Uruguay:
Tax and Investment Profile

The way to new opportunities

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Welcome to Uruguay

Currently in a world of ongoing uncertainty, where the economic recovery of the developed regions seems questionable, Latin America emerges as a rich region in business opportunities. Within this region, Uruguay stands out as a small country but with great potential for business initiatives. Historically, its size and excellent geographical location have contributed to foster a strong relationship, not only with its bordering countries, but also with countries all over the globe. Today, the increasing globalization and the economic opening give Uruguay new impetus to its growing economy.

The economic, political and social stability of Uruguay is the cornerstone of this exceptional business climate prevailing today. The legal certainty and the national development policies that transcend political parties are the fundamentals of Uruguay in its career to keep up the excellent growing levels that have been achieved during the last years. Uruguay presents a sound thriving economy. Its macroeconomic policies aim at attracting foreign investments by setting forth regulations leading to this purpose. In this sense, a modern and transparent promotional regime has been developed to provide important benefits to both local and foreign new investments thus generating an exceptional environment to invest in our country.

Deloitte, with over 95 years of continuous presence in Uruguay, provides a team of highly qualified professionals prepared to address the questions, concerns and needs of those who envisage Uruguay as a potential location for their investments. We are passionate about serving our clients and particularly leading them optimize their investment decisions in our country. In this booklet you will find an overview of the most relevant aspects of Uruguay, its economy, its people and its tax and regulatory framework. Please do not hesitate to contact us for further information.

Welcome to Uruguay!

José Luis Rey
Managing Partner

The investment climate

1 Political background

Uruguay is a democratic republic organized under a presidential system. The president is directly elected by the national electorate for a term of 5 years, and may not be reelected until after a span of one term. Tabaré Vázquez (former president between 2005-2010) took office in March 1st 2015.

Executive, Legislative and Judicial are the three independent branches that are part of the state. The Executive Branch consists of the President and his cabinet of Ministers (13). The Legislative Branch rests with the parliament, which is composed of the senate (31 members) and the chamber of representatives (99 members).The Judicial Branch is headed by the Supreme Court of Justice. Each of the above branches is autonomous as regards to the duties entrusted to them by the Constitution.

Uruguay stands out for its high-quality democracy. In fact, according to the Democracy Index 2016 (computed by the Economist Intelligence Unit) the Uruguayan regime is considered a full democracy, ranking in the top 20 worldwide and outperforming its regional peers. Furthermore, the perceived levels of public sector corruption are low by international standards, while Uruguay is generally regarded as a country of solid institutions.

2 Economic structure

After the 2002 crisis, the Uruguayan economy has grown strongly and steadily, completing one of the longest periods of expansion in its history. GDP posted an average annual growth rate of 5.7% between 2005 and 2014, standing out as one of the fastest-growing countries in Latin America. The expansion was widespread among sectors.

This performance was boosted by a positive external outlook, but it also benefited from structural changes, such as the adoption of a floating exchange rate, improvements in the investment promotion regime and the professionalization of debt management, among others. Uruguay is also an open country to foreign trade and investment. In this regard, the country offers to the investor free transfer of capitals and goods, no restrictions to the import of goods and barely any discrimination between local and foreign investors.

These conditions make the Uruguayan economy one of the freest in the region. As a matter of fact, according to the Index of Economic Freedom elaborated by The Heritage Foundation, Uruguay is the 41st freest economy in the 2016 ranking (out of 178 countries). The strongest categories are freedom from corruption, investment freedom and property rights.

Against this background, one of the drivers of the expansion has been the rise in investment, which led the "investment / GDP" ratio to historically high levels (around 20% in the past years). In particular, in the last decade the country became a very attractive destination for foreign direct investment.

Finally, it should be noted that over the past two years GDP has slowed down, Indeed, in 2015 the Uruguayan economy grew by 1.0% and it is estimated to have grown by 1.2% in 2016. Nevertheless, it is worth stressing that the economy managed to continue expanding in a gloomier regional context, with strong recessions in the main neighboring countries, Argentina and Brazil, and also with a less favorable international scenario (lower commodity prices and perspective of a less expansive monetary scenario in the United States).

The Uruguayan economy - Main figures in 2016*	
GDP (US$ Bn)*	53.6
GDP per capita – current US$*	15,410
Consumer price inflation (end-period, %)	8.1
Current-account balance (% of GDP)*	-0.5
Export of goods FOB (US$ Bn)*	8.4
Import of goods FOB (US$ Bn)*	7.8

* Estimates

3 Banking and financing

The Uruguayan main financial center is its national capital, while state capitals play only minor roles with branches of important financial institutions that have headquarters in Montevideo.

In recent years the Central Bank of Uruguay has adopted a number of dispositions aimed at ensuring the financial stability. For instance, risk management and internal control systems have been strengthened, the rules of minimum capital requirements were modified to meet international standards, a public information center of credit risk was created in 2010 and regulation on provisions now induces banks to internalize risks deriving from currency mismatches and cross-border activities of their clients.

