DOING BUSINESS IN URUGUAY

Guyer & Regules

May, 2008

DOING BUSINESS IN URUGUAY

I LEGAL SYSTEM AND BUSINESS REGULATION

I.1 Government and Legal System

I.2 Forms of Doing Business

I.2.1 Stock Company *("Sociedad Anónima")*
- I.2.1.1 In general
- I.2.1.2 Capital requirements
- I.2.1.3 Formation
- I.2.1.4 Management and Control
- I.2.1.5 Distributions
- I.2.1.6 Financial reporting

I.2.2 Limited Liability Company *("Sociedad de Responsabilidad Limitada"* - *S.R.L.)*

I.2.3 Branch of Foreign Entity

I.2.4 Investment Funds

I.2.5 Financial Investment Off-shore corporations (S.A.F.I. Law 11.073 – July 1948 – Offshore Holding Companies)
- I.2.5.1 General concepts
- I.2.5.2Shareholders
- I.2.5.3Board of Directors
- I.2.5.4Operation and control
- I.2.5.5Limitations

I.2.6 Free-Zone Companies (Tax-Free Zones – Law 15,921 – December 1987)
- I.2.6.1 General concepts
- I.2.6.2 Activities to be performed in the Tax-Free Zones
- I.2.6.3 Operators and users of Tax-Free Zones
- I.2.6.4 General tax exemptions for users of Tax-Free Zones

I.2.7 Others
- I.2.7.1 Consortia
- I.2.7.2 Economic Interest Groups
- I.2.7.3 Financial Intermediation Companies
- I.2.7.4 Offshore Banking

I.3 Regulation of Business

I.3.1 Foreign Investment

I.3.2 Currency and Exchange Controls

I.3.3 Imports and Exports

I.3.4 The Uruguayan banking system – A summary

I.3.5 Free Trade and Preservation of Free Competition

I.4 Labor relations

I.4.1 Working hours and overtime
I.4.2 Annual bonus supplementary wage
I.4.3 Holidays
I.4.4 Holiday salary
I.4.5 Fringe benefits
I.4.6 Mandatory Profit Sharing Contributions
I.4.7 Severance issues
I.4.7.1 General system regarding dismissal compensation
I.4.7.2 Special dismissal systems
I.4.8 Social Security System
I.4.9 Foreign workers
I.4.10 Dispute settlement

II URUGUAYAN TAXES

II.1 Income Tax

II.1.1 Economic Activities Income Tax (*IRAE*)
II.1.1.1 General concepts
II.1.1.2 Definition of taxpayers
II.1.1.3 Taxable base – definition of net Uruguayan income
II.1.1.4 Losses carried forward
II.1.1.5 Other relevant fiscal concepts
II.1.1.6 Reorganization of companies
II.1.1.7 Liquidation and dissolution
II.1.1.8 General procedures and forms that must be filled in
II.1.1.9 Special income tax regime
II.1.2 Personal Income Tax on residents (IRPF)
II.1.2.1 General concepts
II.1.2.2 Definition of taxpayers
II.1.2.3 Taxable base
II.1.2.4 Advanced payments
II.1.2.5 Withholding agents
II.1.2.6 IRAE option
II.1.3. Income Tax on Non-Residents (IRNR)
II.1.3.1 General Concepts
II.1.3.2 Definition of taxpayers
II.1.3.3 Taxable base

II.2 Net Worth (or Capital) Tax

II.2.1 Net Worth Tax of Uruguayan Legal Entities (*"Impuesto al Patrimonio" – IP*)
II.2.1.1 General concepts

II.2.1.2 Definition of taxpayers
II.2.1.3 Taxable base – definition of Uruguayan net worth
II.2.1.4 Withholding net worth tax
II.2.1.5 General procedures and forms that must be filled in
II.2.2 Net Worth Tax of Uruguayan Individuals (*IP*)
II.2.2.1 General concepts
II.2.2.2 Definition of taxpayers
II.2.2.3 Taxable base – definition of Uruguayan net worth
II.2.2.4 General procedures and forms that must be filled in
II.2.3 Net Worth Tax of Foreign Legal Entities not Established in Uruguay
II.2.4 Net Worth Tax of Non-Residents Individuals

