those which obtain annual income bellow USD 28,000) are not subject to IRAE. Nevertheless, they have to pay a monthly fixed tax of approximately USD 80. In general, IRAE taxpayers must make advanced payments on account of the final balance at the end of each fiscal year.

## Tax on income of individuals

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

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% up to 25%, depending on the total annual gross income. Deductions are minimal, basically retirement plan contributions, and some fixed amounts for those who have children underage or handicapped.

Even when originally included in the scope of IRPF, as from 1<sup>st</sup> July 2008 Uruguayan source income derived from pensions is subject to an specific tax aimed at financing the pension fund, at progressive rates that vary from 10% to 25%. The annual non taxable threshold of this tax is of approximately USD 8,500.

In order to calculate the progressive tax on labor income, the following rates are applicable on annual gross income:

Bracket	Reference in equivalent USD	Tax rates
1 <sup>st</sup>	7,500	0%
2 <sup>nd</sup>	7,500 – 10,600	10%
3 <sup>rd</sup>	10,600 – 16,000	15%
4 <sup>th</sup>	16,000 – 53,200	20%
5 <sup>th</sup>	53,200 – 106,400	22%
6 <sup>th</sup>	+ 106,400	25%

The same scale of progressive rates (but starting from the second bracket) has to be applied to the aggregated amount of deductions to determine the tax. Taxpayers have to make advanced payments during the fiscal year (either by themselves or by way of withholding made by the employers), which are deducted to calculate the final tax payable to the Tax Office.

As from January 1<sup>st</sup> 2009, the taxpayers will have the choice to assess this tax as a family unit. The scale of rates to be applied will vary from the general one depicted above and will depend on the income of each member of the family unit.

## Tax on income of non residents

All Uruguayan sourced income obtained by non-residents (other than those obtained through a permanent establishment in Uruguay) are taxed by the Tax on Income of Non Residents (IRNR, as per the Spanish abbreviation) at a general flat rate of 12% on gross income. Technical service fees are deemed Uruguayan sourced even when the service is rendered outside Uruguay.

The following items of income are subject to reduced tax rates or exempt: (i) interest on loans: exempt for the creditor when the debtor obtains mainly non taxable income; (ii) dividends or profits paid out of exempt income: exempt, otherwise 7%; (iii) technical service fees paid by beneficiaries that mainly obtain exempt income: 0.6%.; (iv) 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

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%. The deductible liabilities are limited and include, among other, 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 taxable 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 civil year-end, at a progressive scale of rates from 0.7% to 2.75%.

IP is also levied by way of withholding on credits held by foreign entities or individuals against debtors located in Uruguay at each civil 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 vary from 0.7% to 2.75% 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 items of food of first necessity, medicines, hotel services, health services, immovable assets' first sale, sale of natural fruits, flowers, vegetables, etc.

There are some goods and services which are exempted from VAT, such as foreign currency, real estate (different from the first sale), agricultural machinery and accessories, milk, books and magazines, newspaper and educative material, interest on public and private securities and deposits, rental of real state, some banking operations. Exports and agricultural products, under certain conditions, are zero-rated, 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, this tax applies on the first transaction effected in the domestic market by manufacturers or importers of the goods. Exports are not taxable.

Rates vary for each item (from 10% to 85%) and are generally fixed 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

This tax applies to the transfer of immovable assets. Transfer is defined in an ample sense as 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 tax at a rate of 4% on its tax valuation, except for direct heirs or legatees, who pay tax at a rate of 3%.

# Promotion of investments

## Incentives for foreign investors

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

The main tax incentives for investments in the country are granted by means of two different instruments:

- Investments law.
- Free-zones law.

## Investments law

Uruguay has a specific legal frame for promotion and protection of local and foreign investments. The relevant regulations establish that enterprises may obtain a Government declaration granting them a promotional status that opens access to important fiscal benefits.

To qualify for these benefits, investors must start proceedings filing their application at the Bureau of Investor Assistance which is in charge of efficiently monitoring the evaluation process of the different projects. After filing, the Applications 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 and the maximum amounts and validity period of the fiscal benefits granted.

Recent regulations, establish short and peremptory due dates for carrying out the procedures and approvals of the projects filed with the Applications Commission giving priority to time expediency. The decree also rules on the follow-up controls on the project promoted and on the benefits granted.

