Doing Business in Uruguay

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Presentation

Being the smallest country in South America (by population and extension), Uruguay ranks first in various institutional indexes such as quality of democracy, transparency, rule of law, control of corruption and quality of life. Free education from primary school to university and a sustained investment to provide a laptop to every child in public schools along with an infrastructure that grants universal connectivity through optical fiber provides the country with a fantastic base for growth and competitiveness.

The country has experienced continued GDP growth during the last fourteen years averaging a 4.5% annual rate which permitted reaching the investment grade in 2012 and achieving the largest GDP per capita in the region. The large period of growth, a balanced fiscal position along with debt diversification and maturity have been key to keep the investment grade.

In light of the political stability, clear and stable rules, a trained labour force along with international conditions, foreign investment has jumped hitting almost 5% of GDP in recent years. Investments in food production facilities, pulp mill, agricultural, tourism and retail business fueled the economy. Private companies from many countries decided to invest and seize the opportunity to establish themselves in a stable country in one of the most economically promising regions of the world.

The government, fully aware of the fundamental role of investment in the economy to support the continued growth that can nourish a still unsatisfied breadth of social needs, is permanently seeking to improve conditions for investors and willing to support projects which boost employment, R&D and innovation, and specially reinvigorates infrastructure for the medium and long term.

In this publication we address the factors that make Uruguay a preferable location for those looking for opportunities to invest in Uruguay to take advantage of a growing consumer population and to establish themselves in the country to seize regional opportunities.

In 2020 PwC Uruguay is celebrating 100 years of continued provision of services. Throughout these years we have earned a solid reputation for excellence and distinctive services, positioning as one of the leading firms in audit, tax and business advisory services in Uruguay, providing services to local and foreign companies and individuals established and doing business in the country.

We are confident that this edition of Doing Business in Uruguay will be of assistance for executives considering to invest in our country. The content of this material is also available at www.pwc.com.uy.

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

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Our purpose is to build public trust and contribute to the solution of important matters.

Our solutions are designed to meet the specific needs of each combining the talent of a multidisciplinary team and a comprehensive approach.

Maintaining and building on our position of leader depends on our ability to create and sustain real differentiation from our competitors, creating a distinctive firm.

Omar Cabral
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Foreword

This guide has been prepared to provide information on doing business in Uruguay.

While the guide covers a broad range of topics, it is not intended to provide comprehensive coverage and does not constitute professional advice. For specific questions, it is necessary to refer to the laws, regulations and decisions and/or seek appropriate advice.

The materials contained in this guide were assembled in December 2019 and, unless otherwise indicated, is based on the information available at that time.

1. Country overview

Localisation and weather

Uruguay is located in South America with coasts on the Atlantic Ocean, between Brazil and Argentina. It has a land surface area of 176,215 km² and a total area of 318,413 km², including rivers and territorial waters.

The country is divided geographically into 19 states (departamentos), being Montevideo its capital. The largest cities are Montevideo, Salto and Paysandú, these last two both on the shore of Río Uruguay, the river that shares borders with Argentina.

It is the only South American country that lies entirely in a temperate zone. In light of this, it has small variations in temperature, precipitation and other climatic factors.

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. In the southern region of the territory (which concentrates a large portion of its population), average temperatures vary from 62° to 82°F (17° to 28°C) in summer and 42° to 57°F (6° to 14°C) in winter. Rainfall occurs in all seasons but is generally heavier in the autumn months.

Its weather and topography are especially suitable for agriculture, forest and livestock production.

Population and language

The population of Uruguay is approximately 3.4 million. Around 95% of the population live in urban areas, about 60% live in Montevideo and its surrounding areas.

There is no indigenous population; most Uruguayans are descendant from Europeans (mainly Spanish and Italian).

Spanish is the official and most used language. English is the most used foreign language by the business community. Portuguese is also widespread, as a result of having a long border with Brazil and because of trade and tourism between both countries.

Political system and government

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

Politically, Uruguay has a democratic republic system with a presidential regime and three consolidated political parties.

The government is divided into three independent branches: Executive, Legislative and Judicial.

The President of the Republic administrates the Executive Branch, acting together with the Vice President and the Ministerial Council. The President and the Vice President are elected through universal, popular, direct vote. The President designates the Ministers.

The Legislative Branch consists of the General Assembly, which includes the Vice President, a 30-member Chamber of Senators and a 99-member Chamber of Representatives. Parliamentary elections are held at the same time as Presidential elections in the last Sunday of October every five years (last election was held on 2019).

Uruguay has a two-round system for Presidential elections. In case the candidate for President with more votes, in the election of last Sunday of October, does not reach the 50% plus one of the valid votes, there is a runoff with the second most voted candidate, on the last Sunday of November of the same year.

The President, Vice President, Senators and Representatives serve a five-year term. The Senators and the Representatives can be consecutively re-elected, but the President and Vice President, cannot.

The Judicial Power, one of the three state powers, administers the judicial system. Its jurisdiction is national. It is divided in Courts and Tribunals. The system adopted for the judiciary is the collegiate for higher organisms (Supreme Court of Justice —the highest hierarchy Justice Body and Appeal Tribunals) and the one-man system for the lower organisms (Courts and Peace Courts).

State governments are elected in a separate election from the Presidential ones and each state chooses its own public authorities. Each state has a Governor *(intendente)* and a Legislative Branch of 30 members, where the majority (at minimum) belongs to the party of the Governor that won the state election.

Living in Uruguay

In Uruguay, people enjoy a safe and healthy environment. Public meetings take place peacefully.

Traffic in vehicles, even in urban centres, is quite fluid. Cities have large green spaces and, because of the continuity of the wind and the absence of polluting industries, there is not substantial pollution.

The distances to access recreational areas (e.g. the countryside, beaches and river shores) are short. The most popular resort town (Punta del Este) is 140 km east of Montevideo.

All major cities are connected by routes departing from Montevideo (South-North). In addition, there are some important routes East-West across the country.

The national sport is soccer. There are many private clubs where to practice sports, including golf, tennis, soccer, rugby, squash, etc. There is also cultural activity, which results in an adequate range of theatres, cinemas and music shows.

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, ensures a stable framework.

Also, Uruguay maintains a high level of human development, ranking in 2019 among the top three in the region and 57th worldwide, according to the United Nations Index that each year reflects the quality of life in different countries.

In accordance with the Mercer 2019 Quality of Living Worldwide City Rankings, Montevideo ranks number 78 overall, and emerges as the number one city in South America. Factors such as internal stability, law enforcement effectiveness, crime levels, medical facilities, infrastructure and public transportation, are taken into consideration by the Mercer research team.

A solid economy

Although Uruguay's economy is strongly rooted in raw material production (meat, grains, wool, wood, cellulose pulp), other strategic sectors have developed because of high human capital standards. These sectors, including services related to tourism, information technology, finance, logistics and transportation, construction, call centres, and shared service centres, have shown significant growth.

Ranking	Uruguay in South America	Uruguay in the world
Political and Economic Transformation (Bertelsmann Foundation, 2018)	1	5
Democracy Index (Economist Intelligence Unit, 2018)	1	15
Corruption Perception Index (Transparency International, 2019)	1	21
Quality of Living (Mercer Quality of Living City Ranking, 2019)	1	78
Global Peace Index (Institute for Economics & Peace, 2019)	2	34
Prosperity Index (Legatum Institute, 2019)	2	39
Economic Freedom (Heritage Foundation, 2020)	3	47
Human Development Index (United Nations Development Program, 2019)	3	57

Most companies are small and closely held by controlling families, but state-owned companies and multinationals are a crucial part of the Uruguayan economy.

In the beginning of the 21st century, Uruguay has gone through one of the highest growth periods in its history, sustained by a favourable context of prices for primary products and the implementation of stable macro-economic policies.

Promotion for investing

Foreign and domestic investors are given the same treatment.

The promotion and protection of investments has been a consistent state policy in Uruguay. Investors may access a series of tax benefits should they comply with the conditions established in the Investment Law and regulatory decrees.

Uruguay also has free zones and industrial areas, with systems that offer an adequate framework for structuring investments with a focus on the international market for manufacturing, commercial and service activities.

Financial market

Uruguay's financial system is comprised of banks, financial houses and representative offices of foreign banks. All of the above require the authorization of the Central Bank of Uruguay to operate.

The largest bank is Banco República (BROU), which is state-owned; another important state bank is Banco Hipotecario (BHU). Almost ten private banks operate in the country; most of them are branches of international financial institutions.