The commercial banking industry has been growing steadily in the past decade, albeit posting a slower pace in the last few years. The overall business volume (deposits + loans) was up by 1.5% in 2016, reaching US$ 43.8 billion. Performing loans to the non-financial sector amount to US$ 13.6 billion, while total deposits sat at US$ 30.2 billion in December 2016. Aggregate assets of the banking industry currently stand at around US$ 35.6 billion and the total equity of the commercial banks operating in the country has risen to US$ 2.7 billion (US$ 1.4 billion in private institutions, US$ 1.3 billion in the state-owned Banco República).

4 Foreign trade

The major export categories are currently beef, pulp, soybeans and dairy products.

Uruguay is a founding member of MERCOSUR. The agreement provides free circulation of goods, services and productive factors within member countries (Argentina, Brazil, Paraguay, Venezuela and Uruguay), to be attained through a progressive elimination of tariff and non-tariff barriers and a Common External Tariff agreed by all members for almost all goods and products introduced into the MERCOSUR area.

Against this background, naturally Brazil and Argentina account for a significant portion of the Uruguayan exports of goods, but in the last years commercial flows became less dependent on the region. As a matter of fact, one key driver of the sustained growth in the past years has been the diversification of the export markets. The share of Argentina and Brazil in the Uruguayan exports of goods actually plummeted from around 50% in 1998 to 20% in 2015. On the contrary, other markets such as China, the Eurozone and United States have increased their share (representing 13%, 13% and 6% respectively in 2016).

Foreign Investment

1 Foreign investment incentives and restrictions

Government encourages foreign investment offering utmost guaranties and setting out principles which may be summarized in:

- National Interest: investments in national territory are declared to be of national interest;
- Non discrimination: domestic and foreign investors are treated equally;
- Requirements: foreign investors are not required prior authorization or registration;
- Treatment: the Government commits to granting fair treatment to investments, without unjustified prejudicial or discriminatory measures;
- Free transfer of capitals: the State guarantees the transfer of capital and profits abroad in freely-exchangeable currency – no restrictions towards imports or capital repatriation.

Investment Promotion Law

Various incentives are available under the Industrial Promotion Law to projects or industries. Beneficiaries from this regime are companies whose investment projects or activity sector in which they carry out business are declared promoted by the Executive Branch, as set forth by the Investments Law.

The underlying principle of the investments regime is a win-win scheme, in which the investor's profits are assured by elements of legal security and transparency, as well as by important tax incentives whereas, the State "wins" due to the investment itself, not only for the amounts invested but also by the social, economic, environmental and technological impact they generate in Uruguay.

There shall be deemed as eligible investments the acquisition of:

- Movable goods directly destined to the activity of the company (except for non-utilitarian vehicles and goods destined to residence).
- Fixed improvements (except those destined to residence).
- Intangible goods determined by the Executive Branch (not including software).
- Seedlings and implantation costs of certain trees and bushes.

An additional condition is set out for these acquisitions, and it is that their destination is to form part of the company's fixed and intangible assets.

Investments should aim at least at one of the following areas: employment generation, decentralization, exports increase, use of clean technologies, increasing in research, development and innovation, and/or sectorial indicators (agricultural, industry, tourism, and commerce and services).

Applications for these benefits must be filed before the Investor's Attention Office. The project is evaluated by a Commission specially created for the purpose which advises the Executive Branch on the promotion of the projects.

All projects which have been declared promoted shall enjoy the tax benefits stated in the corresponding resolution which may include: exemption from import duties on fixed assets required for the project (as long as these are non-competitive with the national industry), VAT refund for local purchases of materials and services for building construction, exemption from Net Worth Tax (IP) for a limited number of years and relief from Corporate Income Tax (IRAE).

Regarding IRAE, the amount and the period of the benefit depends on the score that the project receives from the Commission. The score is given according to the size of the project, amount invested and achievement of certain aims established by the government. Exemption from IRAE (which is directly from the tax and not from the taxable income) can be of up to 100% of the amount invested for 3 to 25 years. Each year, the amount deducted from IRAE cannot exceed 60% of the payable tax.

In addition to this general regime, there are specific tax incentives applicable to certain activities such as call centers, projects related to tourism, renewable energy sources among others.

Free Zones

Goods and raw materials may be imported into the free zones without paying customs duties. Businesses established in the free zones are wholly exempt from Uruguayan taxes, except for social security taxes, provided at least 75% of the workforce is Uruguayan.

Despite the exemption of Uruguayan taxes applied to Free Zones users, they are still responsible of withholding Non Residents Income Tax and Personal Income Tax when applicable.

2 Exchange controls

The monetary unit is the Uruguayan Peso ($). Since 1974, there has been total freedom in terms of exchange controls. Contracts may be drawn up in any currency. No restrictions are imposed on the introduction of capital or the repatriation of capital or profits.

The most commonly used foreign currencies are the U.S. Dollar, the Argentine Peso and the Brazilian Real.

Choice of business entity

1 Principal forms of doing business

The main forms of business organization in Uruguay are the corporation (sociedad anónima - SA), limited liability company (sociedad de responsabilidad limitada - SRL), general partnership (sociedad colectiva), limited partnership (sociedad en comandita), sole proprietorship (unipersonal) and branch of a foreign company. Foreign investors usually choose a corporation or a branch to set up a business in Uruguay.

