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Tax Insight

Changes to taxation of foreigners working in Free Trade Zone

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On March 25, the Ministry of Economy and Finance approved a decree changing some aspects of the special tax regime applicable to foreigners working in a Free Trade Zone. Below we summarize what the decree establishes.

1. Background

The Free Trade Zone (FTZ) law established that foreigners working in those areas could decide not to be affiliated to the Social Security system of Uruguay and consequently, elect not to make Social Security Contributions in Uruguay.

Should they make this written decision, they could also choose to pay IRNR (Non-Resident's Income Tax) on their labor income, instead of Resident's Income Tax (applicable as a general rule to resident individuals).

Said legislation established that the special regime was only applicable for those activities that *were exclusively undertaken in the FTZ*, and to the extent the aforementioned services were not part of other services provided (directly or indirectly), to residents of the non FTZ territory.

2. The Decree

The decree (not yet published) establishes that the special regime can *also be applied to those activities performed outside Uruguayan territory*, as long as these are performed in the frame of a labor relationship. In such a case, the decree establishes that the whole compensation will be subject to IRNR, regardless the activities are performed in the FTZ or outside Uruguayan territory.

By application of the new rules activities performed outside Uruguay can also be included in this optional regime. IRNR applicable will be withheld by the Uruguayan employer.

The Decree will enter into force the day following its publication in the Official Gazzete or in two national newspapers, whatever occurs first.

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