Uruguay's banking system is characterized by lack of exchange of currency controls, allowing the transfer of funds and profit remittances with no restrictions or limits. It has an efficient process for foreign individuals or companies to open bank accounts compliant with all the international standards.

2. Strategic location in the region

Uruguay's strategic location offers easy access to major business and industrial centres in the region.

Approximately

70%	60%	50%
of Brazil's GDP	of Argentina's GDP	of Chile's GDP

is generated in the area surrounding the Uruguayan territory.

The country's port facilities are strategically located along the Atlantic Ocean and the Paraguay-Parana fluvial waterway, to access both oversea locations and the centre of the continent.

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

3. Respect for legal clarity

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 the report prepared by the Economist Intelligence Unit (research arm of The Economist Group for business executives), Uruguay is considered the most democratic country in Latin America (categorized as "full democracy"), with a score of 8.38, and was ranked 15th out of 167 countries worldwide.

The overall Democracy Index is based on scores for 60 indicators in five different categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and political culture. Each nation is categorized across gradient levels of regimes: full democracies, flawed democracies, hybrid regimes and authoritarian regimes.

Also, Uruguay was ranked 1st in South America in 2019 by the Press Freedom Index published by Reporters Without Borders, which reflects the attitudes and intentions of governments towards media freedom in the medium or long term.

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. Institutional quality refers not only to the efficiency of the existing legal framework, but also to intellectual property protection and to the considerable degree of independence of the Judicial Branch.

Likewise, values such as ethical behaviour in business prevail in the private sector.

Economic freedom

Uruguay's economic freedom score is 68.1, making its economy the 40th freest in the 2019 Index (out of 180), prepared by The Heritage Foundation and The Wall Street Journal, occupying the second position in Latin America after Chile.

The foundations of economic freedom are among the strongest in the region and solid in comparison to other countries in the world. The relatively independent and efficient judiciary provides strong protection of property rights and sustains the rule of law. The perceived level of corruption has declined, enhancing the prospects for long-term economic development.

A high degree of identification with the values of democracy and respect for liberties has 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.

Economic freedom is obtained through the average score of the following ten components: property rights, freedom from corruption, business freedom, labour freedom, monetary freedom, government spending, fiscal freedom, trade freedom, investment freedom and financial freedom.

Bribery and corrupt practices

Unduly influencing public officers through bribery or other corrupt practices is a crime.

High-rank officers are required to produce a statement of assets and income of any source with the Junta de Transparencia y Ética Pública and Political Parties are required to disclose information of their finances and expenses during campaign.

Money laundering and terrorism financing are penalized as a felony.

The legal framework has been consecutively updated in 2004, 2009 and 2017,[1] the latest comprising tax evasion within the scope of money laundering precedents. Uruguay has continuously improved its ranking in Transparency International's Corruption Perception Index, ranking first in Latin America, second in the Americas (behind Canada) and 21st at global level in the 2019's edition.

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

[1] Laws Nbr 17,835, 18,494 and 19,574.

4. High human resource quality

High literacy and school enrolment

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.

According to the statistics, the percentage of Uruguayans without any education is one of the lowest in the region.

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

In primary education (children from 6 to 11 years old), Uruguay has a universal scholarship in all sectors of the population, with more than 90% of the children attending school.

Regarding high school (teens from 12 to 17 years old), the percentages are a bit lower, but there are over 80% of the teens attending high school.

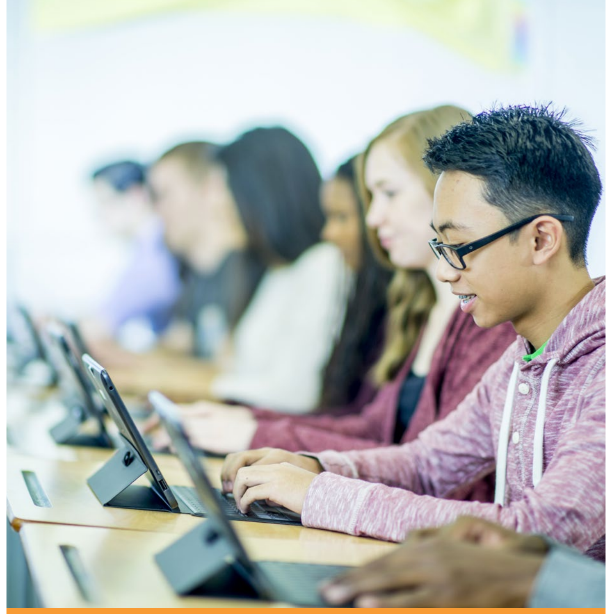
Plan Ceibal

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

Plan Ceibal was born as a project of social nature, focused on the educational field. It was created to provide a laptop to every child in all public schools in the country. This initiative led Uruguay to be the first country in which 100% of its students have internet access. The project has also demonstrated a significant social impact on the schools' connection to families, promoting skills for a 21st century society, not only for students but also for the entire family.

In 2013 *Plan Ceibal* won the award for Knowledge Fair conducted by the United Nations Development Programme (UNDP), and was awarded a bronze medal for National Quality and Commitment in Public Management from the National Institute of Quality (INACAL) in October 2012. The latter was due to the work in connectivity and connectivity support. It also won a Frida award in the category Access, awarded by LANIC, IDRC and ISCO in Argentina, in October 2011.

Plan Ceibal reached 100% of the school population.



Public education in Uruguay is free and mandatory.

Technology, communications and connectivity

Uruguay has experienced remarkable technological progress. The country has exceptional connectivity and internet penetration. 85% of the population has access to broadband (fiber optic or ADSL), with an average download speed of 30 to 120 Mbps.

100% of public schools are connected, and it is the only country in the world that provides free laptops to students in primary and secondary schools. It is the most developed Latin American country in Information and Communications Technologies (ICT).

Uruguay has the greatest fiber-optic internet coverage in homes and businesses and the most affordable price of internet access. It is among the countries of the region with the highest download speed. It also has one of the best Data Centres in Latin America (TIER 3 certification and awarded the top Data Centre in Latin America in 2016) and several submarine cable systems with connection spots in Argentina, Brazil and the United States (the latter with high capacity). These qualities and its business environment make it a global centre of services for the region and the world.

Uruguay is one of the leaders in the adoption of protocol IPv6 (eighth in the world and first in Latin America, according to the country ranking of Google IPv6). Moreover, it is the first country in Latin America to have developed a 5G commercial mobile network and the third in the world. In April 2019, the State telephone company Antel, together with Nokia, left up and running the first 5G bases in some locations of Maldonado and Colonia.

It is because of considerable investments that the country stands out for its achievements in ICT. Of all Latin America, Uruguay has the highest number of fixed broadband subscriptions every 100 inhabitants, according to the ICT Development Index (UIT, 2018).

A significant increase in the speed of data traffic combined with a highly favourable environment for the development of business with modern free zones, top-class technology centres and attractive benefits make of Uruguay the number one country in e-services of Latin America. It comes as no surprise that over 400 companies are choosing Uruguay as its base to provide for the rest of the region.

Uruguay is a member of the D9 (together with Canada, South Korea, Israel, New Zealand, Portugal, Mexico and the United Kingdom), the most developed countries in the world in terms of development and e-government, and its president for the ongoing period. D9 promotes connectivity, digital citizenship, encryption for kids, open government, standards and open source government and focused on the people.

In order to foster growth in the technology sector, Uruguay began by investing in its major resource: people. Integration in the digital world and education has been and will continue to be one of the foundations to achieve a reliable and sustainable technological development.

Because of Plan Ceibal, as well as the pioneer initiative OLPC, which was launched in the country in 2007, Uruguay became the first country in the world to provide laptop computers to every one of the kids and teachers in all primary and secondary State schools. Access to technology and knowledge has been universalized and the digital divide has been significantly bridged, since in ten years the access divide between the poorest and richest households decreased from 35% to 8%.

From 2015, Plan Ibirapitá has provided free tablets and internet access to elder people with low income. At present, Plan Butiá is working on robotics development.

These are only some of the reasons why Uruguay is associated with quality. Nowadays international companies choose Uruguay as the location to develop products and technological services, as well as the location from which regional operations can be launched into the rest of Latin America.

According to the figures presented by the Fiber Broadband Association, by mid 2006 there were 1.5 million households on optical fiber provided by Antel, thus becoming the market with the best coverage of the region.

Energy industry

Due to the lack of oil and natural gas, dependence on oversea imports of these energy sources has been steadily rising. Uruguay depends heavily on imports of crude oil for its basic energy supply. Offshore oil and gas exploration in Uruguayan waters is being carried out.