II.3 Value Added Tax (VAT – *IVA*)

II.3.1 Legal Entities
II.3.1.1 General concepts
II.3.1.2 Definition of taxpayers
II.3.1.3 Taxable base
II.3.1.4 Exempted goods and services
II.3.1.5 General procedures and forms that must be filled in
II.3.2 Individuals

II.4 Specific Internal Tax (*IMESI*)

II.4.1 General concepts
II.4.2 Rates applicable

II.5 Other Taxes
II.5.1 Tax on the Incorporation and Control of Uruguayan Corporations
II.5.2 Tax on Real Estate Transactions
II.5.3 Stamp Tax
II.5.4 Inheritance and Gift Taxes
II.5.5 Insurance Company Income Tax

II.6 Special Tax Regime for Agricultural Activities
II.6.1 Economic Activities Income Tax (*IRAE*)
II.6.1.1 General concepts
II.6.1.2 Taxable base
II.6.1.3 IRAE or IMEBA option
II.6.1.4 Deductible expenses
II.6.1.5 Procedures and rates
II.6.2 Tax on Agriculture Gross Income (*IMEBA*)
II.6.2.1 General concepts
II.6.2.2 Rates applicable
II.6.3 Net Worth (or Capital) Tax

I LEGAL SYSTEM AND BUSINESS REGULATION

I.1 Government and Legal System

Uruguay is organized as a single, democratic republic. The current constitution, approved in 1966, establishes a presidential system of government, with three independent branches: the Executive, the Legislature and the Judiciary.

The president heads the executive branch and is chief of staff and commander of the armed forces. Uruguay's presidential electoral system -amended in 1996- establishes a "ballotage" system by which there is a second election if the most voted candidate does not obtain a clear majority. The president is elected for a five-year term and may not seek re-election for consecutive terms. The legislative branch is composed of a 31-member Senate and 99-member Chamber of Deputies which together form the General Assembly whose members are elected every five-year by direct popular vote under a system of proportional representation. The Judiciary is presided over by the Supreme Court of Justice, consisting of five members appointed by the Executive with the approval of the Legislature.

Uruguay is divided administratively into 19 departments, each with its own Municipal Government. Each department has a Mayor and a Departmental Council elected by popular vote.

I.2 Forms of Doing Business

Companies in Uruguay are most commonly organized either as corporations (with registered or bearer shares) or as branches of a foreign company.

Limited liability companies are also used (normally for very small companies).

There are other legal structures, less attractive to the foreign investor, such as capital and services partnerships, joint-stock companies, and general partnerships.

The potential foreign investor has a free choice to adopt any desired legal organization form. However, in the choice of the legal vehicle, legal and tax counsel is advisable. A corporation may be wholly owned, and a branch may conduct full business transactions. A partnership also may be wholly owned by foreign individuals or entities.

No investment permits or similar approvals are required. There are no restrictions on the repatriation of capital and earnings, except for investors who choose to be protected under the Foreign Investment Law.

Consortia (joint ventures) are regulated by the Law on Commercial Companies, Economic Interest Groups and Consortia (Law No. 16,060) (hereinafter "Law on Commercial Companies"). They tend to be used for major public works and do not constitute companies or legal entities, but instead are contracts of an associative nature.

I.2.1 Stock Company ("*Sociedad Anónima*")

I.2.1.1 In general

Corporate rules are contained comprehensively in the Law on Commercial Companies[1] that embodies detailed regulations on the foundation and operation of corporations.

There are two kinds of corporations: i) publicly traded corporations and ii) closed corporations.

Publicly traded corporations are defined as founded through public subscription of shares, quoting their shares on the local stock exchange, publicly issuing debentures or attracting public savings to subscribe or increase their capital. Publicly traded corporations are subject to stricter controls by the corresponding state office (the National Internal Auditory) than are closed corporations.