Generally, Uruguayan entities may be wholly foreign-owned, and there are no nationality or residence requirements towards the directors of a corporation. Staff may be entirely foreign. In certain sectors such as the fishing industry and businesses conducted by Free Zone companies, however, tax incentives may be granted only if Uruguayan citizens represent a certain percentage of the workforce.

2 Establishing a branch

Companies willing to establish a branch in our country must register before the National Registry of Commerce submitting the following documentation:

- An authenticated copy of the Head Office's bylaws and its subsequent modifications.
- An authenticated copy of the Resolution of the Board of Directors from the Head Office deciding the establishment of a branch in Uruguay. The Resolution must specify the domicile of the branch in Uruguay, the persons appointed to administrate and represent it and the legal capital assigned to the branch.

When the purpose is to benefit from the Free Zone Regime, such specific purpose of operating as a free zone user company needs to be included in the Resolution.

After the registration, the branch must carry out the required publications according to the legal form of the Head Office.

All necessary forms shall be signed by authorized officers or directors in order to be filed before the corresponding control office (Tax Authority, Social Security Authority, etc.)

In order to operate, according to our legislation, the branch needs to have a separate accounting in Spanish, must comply with Administration controls for local companies and designated directors and officers shall have the same responsibility as that in local companies in terms of their liability.

3 Setting up a company

Limited liability partnership (SRL):

- These entities are incorporated by a contract signed by the parties involved. It cannot be bought off the shelf. The contract has to meet certain specifications and needs to be registered and published. This procedure may last over a month.
- The capital is divided into identical participations, which can be accumulated.
- Partners' responsibility is limited to the participations' contribution.
- Number of partners cannot be over 50.
- Each partner has to contribute with at least 50% of the amount subscribed in cash by each of them. The contributions in kind have to be made when celebrating the contract.
- Participations cannot be transferred to third parties without consensus of partners representing 75% of the capital (when there are more than 5 partners) or an agreement of all partners (when there are less than 5 partners)

Corporation (SA):

- These entities can be bought off the shelf in 48 hours. Subsequently, bylaws modifications can be made so that they fit the company's requirements. In the case of incorporating a SA instead of buying it off the shelf, 3 months is the average period required.
- The capital is divided into shares, and they can be represented by negotiable titles.
- Shareholders' responsibility is limited to the shares' contribution.
- Shareholders have to contribute with at least 25% of the authorized capital and have to subscribe what is pending to 50%.
- There are no limitations to shares' transfers.

Business taxation

1 Overview

Uruguayan Tax System has been modified by Law 18.083 which came into force on July, 1st 2007.

Taxation is mainly regulated by the National Tax Code of 1996 and the decrees that regulate the Code.

Uruguay has adopted a territorial concept of taxation. This means that only Uruguayan-sourced income is taxed, irrespective of the nationality, domicile or residence of those who are part of the transactions and despite the place where the business deal is closed. If the activities are developed, the services are provided or the goods are situated in Uruguay, Uruguayan taxes have to be paid.

However, changes and exceptions to the general regime have been introduced in the past years and some foreign income is now subject to taxation.

2 Taxable income and rates

The Corporate Income Tax (IRAE) levies on business income.

Uruguayan entities, those that have been created according to Uruguayan Regulations, are taxed by Corporate Income Tax (IRAE). Non-resident entities that obtain income through a permanent establishment (PE) in Uruguay are also taxed by IRAE. These entities, among others, are IRAE taxpayers for being such.

However, this tax also levies on income arising from the joint use of capital and labour applied to regular profit-oriented activities.

Taxable income

IRAE levies on net taxable income at a 25% rate. Taxable income for IRAE purposes is basically net income shown by the company's books after making various tax adjustments, including an adjustment for inflation.

Some IRAE taxpayers may opt to be taxed on real or presumed income if their annual sales are less than $ 14,030,800 (US$ 478,214) for 2017. If their annual sales exceed this amount, presumed income cannot be chosen. Under Real IRAE, the taxable basis is net income considering real expenses. Under Presumed IRAE, the taxable basis is defined as a percentage of the gross income and no expenses can be deducted.

Companies, whose total revenue does not exceed a certain annual limit, pay a flat tax instead of IRAE. This annual limit for 2017 has been set in $ 1,069,910 (US$ 36,466) and the flat tax has been set at $ 3,210 (US$ 109) per month.

Deductions

As a general rule, all necessary expenses to obtain and maintain taxable income are deductible, when these are well-documented.

Besides, only expenses that are taxed, for the one that receives the income, are deductible. These expenses have to be taxed by Personal Income Tax (IRPF), Non Residents Income Tax (IRNR), Corporate Income Tax (IRAE) or by an effective Income Tax abroad.

Expenses' percentage of deduction depends on the rate at which they are taxed. In the case of expenses subject to IRNR or IRPF (Capital gains) at the general rate of 12% for the counterparty, the expense will be 48% deductible (12 / 25 - IRAE rate). If income is also taxed abroad, the expense can be deducted in the following percentage: (12 + Foreign Income tax rate) / 25.

Depreciation

Depreciation of tangible fixed assets is normally deductible for IRAE purposes using the straight-line method. For urban and rural buildings, the straight-line rates admitted for tax purposes are fixed at 2% and 3%, respectively. Brand new vehicles must be depreciated in a period of no less than 10 years. In the case of other assets, the tax authorities accept any rates provided that they are reasonable and applied consistently from year to year.