In order to enhance energy self-sufficiency, Uruguay has placed a significant emphasis on wind, solar and biomass power, and many projects have been developed.

5. An open economy

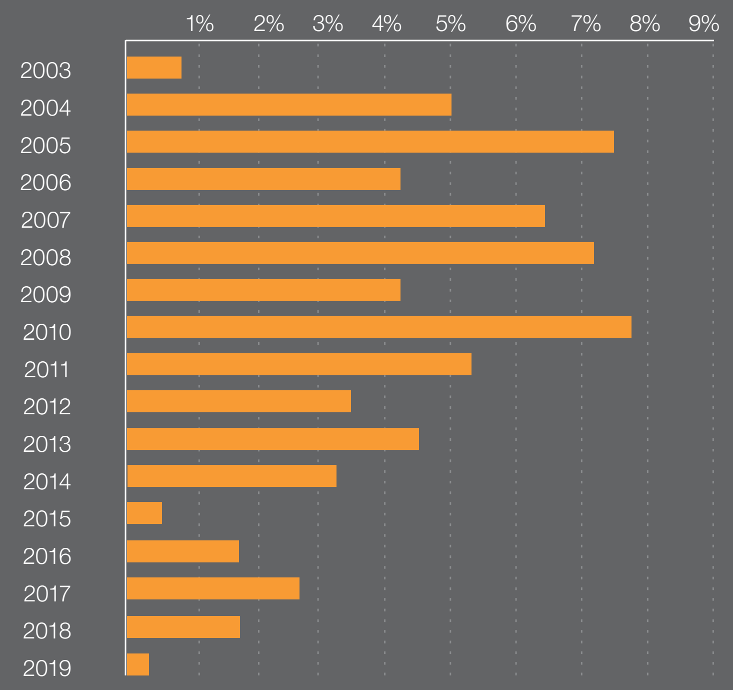
Economic performance and structure

In 2019 Uruguay completed 17 years of uninterrupted growth, the most extensive cycle and with the highest growth rates in its history. The average annual growth rate was 3.9% in the 2003-2019 period, exceeding the average of Latin America. The growth was driven by an increase in private consumption and investment, and a recovery in exports (both goods and services). In the latest years, the rhythm of growth has slowed down, mainly as a consequence of an unfavourable external cycle, but unlike other countries in Latin America, it has not registered a recession.

Measured in current dollars, GDP amounted to USD 56,001 million in 2019, with a GDP per capita of USD 15,916.

As other relatively more developed economies in the region, the sector with the highest share of GDP is services; among which trade, transport and communications, financial services, insurance and real estate stand out. The weight of the primary sector (agriculture, fishing and mining) does not reach 10% of the GDP. However, its importance in the economy is vastly superior to that percentage, as it provides most of the raw materials for manufacturing which is one of the major export sectors.

GDP (annual growth)



Source: Central Bank of Uruguay (hereafter referred to as BCU)

Composition of GDP by industry (2019)

7%	Primary activities
13%	Manufacturing
3%	Electricity, gas and water supply
11 %	Construction
15 %	Retail, repair, restaurants, hotels
6 %	Transport, storage, communications
46 %	Services, other activities

Source: BCU

An export-based economy

The Uruguayan economy is small and open. Exports play an important role in developing local production.

The deepening economic liberalization process led to an increase in the relative importance of foreign trade in GDP. In this context, the trade liberalization coefficient (exports plus imports of goods and services in terms of GDP) reached 41% in 2019.

Initially, its small size led the country to an export-based economy focused mainly on the agroindustry. However, over the last few years, 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 force, including transportation and logistics, IT (particularly software) and finance.

Exports by market (2019)

20%	Mercosur
8%	North America
1%	Rest of America
14%	Europe
4%	Africa
28%	ASIA (- Middle East)
2%	Middle East
23%	Others

Source: BCU

6. Foreign trade

Mercosur

Uruguay is a full member of the Mercosur (Southern Common Market) along with Argentina, Brazil and Paraguay. This Common Market has the following associated members: Chile, Colombia, Ecuador, Guyana, Peru and Surinam.

Imports of goods from any of the countries that are part of the Mercosur are generally free from customs tariffs, although certain exceptions apply. Particularly, those pertaining to the sugar and automotive industries (which are subject to the import tariffs prevailing in Uruguay).

Imports

There are no significant restrictions for importing goods.

Custom duties are imposed on Customs Value of the imported goods (in line with the General Agreement on Tariffs and Trade).

Imports of goods from any of the countries that are part of the Mercosur are generally free from customs tariffs (see certain exceptions above).

Goods from other countries are subject to the following charges:

- 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.
- VAT (22%), plus import surcharges. An additional advanced payment of VAT must be done (10% or 3% depending on the type of good).

Consular Duty rate applies as follows:

- 3% for products with Mercosur origin.
- 5% for products originated in the rest of the world.
- 5% for automobiles, regardless of their origin.
- Products originated in Mexico or products introduced to Uruguay under the Temporary Admission regime and fixed assets are exempt.

Capital goods (e.g. heavy equipment) and information technology equipment are in general subject to custom tariffs of up to 2%.

Exports

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

- Zero rate for VAT.
- Reimbursement of taxes: exporter may recover internal taxes added to the cost of the product exported.
- Temporary admission: supply imports for exportable products are exempt from custom 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.

Free zones

Free zones offer significant advantages for companies operating in foreign trade. Goods originated in Mercosur or in third countries that have previously entered into an agreement with Mercosur shall continue to be exempt from customs tariffs in case that, during its logistics process, they enter a free zone. The condition is that their nature remains unchanged, before being introduced to Uruguay or to other Mercosur member.

Payment system in local currency

Nowadays, a payment system in local currency with Brazil, Argentina and Paraguay is available. Such system allows natural and legal persons (that are in one of these countries) to make payments and/or collections in their respective currencies in transactions between them.

Transfer pricing

Transfer pricing (TP) rules are in force as of July 2007 and they are applicable to international transactions between related parties, as well as to those transactions carried out with parties situated in low or zero-tax regimes (either international or domestic), regardless of the relationship between them. Domestic transactions with Uruguayan free zones fall under this category.

The definition of "related parties" is quite broad. It is not limited to capital structures, but also includes functional relationships (such as unique supplier/client, exclusivity agreements under certain circumstances, power of decision to direct or define the taxpayer's activities, among others).

The Uruguayan legislation is, in general terms, in line with OECD Guidelines and it adheres to the arm's length principle. In order to evaluate the arm's length nature of the tested transactions, the Uruguayan legislation adopts the best-accepted international methodologies and requires the use of the most appropriate method according to the type of transaction performed.

Particular considerations are applicable for import and export transactions of goods, where prices can be determined through transparent markets, stock exchanges or similar.

TP documentation

TP report ("local file") and the informative return have to be filed with the Tax Authorities when intercompany transactions under analysis carried out by the taxpayer in the financial year exceed a threshold of approximately USD 6 million. TP documentation must be filed within the ninth month after the year end. Under such threshold, taxpayers are not obliged to file the TP documentation, although in such cases a TP analysis must be prepared and kept during the statute of limitation period (minimum of five years).

Country by country report (CbCR) filing is an annual obligation for taxpayers that integrate a Multinational Group (MNE) of large economic dimensions (i.e. those whose consolidated income exceeds EUR 750 million —or its equivalent— and verify the related party assumptions.

Said obligation is in force for financial years initiated as of January 1, 2017. Taxpayers will be excepted from filing CbCR in Uruguay when it is submitted by a related entity to a foreign Tax Administration of a jurisdiction with whom Uruguay has an exchange of information agreement in force, and the report can be effectively exchanged with such tax authorities.

A special (complementary) return related to the CbCR must be submitted prior to the MNE financial year end. Taxpayers obliged to file the CbCR shall notify the local Tax Authority the identity and tax residence of the reporting entity, the controlling entity and all the Uruguayan entities that integrate the MNE. This complementary information should be filed annually in all cases and by all local entities (i.e. although —when applicable— the full CbCR is submitted only by one local entity on behalf of all, the complementary information must be submitted by all the local entities).

Master File: although there is an obligation by law to prepare and have the Master File, the regulations (with additional information about its practical implementation) have not yet been issued.