The following benefits are available under this law:

Automatical (only for manufacturing, extractive or farming / ranching activities):

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

Discretionary benefits available for granting:

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

In order to determine the tax benefit applicable to each project, this regime assesses the projects regarding 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 above).

Due to a recent change in the law, there is a transitional period during which projects filed between December 20<sup>th</sup>, 2006 and February 28<sup>th</sup>, 2009 will be able to choose between the former and the new rules in force.

## Investments law – exemption from IRAE

The following table shows the matrix used by the Government to grant the IRAE exemption:

Type of project	Investments (in USD thousand)	Maximum percentage deduction in the investment	Maximum percentage deduction for income tax	Maximum period (years)
Small	I < 330	60%	90%, 80%, 60%, 40%, 20%, 10% <sup>(1)</sup>	5
Medium 1	330 < I < 1,300	70%	90%, 80%, 60%, 40%, 20%, 10% <sup>(1)</sup>	15
Medium 2	1,300 < I < 6,700	80%	90%, 80%, 60%, 40%, 20%, 10% <sup>(1)</sup>	20
Large 1	6,700 < I < 13,400	90%	90%, 80%, 60%, 40%, 20%, 10% <sup>(1)</sup>	25
Large 2	13,400 < I < 47,800	90%	90%, 80%, 60%, 40%, 20%, 10% <sup>(1)</sup>	25
Large 3	47,800 < I < 668,400	100%	90%, 80%, 60%, 40%, 20%, 10% <sup>(1)</sup>	25
Very significant	I > 668,400	100%	100%	25

<sup>(1)</sup> The percentages depend on the time frame and magnitude of the project.

## Free zones regime

Following the law approved in 1987 this regime the law has become an important tool for attracting investments towards Uruguay.

It has been utilized both for developing 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 production, and tannery.

None of the governments in office during the last two decades has modified the bases of the free zones regime, which is a clear sign of stability.

The law defines free zones as areas of the Uruguayan territory, privately or publicly owned, efficiently isolated and fenced, determined by the Executive Power with the purpose of carrying out all types of manufacturing, commercial, or services activities within the zone, enjoying the tax exemptions and other benefits foreseen in the law.

Companies installed in these areas cannot carry out industrial, trading or service activities in Uruguayan non-free zone territory, except for the services expressly authorized by the Government, while they are allowed to render all kind of services within the free zone or from it to third countries.

Free zone users are exempt from all national taxes created or to be created, 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 the law during the term of their contracts. The user is however allowed to perform taxable activities provided the corresponding taxes are paid.

In order to maintain their status and benefits (including the referred tax exemption), the users shall include in their payroll, in connection with the activities developed within the Free zone, at least 75% of Uruguayan nationals or citizens. Only in exceptional cases the Executive Power may reduce this percentage.

The exemption excludes Social Security Contributions on the salaries of the employees of the users.

These contributions are not applicable to the foreign personnel working at the free zone provided they declare in writing that they do not wish to benefit from the Uruguayan social security system. If that choice is made, they will also receive a more favourable treatment regarding the taxation of their labor income.

The entrance and exit of goods to and from the free zone is exempt from taxation. In case the goods are introduced to these areas from the Uruguayan non-free zone territory, they should be considered as exports for all tax purposes. On the other side, the goods introduced to the Uruguayan non-free zone territory from the free zone are considered imports, and must pay the corresponding custom duties and comply with the legal formalities required for imports.

**Exemption from all national taxes created or to be created 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  
Mexico  
Venezuela

### Central America

El Salvador  
Panama  
Nicaragua

### North America

United States  
Canada

### Africa

Angola



# Social security and labor regulation

## Labor regulation

The Ministry of Labor is in charge of ensuring that employers fulfill labor laws and regulations. This entity is also in charge of providing technical assistance to employers as well as employees to protect their corresponding rights.

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

The union movement is organized in associations by enterprise and by activity sector. The employees' affiliation to the unions is voluntary. Since May 2005, the councils began to function for fixing parameters of salaries in the private sector.

These three-party meetings, divided by activity sector, are attended by delegates from the executive branch of the government, from enterprises and delegates representing the workers. The task is to establish obligatory increments of salary for each activity sector and also, to establish minimum wages for each category.

Both labor accidents and professional sickness which may affect the worker are protected under a mandatory regime which is public, administered by the State Insurance Bank. This regime provides medical assistance and pays annuities for temporary or permanent disablement originated by accident or sickness.