Closed corporations are defined as all those that do not have the foregoing characteristics. Therefore, closed corporations are not allowed to quote their shares on the stock exchange, nor issue debentures or attract public savings to subscribe or increase their capital. They are subject to government control only upon specific and important events like the formation, approval of the By-laws and amendments, dissolution, winding up, merger, changes in the legal form and increase or decrease of capital.

I.2.1.2 Capital requirements

The capital of corporations is divided into bearer or registered shares, and shareholders, in this capacity, do not carry any liability for the company's debts beyond the amount of capital each shareholder pays or agrees to pay in. Shares must be registered for certain special activities (e.g., agriculture and livestock establishments; broadcasting corporations; road or air transportation). There is no restriction in the transfer of the shares, although certain transfer (e.g. corporation exploiting television or broadcasting channels) have to be approved.

At least 25% of the authorized share capital must be paid in.

Corporations may issue ordinary shares and preferred stock. The preferred shares allow their holder to exercise certain rights that are not available to the ordinary shareholders. The holder of preferred shares may have the right to appoint a certain number of members of the Board of Directors, or have the right to a predetermined amount of profits, etc. The preference has to be precisely ruled in the By-laws.

I.2.1.3 Formation

In the case of closed corporations, at least 2 founder shareholders must sign the foundation minutes and approve the By-laws before a notary public. By-laws are subject to authorization of the National Internal Auditory, and have to be recorded once the approval has been granted at the Trade

[1] Law No. 16,060 of November 1, 1989, Articles 244 to 433.

Register and published in the official gazette. The By-laws should contain the basic characteristics of the corporation (corporate purpose, duration, administration, etc.), as well as any other regulations not violating legal provisions (e.g., procedure for Shareholders Meetings, representation of the corporation, etc.).

There are, however, certain legal provisions of public order that prevail over the stipulations of By-laws.

In the case of open corporations, the foundation typically starts with the promoters drawing up a foundation program to be submitted to the National Internal Auditory. Once the foundation program is approved, the public subscription and payment of the share capital must be effected; finally a founders' meeting is to be held to form the corporation and to approve its By-laws. Thereafter, the procedure is the same as for closed corporations.

A closed corporation automatically becomes a publicly traded corporation while doing at least one of the activities specifically reserved to publicly traded corporations.

In both cases, the corporation's legal existence starts once registration is effected and published.

There must be at least 2 founder shareholders. Once formation has been completed, the shares may be transferred, so the minimum number of shareholders may be reduced to one. There is no limitation in the number of founding shareholders.

Although the formation of a corporation can take at least three months, there are local professional firms who offer “shelf corporations” which have not started operations and provide an immediate use.

I.2.1.4 Management and Control

The Shareholders Meeting is the highest corporate authority. It must meet at least once a year to approve the annual balance sheet and the distribution of earnings, as well as to appoint the Board of Directors or administrator. Administration may be entrusted to a single administrator or a Board of Directors consisting of one or more persons appointed by the Shareholders meeting. The administrator or directors must be registered at the “Registro Nacional de Comercio” (dependency of the Ministry of Economics and Finances), this registry must be up dated at all times, if they are not their acts will be considerated as ineffective.

In the case of publicly traded corporations the Board of Directors must meet at least once a month, whereas in close corporations it must mandatorily meet once a year to call the Shareholders Meeting (to submit the annual balance sheet, etc.). The Board may meet in Uruguay or abroad, at its discretion.

The Board of Directors may govern the corporation subject to the control of the Shareholders. The members of the Board of Directors are liable before the corporation, shareholders and third parties for the damages caused by their acts performed against the law or the By-laws. The members of the

Board of Directors are also liable for the payment of the corporation income tax when due in any case and for all the corporation's tax debts to the extent that the Director failed in acting with due care.

Companies must keep their records in accordance with generally accepted accounting rules and principles.

The following books are mandatory:

1) Journal, 2) Inventory Book, 3) Letter Copybook, 4) Minutes of Board Meetings, 5) Minutes of Shareholders Meetings, and 6) Stock Ledger and Shareholders Meeting Attendance Book.