TP penalties

General penalties/fines on income tax adjustments: a fine of up to 20 percent of tax underpaid and interest will be charged on the tax underpaid, calculated from the original due date. The Tax Code also addresses severe sanctions in the case of tax fraud both as an infringement (punished with a fine of between one and fifteen times the amount of the fraudulent tax omission or attempted omission) and as a criminal act (subject to an imprisonment penalty of between six months and six years). In both cases, the behaviour subject to punishment is configured by deceit or deceitful concealment with the purpose of creating an undue fiscal benefit. Specific penalties apply upon failure to comply with TP provisions (including the formal ones). These are gradual according to the gravity of the fault and of its recurrence (they vary from USD 20 to USD 230,000 approximately).

Advanced Pricing Agreements

The regulations provide taxpayers with the opportunity to enter into unilateral, bilateral and multilateral Advanced Pricing Agreements (APA) with the local Tax Office (and with foreign Tax Offices, when applicable). These APAs must be signed prior to performing the intercompany transactions subject to analysis and may not exceed the term of three fiscal years.

7. Investment framework

Equal conditions for foreign and local investors

Foreign investors are deemed to have the same rights and obligations as Uruguayans, notwithstanding certain limitations imposed by specific sector regulations.

Uruguayan laws recognize the capacity of foreign legal entities, provided they are not in conflict with public policies, and, as such, they are allowed to conduct business and appear in Court.

Business may be carried out either through a branch office or through a local subsidiary. Local companies and branches of foreign entities are required to identify their shareholders and ultimate beneficial owners.

Payments may be freely agreed to be made in the party's currency of choice, but restrictions on the use of cash may apply depending on the transaction and amounts involved. Inflow and outflow of funds is free, although subject to anti-money laundering and counter terrorism financing controls.

Banking secrecy

Uruguayan laws reflect a long-established tradition of banking secrecy. As such, financial institutions are subject to privilege and may only share information on their clients under specific and exceptional circumstances (Court resolution in criminal or alimony matters, money laundering or terrorism financing investigations, tax frauds, requests by foreign authorities and Common Reporting Standard compliance) or upon client's written authorization. Uruguay has not entered into Intergovernmental Agreements (IGA) with the United States for FATCA purposes.

Cash repatriation

Other than complying with anti-money laundering laws, there are no restrictions or notice requirements associated to cash repatriation.

Tax privacy rules

Tax privacy precludes authorities from revealing information related to tax procedures. Breach of tax privacy may result in the dismissal of the public servant that committed the breach.

A relevant matter for the economy in Uruguay is to achieve sustained investment growth.

A state policy of promotion and protection of investments was established to provide a secure environment for investors in Uruguay.

Anti-money laundering and terrorism financing

Uruguay has reaffirmed its commitment to fighting money laundering and terrorist financing by subscribing the Conventions of Vienna and Palermo, the International Convention for the Suppression of the Financing of Terrorism and nine of the eleven United Nations protocols related to these.

Its legal framework, which satisfies Groupe d'Action Financière's (GAFI) basic requirements, imposes due diligence and reporting obligations on professionals acting in the financial and non-financial sectors (casinos, real estate agents, brokers, notary publics, lawyers and public accountants, among others). Suspicious operations shall be reported with the Central Bank's Information and Financial Analysis Unit (UIAF).

Courts of Law are empowered to order seizure and confiscation of goods or financial instruments related to money laundering activities.

Intellectual property

Copyright, trademarks and industrial patents are specifically protected by the Law.

Copyright

Copyright protection applies to original works of art in the literary, scientific (including software, electronics and information systems) and artistic fields, recognizing the author or copyright holder exclusivity rights against their unauthorized use or infringement.

Uruguay is a party to the Bern Convention for the Protection of Literary and Artistic Work, extending to foreign authors the protection to which local ones are entitled.

Trademarks

Upon registration with the *Dirección Nacional de Propiedad Intelectual*, the Law recognizes exclusive rights over trademarks. The use of trademarks may be assigned without the need to serve notice to public authorities, although this would be necessary to exercise exclusive rights.

Unless otherwise agreed, the transfer or sale of a business entails its trademark as well.

Patents

The law protects industrial patents, comprising inventions, useful models and industrial designs and models. Protection is granted for twenty years after making the request for protection before the *Dirección Nacional de Propiedad Industrial*, upon which it becomes of public domain.

Models of use (minor innovations) and industrial models or designs provide their owners the exclusive right of use for a ten-year period, renewable for five additional years only.

The Paris Convention, to which Uruguay is a party, extends the protection to citizens of Contracting states.

Fair competition

The Law seeks to promote the wellbeing of consumers and users and stimulate economic effectiveness, freedom and equality of conditions in access to markets.

Oversight is entrusted to the Ministry of Finance through the *Comisión de Promoción y Defensa de la Competencia*.

Although it is not illegal for a monopoly situation to exist, the Law prohibits anti-competitive practices through monopolies and the use of power to prevent potential competition from new market players. To such extent, any abuse of predominant position and all the practices, behaviours or recommendations intended to restrict, limit, obstruct, distort or prevent present or future competition in the relevant market are also prohibited.

Legal framework for employment outsourcing

The employment law seeks to protect workers while meeting the needs of the market. Seeking to guarantee compliance, the Law provides that a contracting party may be held jointly and severally liable for labour-related debts (including social security contributions and mandatory insurance premiums) related to subcontractors employed in the event no controls are in place. To the extent controls are implemented, contractor may become subsidiary liable.

Environment protection

The protection of the environment is a matter of general interest according to the Constitution. Besides regulations preventing degradation, companies resorting to clean technologies are eligible for tax incentives under the Investment Promotion Law.

Data protection

The Law establishes the protection of personal data. One of the main law principles is that the entity that is developing personal information must obtain the previous, explicit and informed consent of its owner before sharing it with any third person.

Failure to comply with this legal provision may lead to administrative, civil and even criminal prosecution. In addition, the law and regulations establish the obligation for those who have adequate personal databases, to register them with the *Agencia de Gobierno Electrónico y Sociedad de la Información y del Conocimiento*.

8. Foreign investment

Choice of entity

Sociedades Anónimas, Sociedades de Responsabilidad Limitada and *Sociedades por Acciones Simplificadas* can carry out business while insulating shareholders against company debts. At times, foreign investors choose to conduct business through a local branch, and *Fideicomisos* may be implemented for a particular purpose.

Choosing the right type of entity depends on multiple factors, including the number of shareholders, the activity to be carried out, taxation and record-keeping, among others.

Company formation

In short, incorporating a *Sociedad de Responsabilidad Limitada* or a *Sociedad por Acciones Simplificadas* requires choosing a name and checking its availability, making capital contributions, agreeing on the provisions of the articles of association and filing it with the Registrar of Companies and posting an extract, all of which usually takes between 45 and 60 days.

Complexity is added and timing is extended in the case of *Sociedades Anónimas*, due to an additional review by *Auditoría Interna de la Nación* (a Governmental body with corporate oversight responsibilities). For this reason, the acquisition of shelf-companies is a widespread alternative which may substantially simplify and reduce the timing involved.

Sociedades Anónimas

Unless otherwise required by the Law or set forth in their articles of association, *Sociedades Anónimas* may carry out any sort of business. *Sociedades Anónimas* may be public or privately owned, and in both cases all of a company's share capital may be owned by a sole shareholder.

Share capital shall be expressed in local currency and represent at least 25% of a company's authorized capital at the time of incorporation. Shares may be issued in either nominative, book-entry or bearer form, although in either case they are subject to disclosure requirements. Preferred shares granting special voting and economic rights may be agreed.

Management of company affairs may be either entrusted to a sole-director or a board, except for public companies in which case the latter is mandatory. Directors may be individuals or legal entities, local or foreigners.

A statutory Annual General Meeting shall be held within six months following the financial year-end in order to go over the company's annual report, financial statements, dividend distribution project and board's management of company affairs.

Extraordinary meetings may be called whenever necessary. Meetings shall take place in Uruguay and shareholders may be represented by proxy.

Sociedades Anónimas are required to keep books and records of transactions in due course.

One shareholder may own 100% of the capital once the *Sociedad Anónima* is incorporated.

Sociedades de Responsabilidad Limitada

Usually considered a hybrid entity combining characteristics of *Sociedades Anónimas* and partnerships, it is the company type in which small and medium-sized business are usually organized.

They shall be formed by at least two and up to fifty partners, including legal entities. Shares are represented by nominative quotas which may be freely transferred between partners but are subject to approval in the event transferred to third parties.

This type of company may be member-managed, allowing for management by several members, depending on the circumstances.

Similarly to *Sociedades Anónimas*, statutory meetings shall be called within six months following the financial year end with a similar agenda. Depending on the type of resolution and the number of partners, resolutions may require a simple majority or unanimous consent.