## Social security system

The affiliation to the system is mandatory except for foreign workers rendering services in the free zones. Certain foreign workers may opt to be excluded from the Uruguayan social security system under the clauses of international treaties subscribed by the country. The Social Security Bureau (BPS as per the Spanish abbreviation) is the public agency responsible for the social security system and has the task of collecting all the contributions payable by the companies and their employees and maintaining an updated record of the labor history of each affiliate.

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

## The affiliation to the social security system is mandatory.

## Pensions

The pension system reformed in 1996, covers the risks of disablement, old age and retirement. It divides workers in three levels according to their remuneration. Workers comprised in the first level are included in the so-called “intergenerational solidarity regime” which is a distribution system with pensions paid by the BPS. Workers in other levels are included in the “mandatory individual savings regime” which is an individual capitalization system administered by corporations denominated “Administrators of Pension Savings Funds” (AFAPs) through which personal accounts and the amounts to be received by the worker are related directly to the contributions paid into his personal account.

Those workers who are included in the first level may opt to contribute up to 50 percent of their remuneration to the individual savings regime (AFAP) but for the remaining 50 percent they should contribute to the intergenerational solidarity regime (BPS).

Workers with remunerations in excess of approximately USD 1,150 may opt to pay or not to pay on remunerations exceeding this ceiling. The total contributions are paid to the BPS, which later transfers the corresponding quota 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 the BPS. This coverage is granted for six 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.

## Health coverage

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

## Maternity

Female workers being pregnant have the right and the obligation to stop working six weeks before and six weeks after child birth, receiving during such period medical assistance and an amount representing salary, year-ending bonuses and vacation pay plus vacation bonus. These remunerations are paid by the social security institution and do not represent an additional cost for the employer.

## Contributions and benefits

The employers must pay the contributions monthly and should withhold and pay the contributions of the employees, which are applied on all remunerations actually paid to the worker.

The contribution rates are the following:

	Contributions by the employer	Contributions by the employee
Social security contributions: Retirement pensions, old age or disablement and unemployment Insurance	7.5%	15%
Health insurance	5%	3%, 4% or 5%
Labor restructuring	0.125%	0.125%

Salaries are defined as the group of economic compensations received by the worker pursuant to his labor contract. There are no legal regulations nor restrictions or general agreements to establish systems of employee sharing in the profits of the business. Except for management levels, this regime is not frequently used in Uruguay.

Working hours exceeding the legal or conventional hours generates double pay in normal working days and two and a half times pay in 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 consisted of 20 consecutive days, which is increased in one day per each 4 years of length of service to be counted as from 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-ending bonuses - also known as supplementary annual salary or 13<sup>th</sup> salary- are payable to all workers in the private sector.

The employer has the faculty of terminating workers, being obliged to pay an indemnity. For monthly workers such indemnity represents one month’s salary for each year or fraction of length of service, with a ceiling of six months.

## Foreign personnel

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

The activities with restrictions for foreign workers are:

- Fishing: the captain and at least 50 percent of the crew must be Uruguayan.
- Uruguayan airlines: the crew must be Uruguayan and at least 75 percent of the employers should be Uruguayan citizens.
- Free zones: 75 percent of the employers must be Uruguayan citizens in order to enjoy the exemptions in force.

## 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 members to accredit in their host country the periods of service rendered in Uruguay, to make temporary transfers of personnel, to pay pensions and similar concepts abroad without rebates or restrictions and to 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 <sup>(1)</sup>  
Venezuela

### Europe

Belgium  
Netherlands  
Italy  
Portugal  
Switzerland  
Greece

### Asia

Israel

### Central America

Costa Rica

### North America

United States  
Canada

<sup>(1)</sup> Pending ratification

# Accounting and audit requirements

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

Within the same period, the Uruguayan Central Bank has also been generating a set of regulations regarding the elaboration and publication of information of financial entities, debtors of the financial system and enterprises which issue stocks / bonds. In all of these cases, the change in regulations shows a tendency to converge to the generally accepted accounting principles applied internationally.

Books and records must be kept in Spanish and in local currency.

The financial statements are prepared on the basis of the historical cost convention, partially adjusted for inflation.

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

All type of companies in which the accounting total value of its assets exceed an amount of approximately USD 560,000 or if its net revenues exceed an annual amount of approximately USD 1,860,000, must register its Financial Statements at the National Internal Audit Office.

Big and medium sized companies (as per the classification of the Tax Office) need financial statements audited a Limited Review Report respectively, issued by a Uruguayan Certified Public Accountant for fiscal purposes.