As a guideline, the most typical rates are 10% for automobiles, 10% for furniture and fixtures, 10% to 20% for machinery and equipment, and 20% to 33% for computers. Depreciation is computed on the historical cost of fixed assets revaluated at the end of the period by the variation in the IPC (Consumer Price Index) occurred in the considered period.

Intangible fixed assets, such as patents and trademarks, purchased from third parties may be depreciated -at historic values- for tax purposes. The amortization of goodwill, however, is not deductible.

Losses

A tax loss incurred in one year, adjusted for inflation (IPC), may be carried forward to set off against taxable profits arising in the following five years, but can only offset up to 50% of the net taxable income. Losses cannot be carried back.

Tax Adjustment for Inflation

Taxable income includes an adjustment to reflect changes in the purchasing power of the (Uruguayan) currency wherever the accumulated variation in the IPC of the last 3 years exceeds 100%. If this were the case, the difference between assets and liabilities fiscally adjusted at the beginning of the period is multiplied by the variation in the IPC during the fiscal year in order to determine the tax loss/gain accordingly.

Commercial Activity Abroad – Trading operations

The Tax Authority has established by resolution that Uruguayan-source income arising from activities of intermediaries developed in Uruguay, is set in a presumed way.

The Resolution applies to purchases and sales of goods situated abroad. Neither the country of origin or destination can be Uruguay, nor can the goods pass through Uruguay. The same applies to mediations in the provision of a service, only if the services are provided and economically used abroad.

Uruguayan-sourced net income is set at 3% of the difference between the sale and purchase price of the goods and services in discussion. IRAE tax rate (25%) applies directly over this amount. The tax does not admit extra deductions.

This regulation also allows choosing between the above-mentioned regime and the determination of real net income of Uruguayan source.

3 Capital Gains

Capital gains are treated as ordinary business income and are subject to IRAE at the normal rate (25%).

4 Withholding taxes

Non Residents Income Tax (IRNR) is levied on Uruguayan source income obtained by non-resident individuals or entities, as long as they do not operate in our country through a permanent establishment. The tax is withheld by the Uruguayan payer.

Non-resident entities are those incorporated according to foreign regulations, as long as they do not establish a domicile in Uruguay. Non-resident individuals are those who have not been in Uruguay more than 183 days in a calendar year, or do not carry out their main activities in Uruguay, neither have their economical or vital interests in our country (there is an assumption that an individual's vital interests are in Uruguay when the spouse and underage children live here).

The definition of Uruguayan-sourced income is the same given in the "Overview". However, it is important to mention that, income derived from technical and advertising/propaganda services rendered abroad to Corporate Income Tax (IRAE) payers is also considered of Uruguayan-source. Technical services are the ones rendered in areas of management, technique, administration and advice of any kind.

The IRNR general rate is 12%. However, dividends and profits of an Uruguayan company related to Uruguayan sourced income subject to a reduced rate of 7% provided these relate to income are subject to IRAE. When dividends and profits relate to foreign sourced holding income, the applicable rate is 12%.

Non-distributed dividends and profits (obtained more than 3 years ago) are also taxed at the 7% rate, as they determine the concept of "notional dividends" established in our Tax Law. In order to calculate the tax derived from these notional dividends, accumulated net income as of july 2007 has to be considered, less the following:

- Dividends and distributed profits that have been effectively distributed
- Notional dividends that have already been taxed in a prior fiscal year
- Investments made in interests in other Uruguayan entities, fixed assets or intangibles until the end of the previous fiscal year
- Increase in working capital

The resulting taxable income may not exceed the retained earnings minus notional dividends and profits.

The tax resulting from notional dividends will be offset against the tax of effectively distributed dividends and profits once these are distributed.

The 7% rate is also applicable to certain interests paid by banks.

Additionally, there is a specific rate of 25% applicable to entities located in low-tax jurisdictions that obtain Uruguayan source income. This rate is applicable to all kind of income but dividends and distributed profits.

As a general rule, IRNR is withheld by local entities when payments of taxed income are done to foreign entities or individuals. However, in those cases in which no withholding agent has been designated, the non-resident should appoint a resident individual or entity to represent it towards the Uruguayan Tax Authority (DGI).

5 Foreign income and tax treaties

Foreign-sourced income is not subject to IRAE. As a result, direct expenses incurred by a company to earn foreign-sourced income are non-deductible. A portion of indirect expenses may also be non-deductible.

Uruguay has signed double-taxation treaties with different countries, but the ones in force are with Argentina, Ecuador, Finland, Germany, Hungary, India, Liechtenstein, Malta, Mexico, Portugal, Romania, South Korea, Spain, Switzerland, UAE, UK and Vietnam. In all cases, the treaties basically limit the rate of Uruguayan tax on dividends, interests, and royalties paid to residents of the recipient countries.

Exchange information agreements with Australia, Canada, Denmark, Faroe Islands, France, Greenland, Iceland, Netherlands, Norway, Sweden and UK are also in force.