Profits shall be distributed as provided in the articles of association and may not necessarily follow an equity criterion.

Sociedades por Acciones Simplificadas

Shares shall be issued in nominative or book-entry form, none of which may be publicly traded.

As opposed to *Sociedades Anónimas* and *Sociedades de Responsabilidad Limitada*, this company type allows for formation by a sole shareholder. Moreover, General Meetings may be held locally or overseas, personally or through remote communication means. Management may be entrusted to a sole-director or a board.

Depending on the company's profits, this type of business company may be subject to *Auditoría Interna de la Nación*'s oversight.

Branch of a foreign company

Foreign companies are deemed to be capable of performing isolated transactions and appearing in Court, but in the event these intended to carry out business on a regular basis through a permanent establishment, a branch administrator should be named and capital assigned, all of which shall be filed with the Registrar of Companies and accompanied by supporting documentation evidencing the existence and organization of the company in its country of origin.

Although the branch is required to keep separate accounting records in local currency and in Spanish, it is not considered a separate entity.

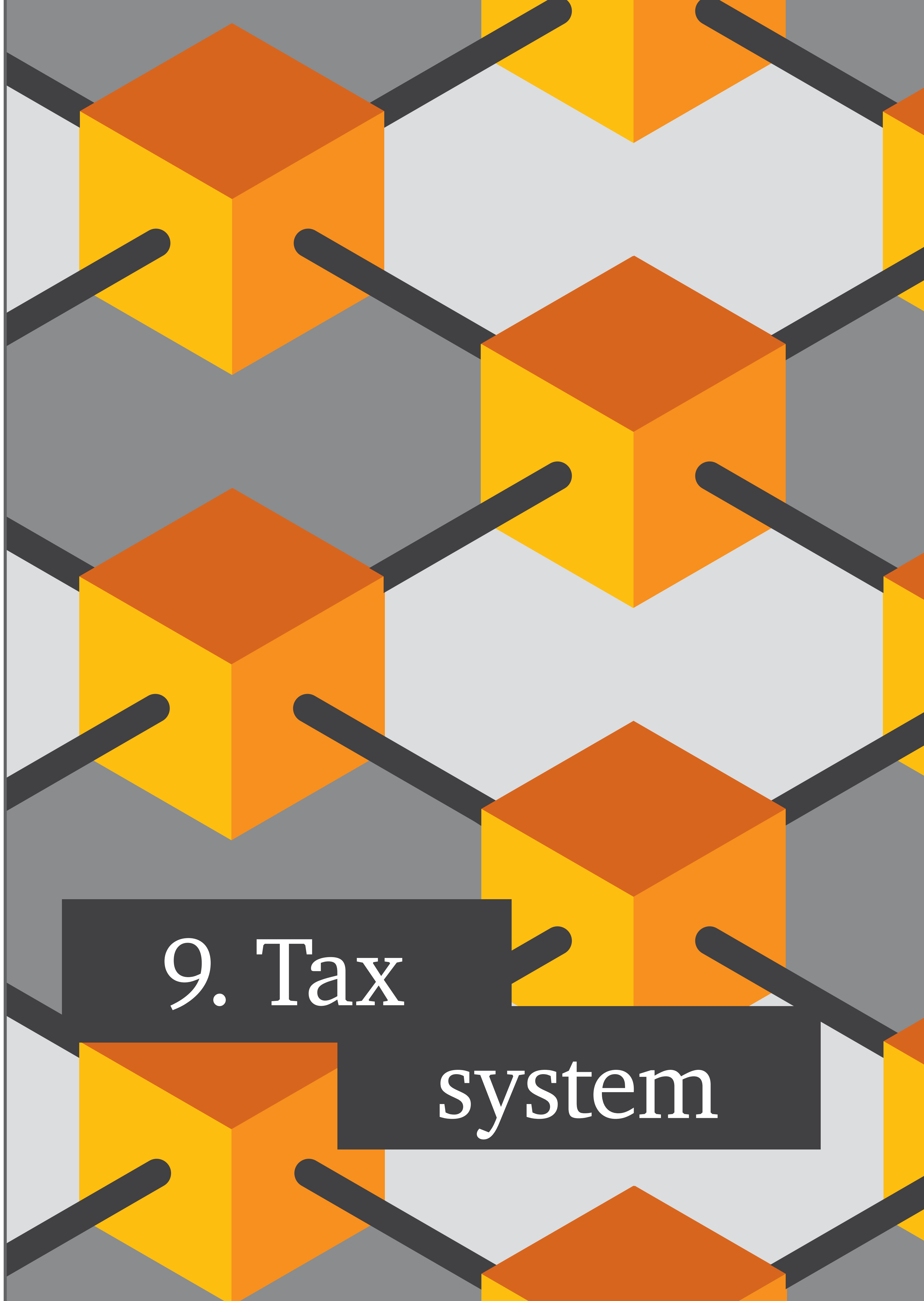
Fideicomisos

Similarly to trusts, *Fideicomisos* imply the transfer of an individual's (or a legal entity's) property to one or more persons, subject to certain duties that imply using and protecting it for the benefit of others.

Disclosure of ultimate beneficial ownership

All of the abovementioned shall disclose with the Central Bank the identity of shareholders and corporate chain of ownership up to their "ultimate beneficial owners", understood as those individuals who directly or indirectly hold at least 15% of a local company's share capital (or equivalent) or voting rights or otherwise exercise control over the company.

Notwithstanding the above, companies whose shares are listed on stock exchanges or owned by foreign investment funds or trusts may be exempted, provided the latter are in compliance with similar provisions in their country of origin and an agreement of information exchange between both is in effect.



9. Tax system

Overview of the tax system

Uruguay is one of the few countries in the region that applies corporate taxes according to the source principle: investments located and activities performed outside the Uruguayan territory are not subject to taxation, regardless of (i) nationality, domicile or residence of the parties participating in the transactions, and (ii) the place where the agreements are executed. A major tax reform in force since July 2007 ratified this principle. The main purpose of the reform was to restructure the taxation of resident individuals, which was again reviewed in 2011, taxing income derived from holding movable capital (regardless of its source).

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:

- If they remain in Uruguayan territory for a period of over 183 days during the calendar year (except when residence in other country can be justified).
- When their basis of activity (centre of economic interest) or their centre of vital interest (habitual residence of their family) is in Uruguay.

Additionally, regulations issued in October 2016 established that if the individual has an investment in Uruguay that complies with one of the following conditions, then he will be considered resident for tax purposes (for having its centre of economic interests in Uruguay), unless he/she proves his/her fiscal residence in other country:

- More than 15 millions of UI (USD 1,600,000 approximately) in properties located in Uruguayan territory.
- More than 45 millions of UI (USD 4,600,000 approximately) in a company with projects or activities promoted by the Investments Law, either directly or indirectly.

The main direct taxes are Corporate Income Tax on Economic Activities (IRAE) and Net Wealth Tax (NWT).

The main indirect taxes are Value Added Tax (VAT) and Excise Tax (IMESI).

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 (DTTs) following the Model of the Organisation for Economic Cooperation and Development (OECD) and of the United Nations (UN).

Treaty countries up to now are:

- Germany (renegotiated and in force as of December 2011)
- Hungary (in force since 1994)
- Mexico (in force as of December 2010)
- Spain (in force as of April 2011)
- Switzerland (in force as of December 2011)
- Liechtenstein (in force as of September 2012)
- Portugal (in force as of September 2012)
- Ecuador (in force as of November 2012)
- Malta (in force as of December 2012)
- Korea (in force as of January 2013)
- Finland (in force as of February 2013)
- India (in force as of June 2013)
- Romania (in force as of October 2014)
- United Arab Emirates (in force as of June 2016)
- Vietnam (in force as of July 2016)
- United Kingdom (in force as of November 2016)
- Luxembourg (in force as of January 2017)
- Singapore (in force as of March 2017)
- Belgium (in force as of August 2017)
- Chile (in force as of September 2018)
- Paraguay (in force as of March 2019)

Tax Information Exchange Agreements (TIEAs) were celebrated with:

- France (in force as of December 2010)
- Iceland (in force as of November 2012)
- Denmark (in force as of January 2013)
- Greenland (in force as of January 2013)
- Argentina (in force as of February 2013)
- Norway (in force as of January 2014)
- Canada (in force as of June 2014)
- Australia (in force as of July 2014)
- Faroe Islands (in force as of February 2015)
- Sweden (in force as of April 2015)
- The Netherlands (in force as of June 2016)
- Chile (in force as of August 2016)
- United Kingdom (in force as of October 2016)
- Guernsey (in force as of October 2017)
- South Africa (in force as of October 2017)

A TIEA and a DTT with Brazil, and a DTT with Italy were approved by the Uruguayan Parliament, while the international ratification processes (for the entry into force) are in their normal course. A DTT with Japan is in the

process of being approved by the Parliament, while other DTTs are currently being negotiated.