Free zone companies must consider that in case the accounting value of its assets exceed an amount of approximately USD 560,000 or if its net revenues exceed an annual amount of approximately USD 1,860,000, the financial statements need to be audited. In other cases, the financial statements must be accompanied with a Limited Review Report in both cases, they must be registered at the Tax Office.

A report on a full audit examination, on a limited review or on a compilation 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.

## Uruguayan accounting rules follow IAS.

# Main indicators of the economy

	2008*	2007	2006	2005	2004
<b>Gross Domestic Product</b>					
Real annual growth	9.8%	7.4%	7%	6.6%	11.8%
USD millions	31,275	23,144	19,359	16,652	13,241
GDP per capita (USD)	9,381	6,963	5,841	5,037	4,010
<b>Domestic Demand</b>					
Consumption (real annual change)	12.2%	7.8%	10.8%	4.5%	10.6%
Investment (real annual change)	22%	5.8%	25.9%	17.5%	30.2%
Foreign Direct Investment (USD millions)	1,500	879	1,399	847	332
<b>Foreign Trade</b>					
Exports FOB (USD millions)	6,160	4,496	3,986	3,417	2,931
Imports CIF (USD millions)	8,855	5,589	4,775	3,879	2,931
Commercial Trade Balance (% GDP)	8.6%	-4.7%	-4.1%	-2.8%	-1.4%
Current Account Balance (% GDP)	3.2%	-0.8%	-1.9%	0.3%	0%

	2008*	2007	2006	2005	2004
<b>Labor Market</b>					
Average unemployment rate	7.9%	9.6%	11.4%	12.2%	13.1%
Real Salaries (average annual rate)	3.5%	4.1%	3.7%	4.5%	2.9%
<b>Prices</b>					
Consumer (annual change)	7.6%	8.5%	6.4%	4.9%	7.6%
Wholesaler (annual change)	19%	16.1%	8.2%	-2.2%	5.1%
Depreciation (annual change)	0.8%	-11.3%	3.4%	-11%	-9.2%
<b>Monetary Indicators</b>					
Loan interest rate (local currency)	14%	10.2%	11.1%	15.7%	27.1%
Loan interest rate (foreign currency)	6%	7.2%	7.5%	6.8%	7.4%
International Reserves (USD millions)	6,300	4,121	3,091	3,078	2,512
<b>Public Finance</b>					
Surplus or deficit (% GDP)	-0.7%	-0.4%	-0.6%	-0.8%	-0.2%
Total Public Debt (USD millions)	18,900	16,319	13,717	13,949	13,322
Public Debt (%GDP)	60.4%	70.5%	70.9%	83.8%	100.6%

(\*) Forecast

# Hints for the business visitor

## Visitors' visas

Visiting businessmen 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; \$ is the official symbol within Uruguay. Exchange rates at September 30<sup>th</sup> 2008 were as follows:

	\$
USD 1	21.47
EUR 1	28.85
GBP 1	38.16
ARS	6.30
BRL	10.30

## Business hours

Usually, stores are open from 9:00 a.m. to 7:00 p.m., Monday to 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. Monday to Sunday.

Government offices are open to the public usually between 12:30 noon 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 from 11:00 a.m.) but a vast ATM network is permanently available.

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

## Statutory holidays

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

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

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

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

## 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 to foreign businessmen visiting Uruguay can be obtained at the nearest consulate or diplomatic offices.

## Tips

Tips are usually not included in the price of services. Customary tips are 10% of the price paid at restaurants or taxi fares.

## Taxis

The cost of commuting from the international airport to downtown Montevideo is about USD 20.

# Offices

## Montevideo

Cerrito 461

Telephone (598 2) 916 0463

Facsimile (598 2) 916 0605

e-mail: [pwcuy@uy.pwc.com](mailto:pwcuy@uy.pwc.com)

Montevideo, Uruguay

## Zonamerica

Ruta 8 Km. 17,500

Building M1 - Office H / I

Telephone (598 2) 518 2828

Facsimile (598 2) 518 2829

Montevideo, Uruguay

## Punta del Este

Av. Córdoba and Tailandia

Telephone (598 42) 24 88 04

Facsimile (598 42) 24 88 04 Ext. 3008

Maldonado, Uruguay

For more information, go to: [pwc.com/uy](http://pwc.com/uy)



[pwc.com/uy](https://pwc.com/uy)