6 Transactions between related parties

Transfer pricing

Uruguayan transfer pricing rules are based on the OECD model. These new rules only apply to cross border transactions between "related parties" and transactions with entities located in tax haven jurisdictions.

The main characteristics of this regime are the following:

- Transactions carried out between individuals or related entities must adhere to the market's usual practices between independent parties.
- Relationship is deemed to exist when a taxpayer performs transactions with non-resident individuals, entities or establishments, or with Uruguayan Free Zones Users, with which he/she may have corporate or economic relationship.
- Transactions that taxpayers may perform with non-residents, located in low taxation jurisdictions or that enjoy a special regime of low or no taxation (whether related or not) will not be considered as adjusted to market's usual practices and should apply transfer pricing rules.
- All methods from the Organization for the Economic Cooperation and Development (OECD) are accepted. As for the preference for any of these methods, it shall be used the one that best fits the type of transaction.
- Taxpayers whose transactions included in the TP regime exceed certain amount are required to submit before the Tax Authority a transfer pricing report as well as a special Tax Return on an annual basis. Nevertheless, all taxpayers comprehended in the regime need to keep a transfer pricing analysis.
- In exports or imports transactions of certain products (linseed oil, peanut and peanut oil, cotton oils, soybean and soybean oil, rice, malt, barley, corn, wheat among other) a special method is to be applied.

Thin capitalization

There are currently no thin-capitalization rules in Uruguay. However, the deduction of interests related with loans from a non-resident, is proportional to the rate to which they are taxed (either locally or abroad).

Controlled foreign companies

Uruguay has CFC rules only in the case of foreign-sourced holding income obtained by resident individuals. These apply when income derives from a low or no taxation country.

Consolidated returns

Uruguay does not have tax-consolidation rules. Each entity is taxed separately from other related entities.

7 Turnover and other indirect taxes and duties

Value Added Tax (VAT)

VAT is levied on sales of goods and rendering of services by independent workers in Uruguay. Services rendered by employees are not subject to VAT.

VAT is also levied on imports, for which it is necessary to pay an advance of sales VAT.

VAT is generally paid monthly. A business may credit VAT paid on imports and purchases from its suppliers (input tax) against VAT charged by it on sales of goods and services to its customers (output tax). Only the excess of output tax over input tax has to be paid to the tax authorities. If input tax exceeds output tax, the excess may be carried and applied against future output tax.

The standard rate is 22%. A reduced rate of 10% applies to sales of certain essential goods and to some services. The sales VAT advance paid in imports is fixed at 10% (for goods taxed at the standard rate) and at 3% (for goods taxed at the reduced rate).

A business that carries out exempt transactions does not have to charge VAT to its customers, but generally it cannot recover VAT paid on its purchases.

This rule does not apply to exports. Exports of goods are exempt from VAT but the exporter may claim a refund for VAT paid on purchases.

Excise taxes

A specific consumption tax (IMESI) is levied at various rates on the first sale made by importers and manufacturers of a certain range of products. These include certain alcohol, cosmetics, tobacco, fuel and automobiles.

8 Other taxes

Payroll and social security taxes

Employers have to withhold their employees' social security taxes. They are also required to contribute a percentage of monthly payrolls to social security fund (12,625%).

See Labour relations and workforce section for further details.

Net Worth Tax

Resident entities are taxed on assets situated in Uruguay as at the end of their fiscal year. Non-resident entities are taxed on assets situated in Uruguay as at December 31st. Certain liabilities can be deducted from taxable assets.

Tax payers are able to credit a 1% of the IRAE paid against their net worth tax liability. The ability to offset is available only to legal entities with nominative titles.

Entities are taxed at a flat rate of 1.5%. Financial Institutions tax rate is 2.8%. A 3% rate is applicable to entities located in low-tax jurisdictions on their assets located in Uruguay.

An exemption was set on stocks owned by nonresidents and placed in free ports or in free zones.

Property Transfer Tax

Real estate sales trigger a property-transfer tax that levies on the real value of property at a 4% rate. The tax is paid by both the seller and buyer (2% buyer, 2% seller). The real value is determined by the municipal government.

This tax applies also in the case of inheritance but with a 3% rate paid by the heirs.

Farming Goods Sale Tax

Net income from agricultural and farming activities is taxed by the Economic Activities Income Tax (IRAE).

Those small entities with agricultural activities can decide between paying IRAE or the Farming Goods Sale Tax (IMEBA). This tax is much more simplified and the rate can sum up to 2.5% depending on the good sold.

Corporate Control Tax

Corporations are subject to an annual tax (ICOSA) of $ 15,217 (US$ 519) which is fixed once a year.

9 Tax compliance and administration

The tax year for IRAE purposes, if there is not an adequate accounting, shall coincide with the calendar year (the year ending on December 31). If, however, a company keeps adequate accounting records, the fiscal year is the company's own financial year.

IRAE taxpayers must file an annual tax return within four months following the end of each fiscal year. A company normally self-assesses its IRAE liability on this annual tax return. The Tax Authority may make an assessment in certain circumstances, for example, when they doubt about the accuracy or truthfulness of a tax return, or they request but fail to obtain corrections or clarifications from the company.

The statute of limitations is of five years from the end of the fiscal year. The term of five years may be extended up to a maximum of ten in specific circumstances.