Multilateral Convention - Double Tax Treaties

On September 11th, 2019 the Uruguayan Congress approved the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting ("Multilateral Instrument" or MLI). The main objective of this instrument is to introduce (quickly and efficiently) the package of measures included in the minimum standard in bilateral treaties, without the need to renegotiate the treaty signed with each of the adhered States. The MLI contains mandatory provisions (minimum standard) and other optional clauses. In the case of the optional provisions, each signatory may opt in or out off, in whole or in part.

Globally, the MLI entered into force on July 1st, 2018. On February 6th, 2020 Uruguay deposited its instrument of ratification for the MLI with the OECD's Secretary. In this sense, for Uruguay, the MLI will enter into force on June 1st, 2020. Nevertheless, the provisions of the MLI will have effect with respect to a "Tax Convention included" as from the year following the one in which the instrument is in force in both contracting parties.

Income tax

There are three categories of taxpayers:

Corporate

- **25%**
- **Legal entities**
- **Permanent establishments**

Individuals

- **10-36% labour income**
- **12% capital income**

Non-residents

- **12% / 25%***

**25% applicable to entities resident, domiciled or located in low or no-tax jurisdictions.*

Corporate 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-residents.

The definition of permanent establishment follows that of the OECD. 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. Provision of services (under certain conditions), including consultancy services, will also trigger a permanent establishment (hypothesis based on the United Nations model).

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 Agricultural Products Sales Tax (IMEBA). However, this option is not available for corporations, *sociedades en comandita por acciones*, permanent establishments, trusts, closed investment funds and for state enterprises. There is also an option to be taxed under IRAE rules that is available for those who obtain income subject to Individuals' Income Tax (IRPF), with the exception of salaries, dividends or profits, and income from holding movable capital derived from non-resident entities. For those who obtain income from personal services (such as independent contractors), the option depends on the level of income effectively obtained.

To determine net taxable income, duly documented accrued expenses required for the generation of Uruguayan source income are allowed as deductions. Additionally, taxpayers are able to deduct expenses from their gross income to the extent such expenses are income subject to taxation (either foreign or local taxation) in the hands of their counterparts. A compulsory proportional deduction must be calculated when the taxation in the hands of their counterpart is lower than 25% (IRAE rate). A 12% withholding tax (WHT) is imposed on Uruguayan-sourced income obtained by non-residents, except in cases where the income is obtained through the operations of a PE in Uruguay.

To determine the taxable basis in transactions with foreign related parties, transfer-pricing rules in line with the OECD guidelines must be applied. Transactions between companies located in Uruguay and counterparts 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 33,000) are not subject to IRAE. Nevertheless, a monthly fixed tax of approximately USD 100 must be paid. In general, IRAE taxpayers must make advanced payments on account of the final tax at the end of each fiscal year.

Individuals' Income Tax

Resident individuals are subject to IRPF. Income subject to tax is divided into two categories: capital and labour income. IRPF taxes income derived from activities developed in, property located in or rights economically used within the Uruguayan territory, as well as income derived from holding movable assets (regardless of its source).

Regarding labour income, this tax also applies to income derived by resident individuals because of activities developed outside the country, as long as the payer of the salary/fee is an IRAE taxpayer.

Capital income includes earnings from holding movable and immovable property and capital gains derived from their transfer. It 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, dividends or profits paid by IRAE taxpayers among others), which are taxed at lower rates.

Labour income includes earnings from rendering personal services as an employee or as an independent worker and is levied at progressive rates of up to 36%, depending on total annual gross income. Deductions are minimal and include retirement plan contributions and deductions for underage or handicapped dependent children. The annual non-taxable threshold of this tax is of approximately USD 9,500.

Although originally included in the scope of IRPF, as of July 1st, 2008, Uruguayan source income derived from pensions is subject to a specific tax aimed at financing the pension fund at progressive rates of up to 30%. The annual non-taxable threshold of this tax is of approximately USD 10,850.

The following rates are applicable to annual gross income for the purpose of calculating the progressive tax on labour income:

Annual taxable gross income (USD)

Over	Up to	Tax rate (%)
-	9,490	0
9,490	13,557	10
13,557	20,336	15
20,336	40,671	24
40,671	67,785	25
67,785	101,678	27
101,678	155,906	31
155,906		36

Social security contributions and a notional amount corresponding to education, feeding, health, and housing of dependent under-age children are deductible (under certain conditions) from employee gross income when applying a flat rate of either 10% or 8%, depending on the taxpayer's level of income. Those taxpayers with a monthly income lower than 15 BPC (approximately USD 1,700) will be able to deduct a 10% of the deductions, while the individuals whose income is higher than 15 BPC will only be able to deduct an 8% rate of the total deductions.

Taxpayers must make advanced payments during the fiscal year (either themselves or through withholdings made by the employers), which are deducted to calculate the final tax payable to the DGI.

Taxpayers have the choice to pay this tax as a family unit. Rates to be applied differ from the aforementioned rates and depend on the income of each member of the family unit.

Non-Resident Income Tax

All Uruguayan sourced income obtained by non-residents (other than those obtained through a permanent establishment in Uruguay) are taxed by Non-Resident Income Tax (IRNR) at a general flat rate of 12% on gross income. Income obtained by entities resident, domiciled or located in low or no-tax jurisdictions (LNTJs) is taxed at 25%. Labour income, including the one from rendering personal services as an employee or as an independent worker, is taxed at this flat rate. Technical service fees related to obtaining income of local source are deemed to be Uruguayan sourced, even when the service is rendered outside Uruguay.

As of January 1st, 2016, income from advertising services and income derived from the mediation, lease, use, assignment of the use, or disposal of image rights from athletes registered with Uruguayan resident federations are also deemed to be Uruguayan sourced regardless of where services are rendered or rights exercised.

As of January1st, 2017, rules aimed to discourage the use of LNTJs entities are effective:

- Income derived from the transfer of shares or interest in entities from LNTJs whose assets located in Uruguay exceed 50% of their total investments is deemed to be Uruguayan sourced (thus taxable) for IRAE purposes. Similar provisions apply to resident individuals and to non-resident taxpayers.
- Discouraging the use of intermediary entities that reside in LNTJs, when a resident individual participates in their capital, passive income and/or capital gains received by these entities will be assigned as deemed dividend, thus taxed in the hands of the individual beneficiaries.

Additionally, effective as of January 1st, 2018 new rules on the taxation of the following cross-border activities (partially in Uruguay) apply:

- Income derived from the production, distribution, or intermediation of cinematographic films and tapes, as well as income derived from direct TV broadcasting, will be considered entirely Uruguayan-sourced and fully subject to IRAE or to IRNR.
- Income derived from mediation and intermediation in the supply or demand of services provided through the internet, technology platforms, apps or similar means will be considered entirely sourced in Uruguay when both the supplier and user of the service are located in Uruguay, and considered 50% sourced in Uruguay if either the supplier or the user is located outside Uruguay.

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

- Interest on loans: exempt, provided local debtors have more than 90% of their assets affected to generate income not subject to IRAE.
- Dividends or profits paid out of exempt income for IRAE purposes: exempt (otherwise 7%).
- Technical service and advertising fees paid by beneficiaries that mainly obtain exempt income for IRAE purposes: 0.6%; or 0% if they do not obtain income subject to IRAE.

IRNR is basically collected by way of withholding and IRAE taxpayers are appointed as withholding agents. When no withholding agent is appointed by the rules, the non-resident has to register with the Uruguayan Tax Authority and appoint a tax representative that will be jointly responsible for the tax liability and will pay the corresponding IRNR on behalf of the non-resident.

Other taxes

Net Wealth Tax

All types of legal entities and business enterprise owners are subject to an annual NWT at a rate of 1.5% on the value of net assets. This tax also follows the source principle and is applicable on assets located or economically used in Uruguay at each fiscal year-end, at a rate of 1.5%.

Deductible liabilities are limited and include debts with suppliers of goods and services, taxes not yet due; debts with governments, international credit offices of which Uruguay is a member and debts with foreign state financial institutions, with the objective of financing long-term productive projects, among others. Taxpayers may offset from the NWT the IRAE of the same fiscal year (deduction currently capped at 1% of the NWT). In order to determine the taxable basis, exempt assets as well as assets located abroad are deducted from these liabilities.