The Trade Register must seal these records. If the corporation has registered shares it must keep a Ledger of Registered Shares. The same is applicable for shares not represented by certificates. The law permits this possibility, in which case the corporation must keep a book recording such shares.

Auditors are not mandatory, except for financial intermediation firms and publicly traded corporations, where the controller or control board must verify the financial statements. If publicly traded corporations have independent auditors, the controller or the control board may request the reports they deem advisable from the same. A Public Accountant must certify balance sheets submitted to public agencies.

I.2.1.5 Distributions

The distribution of earnings can be provided for in the By-laws. The law nevertheless makes it mandatory to distribute at least 20% of net earnings for each business year to shareholders as a dividend, unless otherwise resolved by shareholders representing 75% of the paid-in capital.

Apart from the rights granted to ordinary shares, the holder of preferred shares may have the right to receive a fixed dividend or a profit percentage or even a preference right in the reimbursement of capital in the event of winding up or dissolution.

Distribution of dividends is likewise not mandatory when earnings are to be allocated to replenish the obligatory legal reserve or to cover losses carried over from previous years.

Corporations must withdraw at least 5% of the net earnings of each financial year to constitute a legal reserve, until the balance thereof reaches 20% of the authorized share capital.

The distribution of provisional dividends is permitted in certain specific cases, when the company has freely available reserves or when a special balance sheet shows earnings in excess of the amount to be advanced. In such cases the company must obtain certificates indicating that it is up to date in the payment of taxes and social security contributions. An audited balance sheet is not required.

I.2.1.6 Financial reporting

The Board of Directors must annually submit to the Shareholders Meeting approval of the financial statements of the corporation. In addition, publicly traded corporations and the closed corporations in same cases, have to present their balance sheets before the National Internal Auditory on an annual basis.

I.2.2 Limited Liability Company (*"Sociedad de Responsabilidad Limitada" - S.R.L.*)

This legal form[2] is usually chosen by medium- and small-size business entities, typically by a partnership among family members or friends working together.

In this kind of partnership, the liability of the partners is limited to the capital they subscribe, being however liable for the labor debts. In addition, the administrators partners are also liable for the payment of the company's income tax when due in any case and for all the company's tax debts to the extent that the administrator partner failed in acting with due care.

The formation of a limited liability partnership is based on a registered company deed. Such deed has to be recorded in the Trade Register and published in the official gazette and in another newspaper. Once the publications are made the company is legally formed.
There must be a minimum of 2 and a maximum of 50 partners. There are no restrictions as to the partners' nationality or domicile and individual or even legal entities may be partners.

Voting procedures can be established in the partnership agreement. In the absence of same, decisions on administrative matters shall be adopted by a majority, and votes shall be in proportion to capital (with the smallest participation being computed as one vote and the number of each partner's votes being calculated as a multiple thereof). On the contrary, those decisions implying a major change in the contract (e.g., change in purpose, transformation into another type of company, dissolution, as well as all amendments imposing broader obligations or responsibilities on partners) may only be resolved by unanimous vote, except when there are more than 20 partners, in which case a decision shall be made by a special meeting of partners with a quorum of attendance of 60% (on first call) and 40% of capital (on second call), and the favorable vote of the absolute majority of votes of the shareholders in attendance.

The maximum authority for such companies is the Meeting of Partners, which must hold session at least once a year to approve the annual balance sheet and the performance of the administrators. Companies having more than 20 partners are governed in the same manner as corporations and must therefore have an administrator or a board of directors.

This kind of companies to the extent that they not exceed 20 partners may be managed either by one or more partners or by an administrator appointed by them.

---

[2] Law No. 16,060 of November 1, 1989, Articles 223 to 243.

In addition to the certified books that are mandatory for all companies (Journal, Inventory, Letter Copybook), these companies must keep Books of Meetings of Partners, of Minutes of the Board (if there is one), and a Register of partners and transfers of participation.