Monthly advance payments have to be made based on the income tax of the previous year. These payments are calculated by applying to each month's income the percentage that the tax paid on the previous year represents on the previous year's total income. There is a minimum tax to be paid according to the sales of the entity, which varies from $ 4,210 to $ 10,500 (US$ 143 to US$ 358). These payments are deducted from the final tax calculated at the end of the fiscal year, and only the difference has to be paid when filing the annual tax return.

Personal taxation

Individuals in Uruguay are subject to income tax, net worth tax and social security taxes.

Both resident and non-resident individuals are taxed on their Uruguayan-sourced income.

As from 2011, however, residents are also taxed on holding income derived from loans, deposits and any kind of capital investment in non-resident entities (holding income does not comprise capital gains that derive from the sale of an investment nor income received from the rent of a property).

Residents are subject to Personal Income Tax (IRPF), while non-residents are subject to Non-residents Income Tax (IRNR). Uruguayan-sourced income is defined as that which stems from activities developed, goods placed or rights used in Uruguay. It also includes, however, income received by employees of a local company (IRAE or IRPF taxpayer) when working abroad as well as that received by independent workers when providing technical services from abroad to an IRAE taxpayer.

These taxes are applied on a dual basis:

- Category I: Holding income and capital gains
- Category II: Income derived from work (employees and independent workers).

1 Residency

An individual is considered as resident if he/she has been in Uruguay for more than 183 days in the calendar year, if the individual carries out activities in Uruguay or if his/her economical or vital interests are in Uruguay (there is an assumption that an individual has his/her vital interests in our country when his/her spouse and underage children live here).

The tax that has to be paid (IRPF or IRNR) depends on whether the individual is deemed to be resident or nonresident.

2 Category I: Holding income and capital gains

Both, residents and non-residents are taxed on uruguayan-sourced capital gains and holding income by Personal Income Tax and Non-residents Income Tax respectively.

Capital gains are those derived from the sale of an asset (profits on the sale of real estate, shares, etc.), while holding income is that derived from the possession of an asset and basically includes dividends, interests, rents and royalties.

As of January 2011, tax residents are also taxed on holding income (not capital gains) derived from movable assets such as loans, deposits and any kind of capital investment in non-resident entities.

There is a tax credit for taxes paid abroad for this foreign-sourced income.

However, those individuals who became resident may opt, for holding income obtained abroad, to be taxed by IRNR (Non-Residents Income Tax) instead of IRPF (Residents Income Tax). Foreign-sourced holding income is not taxed by IRNR, it is only taxed by IRPF. The option can be used only once and is applicable for the next five years.

Tax Rates

Holding income and capital gains are taxed at a flat 12% rate, with almost no deductions. Certain interests are subject to a 7% rate depending on the currency and term of the deposit.

Dividends and profits related with Uruguayan sourced income and paid or credited by IRAE taxpayers are also taxed at a 7% rate (they are only taxed if they correspond to income taxed by IRAE in the local entity). When dividends and profits relates with foreign sourced holding income, the applicable rate is 12% (this is only applicable to resident individuals).

Non-distributed dividends and profits obtained more than 3 years ago are also taxed at a 7% rate, as described in the "Business taxation" chapter (point 4 - "Withholding taxes").

3 Category II: Income derived from work

Tax Rates

Income derived from work is taxed at progressive rates (ranging from 10% to 36%). There is a non-taxable amount as well as some deductions admitted.

Below is the annual income scale applicable for income derived from work (employees or independent workers). This scale is based on a variable unit called Contributions and Benefit Unit (B.P.C).

Scale in UY$			Scale in U$S		
From	To	%	From	To	%
-	303,324	0%	-	10,643	0%
303,324	433,320	10%	10,643	15,204	10%
433,320	649,980	15%	15,204	22,806	15%
649,980	1,299,960	24%	22,806	45,613	24%
1,299,960	2,166,600	25%	45,613	76,021	25%
2,166,600	3,249,900	27%	76,021	114,032	27%
3,249,900	4,983,180	31%	114,032	174,848	31%
4,983,180	-	36%	174,848	-	36%

It is important to mention that income has to be divided in these ranges and to each of them is applicable its specific rate (not the higher one to all the income).

Determination of taxable income

In order to determine the taxable income for Category II, two amounts need to be calculated.

The mentioned rates are applied to the gross income, whether received in cash or kind, and results in a "primary tax". It is important to mention that independent workers' gross income admits a 30% deduction as notional expenses, so the rates are applied over 70% of the gross income.

Social security taxes and a small fixed amount per child are allowed as deductions.

Where annual income subject to IRPF (excluding 13th salary and vacation bonus) exceeds $ 649,980 (US$ 22,806), 8% of the deductions will be considered "deductions tax". If this annual amount of income is not exceeded, 10% of the deductions will be considered so.

Finally, the tax is the result of deducting the "deductions tax" from the "primary tax".

Regarding dependent workers, the tax to be paid by employees is withheld by the employer and an annual adjustment must be done by the employer. Those employees working for only one employer and that are included in payroll in December of each year, are not obliged to file a tax return, but can do so if they want to. Likewise, those who do not meet these conditions, but have salaries under approximately US$ 13,500 annually do not need to file a tax return either. Dependent workers have to fill in a form in which they inform certain deductions that are admitted and the annual adjustment is considered a tax return.