NWT exemption for investments associated to the development of agricultural and/or farming activities was modified. In this regard, agricultural and/or farming investments will continue to be exempt from.

NWT to the extent the corresponding assets do not exceed approximately USD 1,320,000. If they exceed that amount, the tax will apply at different rates that would vary depending on the value of referred assets. NWT 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 0.6% to 0.9%.

Furthermore, there is a threshold under which the local net wealth of an individual is considered exempt (currently amounts to approximately USD 107,000).

NWT is also levied by way of withholding on credits 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% (penalty rate applicable to LNTJs is 3%) in case of creditors that are legal entities, and the rate ranges from 0.7% to 1.5% 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 the 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 (other than the 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 are exempt under certain conditions, 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, 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 133%) 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

Tax on Real Estate Transfer (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. The transmissions of taxable assets that take place as a result of the replacement or removal of trustees, is excluded from this tax.

10. Investment promotion

Incentives for local and foreign investors

Because 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 local or foreign investors in the country are:

- Investment Law.
- Free Zones Law.
- Industrial and scientific-technological parks.

Investment Law

Uruguay has a specific legal framework for the promotion and protection of investments.

The law grants two types of tax incentives: automatic and specific. In the frame of the rules in force, the specific ones can be requested through an investment project regime or by taking into consideration the regulations of specific promoted areas.

Automatic incentives

IRAE and IMEBA taxpayers who undertake manufacturing, extractive and farming activities are entitled to apply the following tax benefits automatically:

a. Exemption of NWT for movable property directly affected to the productive cycle (industrial machinery, industrial premises, agricultural machinery and utility vehicles), data-processing equipment and related.
b. Exemption of VAT and IMESI on the import of goods mentioned in a), and reimbursement of VAT derived from the items purchased locally.
c. Exemption of NWT on bovine and ovine breeders (male and female) and dairy cattle.

Specific incentives: investment projects

Significant tax benefits can be granted to investments projects promoted by the Executive Power. To qualify for these benefits, the investor must file an application with the Bureau of Investor Assistance, which monitors the evaluation process for said projects. After filing, the Application Commission (COMAP) evaluates whether the applicant qualifies for the promotional status declaration, in accordance with objective evaluation criteria, and then 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 the validity period for the tax benefits granted.

According to the rules in force, the following tax benefits can be granted by the Executive Power:

- RAE exemption: 20% to 100% of the amount effectively invested. The amount and period to use the benefit (not less than 3 years) depends on the nature and size of the project. The benefit is deducted directly from the amount of IRAE, and the annual exemption shall not exceed 60% (80% for new companies) of the amount of IRAE of each year.
- NWT exemption: movable fixed assets included in the investment project, civil construction works (for 8 years if located in Montevideo or 10 years if located in the rest of the country).
- VAT reimbursement on the local purchase of goods or services for civil construction work.

VAT and custom duties exemption on the import of fixed assets considered as non-competitive with the national industry.

Companies must annually control and submit information to the COMAP in relation with the investment and with other indicators committed by the companies in the investment project application.

It must be noted that the aforementioned tax exemptions do not depend on the legal vehicle set up by the company through which the investment is carried out, or on the investment’s funding. It is not necessary to capitalize accumulated earnings or reserves.

Specific incentives: promoted areas

Moreover, in the context of the Investment Law, together (or solely) with other relevant legislation, the investment and the development of certain sectors/activities has been promoted, by means of granting different tax benefits. The main promoted sectors/activities are the following:

- Call centres
- Shared service centres
- Forestry
- Software
- Biotechnology
- Energy generation
- Tourism and accommodations
- Maritime and air navigation
- Vehicles and auto-parts
- Biofuels and hydrocarbons
- Communication industry
- Graphic industry
- Scientific and technological innovation
- Agricultural machinery
- Industrial solid waste
- Housing

Free zones

Following the approval of the Free Zones Law in 1987 and its modification in 2017, this system became 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 (i.e. software development, finance, call centres) and manufacturing activities (such as cellulose pulp, pharmaceutical industry and leather production).

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

Those interested in carrying out activities in the free zones must submit to the Executive Power the request for authorization, accompanied by an investment project that demonstrates the economic and financial viability of the activities and how Uruguay is benefited from them.

Any kind of industrial, commercial or service activity can be developed in the free zone:

- Trading with goods, warehousing, storage, conditioning, selecting, classifying, splitting, assembling, disassembling, handling and blending of goods or raw materials of domestic or foreign origin.
- Installing and operating manufacturing facilities.
- All types of services (other than those restricted under national regulations), within the free zone, to third countries and to Uruguay. Indeed, recent updates to the Free Zones Law allow free zone users to render services to Uruguayan non-free zone territory.

Free zone users are exempted from all present or future national taxes to be created, including those that require a specific exemption by law, with respect to the activities developed within the free zone.

The Uruguayan government guarantees all the exemptions and benefits afforded by law during the term of their contracts. In order to maintain status and benefits (including tax exemptions), free zone users must have at least 75% of Uruguayan nationals or citizens on their payrolls, in connection with the activities carried out in the free zones. For activities related to services this minimum decreases to 50%. In exceptional cases, the Executive Power may reduce this percentage. The exemption excludes social security contributions on employee wages. These contributions are not applicable to foreign personnel working in the free zones, 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 favourable treatment regarding income taxation.

The entrance and exit of goods to and from the free zones is exempt from taxes. 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 zones Uruguayan territory from the free zones are considered imports and must pay the corresponding customs duties and comply with the legal formalities required for imports.

Industrial parks and scientific-technological parks

The industrial and scientific-technological parks are private or public owned areas delimited by the Executive Power with the purpose of setting up and operating productive industrial establishments and other services, training and research and innovation activities. The objective of industrial parks is to promote the installation and exploitation of manufacturing industries and some related services, while the scientific-technological parks aim to the set up of knowledge and innovation centres together with innovative companies and ventures.

Industrial and scientific-technological parks must comply with certain requirements and would be subject to tax benefits based on the Investment Law and on other specific regulations. The following tax benefits will be granted to the park developer:

- IRAE exemption of a percentage of the invested amount (up to 100%) to be used in a determined period. The amount and period to use the benefit depends on the location and features of the parks.
- NWT exemption for certain premises, facilities and data-processing equipment to be used in the parks.

- VAT and custom duties exemption on the import of fixed assets destined to the operations or civil works of the developer, when these assets are considered as non-competitive with the national industry.
- VAT reimbursement on the local purchase of goods or services for the operations or civil works.

The park users can submit an investment project (under the general regime monitored by COMAP) and, in addition to the general benefits included in such regime, the IRAE exemption and the period to use such benefit will be increased by 15% or 5%, depending on the activities of the parks user.

Promotion and protection of investments

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

Treaties in force:

Europe

- **Armenia**
- **Belgium**
- **Czech Republic**
- **Finland**
- **France**
- **Germany**
- **Hungary**
- **Italy**
- **Luxembourg**
- **Poland**
- **Portugal**
- **Romania**
- **Spain**
- **Sweden**
- **Switzerland**
- **The Netherlands**
- **United Kingdom**

Asia and Australia

- **Australia**
- **China**
- **Israel**
- **Malaysia**
- **South Korea**
- **Vietnam**

North America

- **Canada**
- **United States**

Central America

- **El Salvador**
- **Mexico**
- **Panama**

South America

- **Chile**
- **Venezuela**
- **Mercosur** (only in force for Uruguay and Brasil)

11. Social security and labour regulations

Labour regulations

The Ministry of Labour (MTSS) ensures that employers comply with labour laws and regulations, and provides technical assistance to employers and employees to guarantee their corresponding rights. Once the labour relationship is initiated, it is possible to establish temporary contracts for three months. Under specific circumstances, it is also possible to establish labour contracts for pre-determined periods. The contracts are not formally regulated.

Unions are organised by company and industry sector. There is one national labour federation, the Plenary Inter Union Workers and Workers National Convention (PIT-CNT). Employee affiliation to unions is voluntary. From May 2005, the government introduced the collective bargaining between employees, employers and government by industry (not by company), which is regarded as one of the most critical factors affecting the direction of labour relations. Key matters for collective bargaining are wage issues such as mandatory wage increase rate, minimum wages for each category, wage scheme, as well as non-wage controversial hot topics such as the security of the workplace and the discrimination of regular and non-regular workers.