I.2.3 Branch of Foreign Entity

Companies established abroad are recognized in Uruguay and may perform isolated acts or contracts without any other prior administrative procedure or act. However, when they decide to become involved in an on-going business they must set up a branch in the country. Branches are regulated by provisions similar to those for local companies as regards organization, tax treatment, etc.[3]

To set up a branch, the By-laws of the foreign corporation and the minutes including the decision of setting up a branch have to be recorded in the Trade Register and an authorized capital has to be assigned.

Under the Law on Commercial Companies the foreign entity has to appoint a branch administrator.

Unlike in the case of corporations, the Head Office of the foreign entity is liable for all obligations assumed by the branch or the local representative. In addition, the foreign entity can be validly summoned in Uruguay by suing the branch.

The branch may remit earnings to its home office without any restrictions whatsoever (term, amount, etc.).

Accounts indicating the balances between branches and home offices or other branches are considered capital accounts. Nevertheless, transactions arranged under the same commercial and financial conditions, either at sight or on time, as would prevail between legally and economically independent persons may be shown as asset or liability accounts for tax purposes.

I.2.4 Investment Funds

Law 16,774 (passed on September 1996) created the Investment Funds. Prior to this date, no legal provision referred to Investment Funds in the Uruguayan legislation.

Under the aforementioned law[4], the Investment Funds do not have legal personality and are made of securities of several kinds owned by different investors. The law that created the Investment Funds modified the traditional concept widely accepted in Uruguay of one person-one equity. After law 16,774 was passed, a new legal concept was born in the Uruguayan legislation, which is the "equity for a specific purpose".

---

3 Law No. 16,060 of November 1, 1989, Articles 192 to 198.

4 Law No. 16,774 of September 1996.

The assets held in the Investment Fund are managed by a corporation whose only purpose is to manage and represent such fund taking all the commercial decisions in connection with it.

The assets included in the Investment Fund will not be executed in any case by any of the investor's creditors. Up to the expiry date of the fund the investors are co-owners of all the assets included in the fund. However, the share of each investor in the fund (represented by negotiable bonds) can be executed by its creditors.

All the matters referred to Investment Funds are subject to the Central Bank of Uruguay control and regulation.

I.2.5 Financial Investment Off-shore corporations (S.A.F.I. Law 11,073 – July 1948 – Offshore Holding Companies)

I.2.5.1 General concepts

These corporations are stock companies whose main activity is to invest abroad (in securities, bonds, shares, debentures, drafts, real estate or movable assets) on their own behalf or that of third parties. They may also engage in commercial activities outside Uruguay, on their own behalf or that of third parties[5]. They enjoy a special fiscal treatment being subject only to a tax at the rate of 0.3% per year on their capital and reserves plus liabilities, which exceed the double of this amount (see paragraph III.10). Their activities within Uruguay are restricted as referred to under paragraph II.2.5.6. Since the last tax reform there is no possibility of founding creating a new S.A.F.Is, however the ones already established prior to April 2006 may continue with the same fiscal treatment until the 31 of December 2010.

I.2.5.3 Shareholders

S.A.F.I.s may have nominative or registered and/or bearer shares as may be stipulated in the *Estatuto*.

Shares may be held or owned by one or more individuals or legal entities, without any restrictions as to their nationality or place of residence. Shareholders may be represented by proxy.

Votes shall be cast in relation to the capital held and other arrangements may be specifically included in the *Estatuto*.

Shareholders' liability is limited to the subscribed or paid-in capital they hold or own in the company.

I.2.5.4 Board of Directors

[5] Law No. 11,073 of June 24, 1948, Article 7.

The Board of Directors may be made up by one or more members in accordance with the *Estatuto*. The position may be held by individuals or legal entities without any restrictions as to their nationality or place of residence.

The Board members are appointed by the Shareholders Meeting, usually for a one-year term, although the *Estatuto* may allow for a different term of office.

The Board may meet within the country or abroad, as often as they may deem it convenient, and mandatorily whenever the *Estatuto* may so require.