4 Married couples

Taxpayers may opt between paying as an individual or joint taxation (husband and wife). In this last case, a different scale is applicable.

5 Special expatriate tax regime

There is not a special tax regime for expatriates. However, it is important to mention that foreigners working in a Uruguayan Free Zone can opt out of the Uruguayan Social Security System.

6 Wealth taxes

An annual Personal Net Worth Tax is imposed on residents and non-residents. The tax is levied on assets situated in Uruguay on the 31st December each year valued according to fiscal regulations. Only debts with local banks can be deducted from taxable assets.

Individuals are taxed at progressive rates ranging from 0% up to 0.8%. The non-taxable amount is of approximately US$ 127,650.

Married couples living together have the option for joint assessment. The non-taxable amount is doubled for married couples.

Labour relations and workforce

1 Visa and entry requirements

Visitors from most countries may enter freely without obtaining an entry visa. Work and residence permits are extensively granted upon presentation of evidence of good conduct, good health and means of financial support.

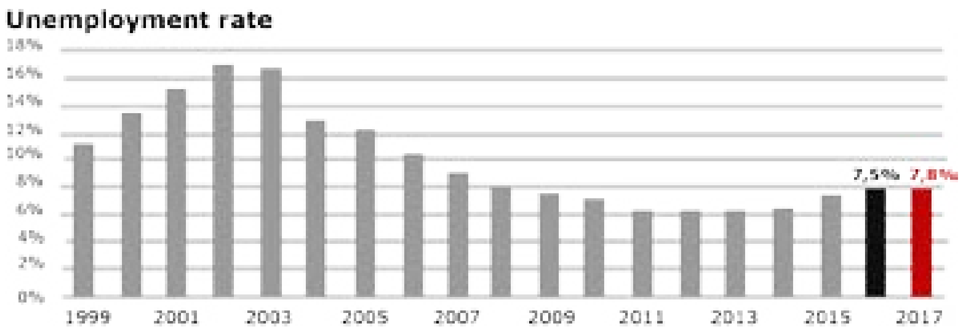
2 The labour market

Uruguay´s workforce is made up of university graduates, skilled and semi-skilled workers with good education levels and basic knowledge of the English language.

The country´s labor market has shown a remarkable performance in the last few years, with unemployment rates falling to their lowest levels in thirty years (6% - 7%) but have been rising since 2015; remaining relatively stable throughout 2016 and currently stands at 7.5%.

The labour force participation rate and the employment rate also reflected a certain deterioration in the previous year and are currently around 63% and 58% of the work age population, respectively, although these values are still historically high (even for international standards).

The following is the evolution of the annual unemployment rate since 2006 as well as the projection for 2017:



HR Key Facts:

- Public and free Education
  a. Government provides free education (primary, secondary and university). In addition there are 3 main private Universities.

- Education Indicators
  a. Uruguay has long been regarded as one of the countries in Latin America with the best quality of education.

- Workforce characteristics
  a. The workforce in Uruguay is highly skilled (*):
     - In 2015, more than 10,000 undergraduated and graduated degrees were awarded.
     - More than 1,300 students graduated each year from Business Administration, Accounting, Finance or other related carrers (these are the fields with the largest number of awarded degrees).
     - More than 300 students graduated each year from IT computing careers.

  b. Good educational levels and knowledge of foreign languages: 59 percent of university students consider that they can fluently speak at least one foreign language (90 per cent of it refers to English and 23 per cent to Portuguese)

  c. Students work and study at the same time (In 2015, 44 per cent of university students from a public university and 61 per cent of university students from a private university claimed that they worked and studied at the same time).

Availability of professionals by area:	
Administration (back office, purchase, etc.)	+
Finance and Accounting	+
Marketing and Sales	+
Human Resources	+
IT related skills (Programmers, IT Project Managers)	-
Engineers (Chemical, electronic, mechanic)	-

+ Talent Availability **- Talent Shortage**

In today's labour market, real wages will continue to grow, albeit at significantly lower rates than those seen in the last decade. Specifically, in the whole of 2016 it should increase by 2%, while in previous years, the annual avarage increase was 4%. Meanwhile, for 2017 we expect a rise in real wages of 1%.

3 Employees' rights and remuneration

A minimum salary is set by law and is adjusted periodically by inflation. The legal minimum gross salary is approximately US$ 430 per month. Local market has in general compensations above the National Minimum Wage, depending on each job position and economic activity sector.

The maximum workday is 8 hours and the maximum workweek is 48 (manufacture) or 44 (commerce) hours. In addition, each employee is entitled to a weekly rest of 24 hours (manufacture) or 36 (commerce).

One annual supplementary salary equivalent to a twelfth of gross annual remuneration, normally payable in two equal installments. Payment periods are regulated by law, currently June and December.

Standard overtime is paid with a supplement of 100% of normal rates. If overtime is on paid holidays or during the weekly rest the compensation is 150%. Overtime payments and weekly workload restrictions do not apply to managerial positions.