Salaries can be paid in Uruguayan pesos or foreign currency. Labour related accidents and professional sickness, which may affect the worker, are covered under a mandatory system that is administered by the state insurance company *(Banco de Seguros del Estado)*. This system provides medical assistance and covers temporary and permanent disabilities stemming from work.

Social security system

Certain foreign workers may opt out from the Uruguayan social security system, by means of international treaties signed by the country. The social security administration (BPS) is the public agency responsible for the social security system, who 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/paternity.

Pensions

The pension system 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 salaries that exceed approximately USD 4,400 may opt to pay or not on remunerations exceeding this amount. Total contributions are paid to BPS, which then 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, for 4 months. When the redundant worker is more than 50 years old, the coverage can be extended for another 6 months.

Health coverage includes workers and their spouse and children, who have the right of being affiliated to a medical care institution without cost. In the case of a common illness, the labour contract is interrupted, and the BPS pays an illness compensation. This subsidy covers one year of illness with the possibility to extend it for two years.

Maternity and paternity

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

Affiliation to the social security system is mandatory except for foreign workers rendering services in the free zones.

As from January 2016, paternity leave includes 10 days. In addition to this paternity leave (granted by Law 19,161), workers of the private sector have three additional days of leave according to Law 18,345.

Newborn care

The pension system also includes a new kind of benefit called newborn care, that allows the mother or the father (it is optional just for one of them at a time) to work part time for the first six months after the birth, to take care of the newborn child.

Contributions and benefits

Monthly employers must pay contributions and have to withhold and pay employee contributions, which are applied on all remunerations paid to the worker, regular and permanent, either in cash or kind.

Contribution rates related to industry and commerce are as follows:

Concept	Employer contributions	Employee contributions *
Retirement contribution *	7.50%	15%
Health insurance	5.00%	3%, 4.5%, 5%, 6%, 6.5%, 8% *
Labour restructuring found	0.10%	0.10%
Labour credit guarantee fund	0.025%	-
Total SSC	12.625%	18.125% to 23.10%

**Depends on the amount of wages and on the existence of children and spouse.*

Wages are defined as all economic compensation received by the worker pursuant to the labour 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. Employees who work at night more than five consecutive hours (between 10.00pm and 6.00am) have the benefit of an additional payment that consists on an increase of 20% of the value of the normal hour or the equivalent reduced working hours.

These are the general benefits granted under the current labour law; however, particular collective bargains from each industry sector may determine conditions that are more favourable.

Workers have the right to an annual remunerated vacation consisting of 20 consecutive days, which is increased 1 day for every 4 years of length of service starting from the 5th year. Holidays must be remunerated at the normal wage in force by the time the vacation is taken. Workers have the right to receive 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 in two halves (in June and December).

Additionally, there are some special leaves: study leave (6 to 12 days per year) and bereavement leave (3 days).

When an employee is dismissed, they are entitled to be compensated. This compensation is not subject to social security contributions, and its calculation differs whether the employee is monthly or day labourer. In general, the employee is entitled to a monthly wage for each year or partial year worked, with a maximum of six wages.

Foreign personnel

In order to work in the country, foreigners must apply for legal residency. Residency is granted without major requirements: proof of good behaviour in the country of previous residence, a certificate of good health and a certificate of means of subsistence, among others.

Law 19,254 simplified the administrative procedures for getting permanent legal residence for all nationals of Mercosur member countries and its associates, and for cohabitants, parents, brothers/sisters and grandchildren of Uruguayans.

International social security agreements

Uruguay has signed a series of international agreements in terms of 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.

12. Accounting and audit requirements

Uruguayan accounting rules follow IFRS.

Set of accounting standards in force

National accounting standards for non-public companies follow a convergence tendency to accept accounting principles applied internationally. In October 2014, December 2015 and December 2016, Decrees 291/14, 372/15 and 408/16 were approved. They established that the 2009 version of IFRS for Small and Medium Entities (IFRS for SME) are mandatory.

These decrees have also established some exceptions and local solutions in the application of the aforementioned international standards.

Separate financial statements of controlling entities should always be filed jointly with the consolidated financial statements. In such financial statements, subsidiaries should be recognized applying the equity method, and associates can be recognized at cost, fair value or equity method, following the same policy choice adopted for the preparation of the consolidated financial statements.

For certain small size non-public companies, a less complex set of accounting standards (also based on IFRS for SME) is in force.

Public companies are required to file their financial statements in accordance with IFRS. Banks and other financial institutions are required to apply a local set of accounting standards based on IFRS.

Registration, filing and other presentation requirements

Corporations, agriculture companies, trusts and investments funds not regulated by the Central Bank of Uruguay must register their financial statements with *Auditoría Interna de la Nación*. For tax purposes, financial statements of large and medium-sized companies (as per classification by the Tax Office) must be accompanied by an audit or review report issued by an Uruguayan certified public accountant.

Public companies must file their interim and year-end financial statements, together with a review and audit report, respectively. Free zone companies must consider that in case the assets book value exceeds approximately USD 0.8 million, if net revenues exceed approximately USD 2.7 million, financial statements must be audited. In other cases, free zone companies' financial statements must be accompanied by a review report and must be registered with the Tax Office.

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

Corporations showing debt with local financial institutions are required to file their financial statements together with a review report, if such debts exceed approximately USD 0.7 million, or with an audit report, if financial debts exceed approximately USD 2 million.

13. Main indicators of the economy

	2015	2016	2017	2018	2019
Gross Domestic Product (GDP)					
Real annual growth	0.4%	1.7%	2.6%	1.6%	0.2%
USD millions	53.365	52.778	59.585	59.57	56.001
GDP per capita (USD)	5.392	15.165	17.057	16.991	15.916
Domestic demand					
Private consumption (annual change)	-0.5%	0.1%	4.6%	1.5%	0.5%
Private investment (annual change)	-8.5%	-4.8%	-11.9%	-4.2%	1.9%
Goods and services export (annual change)	-0.6%	-0.2%	6.9%	-4.8%	1.2%
Foreign trade					
Exports of goods FOB (USD millions)	7,591	7,043	7,888	7,502	7,674
Imports of goods CIF (USD millions)	9,489	8,137	8,458	8,893	8,246
Current Account Balance (% GDP)	-0.9%	-0.1%	0.7%	0.1%	0.7%
Labour market					
Average unemployment rate	7.5%	7.8%	7.9%	8.3%	8.9%
Real private wages (Dec-Dec)	0.7%	3.1%	1.4%	0.3%	-1.0%
Prices					
Retail inflation (Dec-Dec)	9.4%	8.1%	6.6%	8.0%	8.8%
Exchange rate (Dec average)	29.7	28.8	28.9	32.2	37.6
Change (Dec-Dec)	23.4%	-3.2%	0.3%	11.6%	16.7%
Exchange rate (anual average)	27.3	30.1	28.6	30.7	35.3
Annual change	17.6%	10.4%	-4.9%	7.2%	14.8%
Public finance					
Fiscal deficit (% GDP)	-3.5%	-3.9%	-3.5%	-4.0%	-4.7%
Public debt (% GDP)	57.5%	63.3%	60.7%	60.2%	62.4%

14. Hints for the business visitor

Visitor visas

Visiting businesspersons can enter the country using a valid passport. Nationals of Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Paraguay, Peru and Venezuela can also use their identity cards. For specific countries, visas are also required.

Currency

The unit of local currency is the Uruguayan peso. “UYU” or “$U” are the symbols that represent it. Exchange rates as of 31st December 2019 were as follows:

	UYU
USD	37.34
EUR	41.86
AR$	0.62
BRL	9.26

Business hours

Stores are normally open from 9.00am to 7.00pm, Monday through Friday, and from 9.00am to 1.00pm on Saturday. There are several shopping centres, which open from 10.00am to 10.00pm every day. Government offices are open to the public usually between 1.00pm to 5.00pm in autumn, winter and spring and from 9.15am to 2.30pm in summer.

Bank hours are from 1.00pm to 5.00pm (certain banks open at 11.00am) but a vast ATM network is available.

Factories are usually open from 8.00am to 5.00pm and business offices from 9.00am to 6.00pm.

Legal holidays

Public holidays for which the employees are entitled to full pay are 1st January, 1st May, 18th July, 25th August and 25th December. There are also official holidays that are paid only if they are worked: 6th January, 2 days in Carnival (during February or March), 2 days in Easter week (during March or April), 19th April, 18th May, 19th June, 12th October and 2nd November. The national holidays 19th April, 18th May and 12th October are changed to the previous or next Monday, depending of which is nearest to the corresponding day.

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.

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