The Board members may authorize other directors or third parties to vote on their behalf at Board Meetings.

Whenever the Directors are not domiciled in Uruguay, at least one of them shall be required to establish a domicile within the country for all fiscal effects, or failing this, the corporation or one of its Directors shall appoint an attorney-in-fact in the country, who shall be responsible before the tax offices.

I.2.5.5 Operation and control

The accounting of the corporation shall follow generally accepted rules and principles. The following books are required:

- Journal
- Inventory
- Correspondence
- Minutes of the Board of Directors
- Minutes of Shareholders Meetings
- Register of Shareholders' attendance to Meetings

The books should be registered with the Public Commercial Registry.

It is not mandatory to appoint auditors. Balance sheets must be certified by a Public Accountant, but in practice the compliance of this requirement is rarely verified. Accounts may be kept in dollars or in any other foreign currency.

Corporations are required to hold at least one annual Shareholders Meeting to approve the balance sheet, decide upon the distribution of dividends and appoint new members of the Board, the latter depending on the provisions established in the *Estatuto*.

The Shareholders Meetings must be held in the country.

The general control of the corporations is carried out by "*Auditoría Interna de la Nación"* and shall cover among other points, the legality of the *Estatuto* and the compliance with requirements of the subscription and paid-in capital.

The amendment of the *Estatuto* and the distribution of dividends require that the corporation obtain certificates from the competent tax offices attesting to the fact that they are up to date with their tax obligations.

I.2.5.6 Limitations

S.A.F.I.s may not carry investments activities and/or hold assets in Uruguay. Any possible exceptions should be examined on a case by case basis.

The shares of these corporations may not be pledged nor submitted as guarantee or security of credits granted to their owners.

I.2.6 Free-Zone Companies (Tax-Free Zones – Law 15,921-December 1987)

I.2.6.1 General concepts

a) It is a general regime, which governs all Tax-Free Zones existing in the country or to be installed in the future.
b) Tax-Free Zones may be installed anywhere in the Republic. It is no longer a legal requirement for them to be located near harbors, airports, international bridges, frontiers or main access ways. The only requirement is that the limits of the Free Zone areas should be clearly defined, marked and fenced in, so as to ensure their adequate separation from non-tax-free territory.
c) The areas intended to become Tax-Free Zones may be governmental or privately owned by individuals or legal entities, whether foreign or Uruguayan.
d) The operations which may be performed at Tax-Free Zones cover a wide range of activities, from the mere free deposit to the rendering of services, including financial and insurance services, handling, classification and selection, of the deposited goods, and the establishment of manufacturing industries and professional services.
e) Extensive tax benefits are granted to Tax-Free Zone users (see paragraph II.9).
f) Tax-Free Zone user companies may not perform any industrial, commercial or service activities in non-Tax-Free territory.
g) The procedures for incorporation and operations of this kind of corporations (users) are similar to those described in I.2.1, I.2.2. or I.2.3.

I.2.6.2 Activities to be performed in the Tax-Free Zones

The law, upon generically establishing that industrial, commercial and service activities may be performed within the Free Zones, specifies certain activities, such as:

a) Marketing, deposit, storage, conditioning, selection, classification, fractionating, assembly, disassembly, handling or mixture of goods or raw materials of national or foreign origin.
b) Installation and operation of manufacturing enterprises.
c) Rendering of financial computer repair and maintenance, issuance and professional services and any other services which may be required to achieve a better performance of the activities installed and the sale of such services to third party countries.

Any other activity which at the discretion of the Executive Power may be deemed beneficial to national economy or for the economic and social integration of different countries may be carried out within the Free Zones.

I.2.6.3 Operators and users of Tax-Free Zones

a) Operators

Operators of Tax-Free Zones are those who provide the user with the necessary infrastructure for the installation and operation of the activities to be performed within the Free Zone.

The Government, or any private parties whether individuals or legal entities, national or foreign, may be Free Zone operators.

Private operators are not covered by the exemptions and benefits of the law, but they may nevertheless be protected by any other promotional regime that may be applicable.

b) Users

Users are any individuals or legal entities who may acquire the right to perform any of the activities admitted by the law within Tax-Free Zones.