Employees are entitled to annual paid vacations of at least 20 consecutive working days upon completion of each year of service. One additional day is granted for every four years of service provided. In addition, a special vacation bonus (annual leave) must be paid before an employee leaves on vacation. This is equivalent to the net salary for the days on vacation. Vacations are not accumulative and must be taken within the 12 months following the period in which they were acquired. The full period of vacation may be split into two periods of not less than 10 consecutive days upon agreement between the company and the employee.

There are special leaves granted by law (days for study, maternity/paternity, marriage, mourning).

Public holidays for which employees are entitled to full pay are: January 1, May 1, July 18, August 25 and December 25.

In addition, there are official holidays which are only paid if worked: Carnival (two days), Easter Week (two days), January 6, April 19, May 18, June 19, October 12 and November 2.

4 Wages and benefits

Under Uruguayan laws, certain benefits and social security taxes must be paid. Additionally, provided foreign workers are legally working in the country, the same obligations apply to them as to natives.

Social Security Charges are payable by both the employer and the employee over all payment received by employees related to their activity in Uruguay. Personal charges are withheld monthly by the local company and paid directly to the Social Security Authority.

In general, the amount of contributions varies depending on the economic activity sector and employees' income levels.

Discounts or contributions are calculated based on the total taxable items perceived by each employee.

The rate applicable to Medical Insurance Charges will depend on whether the individual has under-aged children or not, and whether he/she has a non-working spouse. This was established by law so that more people could be included in free private medical assistance.

Employers must contribute to the Social Security Fund with 12,625% of the employees' gross earnings. Besides, they have to withhold personal taxes from their employees' salaries. The first item constitutes a cost for the employer, the second a cost for the employee.

Capitalization of savings in personal accounts is mandatory.

The State Social Security System provides coverage to the employees for medical treatment and hospitalization fees, maternity, disability, unemployment compensation, pensions and family allowances. It also provides medical assistance to all underage children and disabled people.

Employers must insure their employees against work related accidents, and diseases acquired in defined unhealthful activities.

	Employee	Employer
DIPAICO[1] (Retirement benefit contributions)	15%	7.5%
FONASA (Medical insurance contributions)	3% to 8% [2]	5% [3]
FRL (Fund for retraining the unemployed)	0.125%	0.125%

1 Those employees receiving monthly wages exceeding approximately US$ 4,600 are only obliged to make retirement benefit contributions up to this amount. Contributions with respect to the amount over US$ 4,600 are optional.

2 These percentages where increased by law so that underage children and disable people could have free medical assistance. People in charge of underage children or disable people must contribute a 6%, those people without children or disable people must contribute a 4.5%, and those with a remuneration below $ 9,028 (US$ 310) a 3%. Additionally, those individuals with a non-working spouse and at least one underage child must contribute an 8%, receiving the non-working spouse free medical assistance. When the spouse does not work and there are no children, the contribution is 6.5%.

3 If this percentage does not cover the corresponding private health fee, a supplementary health care contribution must be paid. The monthly private health fee per employee is approximately US$ 30.

5 Termination of employment

The probation period of the employee cannot exceed the 90 days. If not clarified, it is assumed that the contract is unlimited.

Contract may be specific for 90 days to try the new employee. If the employee is dismissed during this period, he is not entitled to a severance payment.

There is no law establishing that companies have to give notice of the dismissal decision with forewarning.

Although there is no law or regulation that establish the notice period for an employee separation, it is common practice to report two weeks in advance.

Employees are entitled to severance payment equivalent to one month's salary for each year or fraction of year worked, which is generally limited to a maximum of six month's salary. Proven misconduct may exempt the employer from this payment.

6 Labour-management relations

Uruguayan legislation provides for the free association of workers and the right to strike. There is a higher level of unionization in the public sector, particularly in the services area (education, public administration and health). In general terms, Uruguay presents low levels of labor unrest.

Regarding salary-setting methods, our country has chosen in the latest years to call for the Wages Councils. Wage Councils are tripartite organs created by law that use social dialogue to establish minimum salaries, categories and other benefits. Collective Agreements identify different worker categories and assign a minimum wage to each category. They also determine the annual salary increases for each sector.

Since 2005, wages have been determined in a bargaining process by industry, involving representatives of the companies, the unions and the Government. This process ends in an agreement regarding minimum wages for different positions and a formula to determine wage increases for the following two or three years. The increases generally account for inflation and an additional real increase that sometimes depends on the sector's performance. Decisions have duration of 2 or 3 years.

Executive Committee and Managerial positions are not included under this agreement.

The association that gathers more unions is known as PIT-CNT. In this association are the main unions from different industries and sectors such as Energy, Food, Chemistry, Metal, Building, Textile, State-owned Companies, among others.

7 Employment of foreigners

Foreigners enjoy the same rights and obligations as Uruguayan citizens as long as they are legally working in Uruguay.

They must get the Uruguayan identity card and consequently the resident status, for permanent and temporary jobs (Law 18.250).

The procedure to obtain Uruguayan legal residence should be completed before the Migration Office. When this procedure is completed, the individual is declared a legal temporal or permanent resident in Uruguay.

General Information

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Paysandú 941 - Tel: +598 2901 7223 | ain.mef.gub.uy
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Uruguayan Republic Bank (BROU)
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