There are two types of users: direct and indirect users.

A direct user is the one who acquires the right to operate within Tax-Free Zones through an agreement entered into directly with the Operator, or the Government or a private party; and an indirect user is the one who acquires the right to operate through an agreement entered into with a direct user.

Both need the approval of the Direction of Tax-Free Zones to enter into agreements and then register the same with the Free Zone Direction, and both also enjoy all the benefits that the law may determine.

The procedure to be qualified as a user is provided for by Regulatory Decree No. 454/88 in its articles 23 and 24. We may distinguish on the one hand, the procedure to be followed to become a direct user of a Tax-Free Zone owned by the State and on the other hand the procedure to be followed to be a direct user of a Tax-Free Zone owned by a private party, or to be an indirect user (of State or privately-owned Tax-Free Zones), or to make assignments of user agreements.

In the first case (a direct user of a State-owned Tax-Free Zone), the applicant must file an application with the Direction of Tax-Free Zones, which shall be accompanied by an Investment Project and shall include any other requirements established by the Direction.

The purpose of the application is to acquire priority rights to the chosen areas. Such priority is onerous, the Direction setting the price and conditions. Should the application be denied, the deposited sum shall

be immediately returned to the applicant; if it is accepted, such sum shall be considered as part of the security which the Executive Government may require from the users.

In the case of direct users of privately-owned Tax-Free Zones, indirect users, and assignees of user agreements, the procedure is simpler, the only requirement being to submit a draft of the agreement to the Direction of Tax-Free Zones who may require additional information before authorizing the assignment.

I.2.6.4 General tax exemptions for users of Tax-Free Zones

Companies operating as users of the free-trade zones are tax-free. Social security taxes, as well as withholding taxes on dividends or profits remitted abroad when applicable, are excluded from this exemption.

All the goods entering the free trade zones are free of all import duties as well as any other taxes, rates and charges. When the goods are of Uruguayan source, their entrance to the free trade zones is treated as Uruguayan exports. Goods, services, merchandise and raw materials entering the free trade zones as well as products manufactured therein may be freely shipped abroad at any time.

The export to the Uruguayan territory of goods stored or manufactured in the free trade zones, is considered as an import to the MERCOSUR area.

I.2.7 Others

I.2.7.1 Consortia

Consortia are specifically regulated[6]. They are established by contract between two or more persons (individuals or legal entities) temporarily linked for undertaking a project, rendering certain services or supplying certain goods. Pursuant to the legal provisions, consortia are not geared to obtaining and distributing earnings among their participants, but instead to regulating the activities of each of same. They do not have legal personality and do not constitute companies independent of their members.

The relevant contract must be made in writing and contain the chief aspects of the consortium (name, purpose, duration and domicile, the participation of each member and its inherent liability, rules for administration and representation of the consortium vis-à-vis third parties, etc.).

I.2.7.2 Economic Interest Groups

Economic interest groups are associations or partnerships of commercial entities that have legal capacity (unlike consortia) and whose purpose is to facilitate or develop the economic activities of their members or increase the results of such activities. They can be established without capital. The contract must indicate the chief elements characterizing the economic interest group (EIG), including identification of its members, term and purpose of the group, domicile, and form of administration. This contract must be filed with the Trade Register.[7]

Economic interest groups are characterized by the fact that the participation of group members cannot be represented by negotiable instruments, and cannot be transferred to third parties or to other members of the group.

With the exception of consortia for construction of public works –wherein each company pays tax on its income separately- double taxation arises in these cases (since the group's income and the earnings distribution to members are both taxed).

I.2.7.3 Financial Intermediation Companies

Financial intermediation companies are those that customarily and professionally intermediate between the supply and demand for securities, money or precious metals.

Their establishment and operation must be authorized by the Executive Power (upon recommendation by the Central Bank) and are subject to the specific oversight of the Central Bank.

6 Law No. 16,060 of November 1, 1989, Articles 501 to 509.

7 Law No. 16,060 of November 1, 1989, Articles 489 to 500.

Included in this category are: Banks, Financial concerns (which, unlike Banks, cannot receive: a) bank checking account deposits, b) sight deposits, c) term deposits from residents), Financial Intermediation Cooperatives, Financial Mediators, etc.[8]

I.2.7.4 Offshore Banking

Corporations whose sole purpose is to undertake offshore financial intermediation operations are exempt from all tax obligations on their activities, operations, net worth or income.

They are subject to the specific oversight of the Central Bank and their incorporation papers must be approved by the Executive Power.[9]

All banking operations in Uruguay, whatever their nature, are protected effectively by secrecy, which is guaranteed by law. Only criminal courts or family courts when dealing with child support are entitled to disregard the secrecy imposed by law. Also in same cases the tax collectors can deem to disregard it.

I.3 Regulation of Business

I.3.1 Foreign Investment

Uruguayan authorities encourage all investments, without discrimination between local and foreign investors. The incentives for investments are available for both. Furthermore and under the Investment Law[10] the remittance of profits and repatriation of capital, are guaranteed.

The tax system does not discriminate nor favor against foreign investment. However, the tax burden is influenced by the legal vehicle adopted to perform activities in Uruguay. An appropriate tax advice is therefore essential.

Investment incentives are equally available to foreign investors as well as to Uruguayan. There are certain areas in which a beneficial treatment is established in activities that are declared to be of national interest within the framework of the Industrial Promotion Law[11]. Incentives mainly take the form of tax incentives.

To be declared as of national interest by the Executive Power, the planned activity must comply with the general objectives established by government economic and social policy. The tax incentives may vary between partial exemptions and overall exemptions of all types of taxes.

---

8 Law No. 15,322 of September 17, 1982.

9 Law No. 15,322 of September 17, 1982, Article 4.

10 Law No. 16,906 of January 20, 1998; Decree Regulation No. 92/98 of April 28, 1998.

11 Law No. 14,178 of March 28, 1974; Title 3, *Texto Ordenado* 1996, articles 54 to 60.

To qualify for the declaration of "national interest" by the Executive Power, the applicant must submit a specific investment project and should comply with at least one of the following conditions:

a) To reach maximum production and marketing efficiency based on adequate levels of capacity, technology and quality.
b) To increase and diversify exports of industrialized products incorporating the highest possible Uruguayan added value to the raw materials.
c) To locate new industries and expand or reform the existing facilities, taking better advantage of the region's raw materials, markets and available labor force.
d) Unexplored local raw materials improving local products.
e) Enhance the tourism activities, improving tourist facilities.

I.3.2 Currency and Exchange Controls

The Uruguayan exchange market operates under complete freedom of transaction and holdings in currency and metals.

In line with the 1974 financial reform, Uruguay has adopted a foreign exchange policy that complements the framework of liberalization of the economy. The multiple controls previously regulating the exchange market were withdrawn in successive stages. Thus, measures eliminating barriers and quotas on foreign trade were approved at the outset of 1974. That same year the financial exchange market was liberalized, and the purchase of foreign exchange for establishing positions was authorized. In mid 1975 the demand for foreign exchange was totally liberalized, and the commercial market was governed by a fixed rate of exchange set administratively and periodically.

In 1978, unification of the commercial and financial markets, whose exchange quotations had coincided for some time, was approved. The Central Bank began to announce in advance the exchange rate under a system of periodic minidevaluations for a variable period of three to six months.

At the end of 1982, as a result of the imbalances of the Uruguayan economy, management of the foreign exchange position was modified. The pre-announced crawling peg system was abandoned and a float system was established, which at first was clean and later was subject to some intervention.

Since the end of the first quarter of 1983 up to June 2002, the exchange rate has been determined by a quasi-float system in which interventions are made by the state commercial bank -*BROU*-, in coordination with the monetary authority. Such interventions seek to eliminate seasonal fluctuations so, that the exchange rate varies as a function of the evaluation of internal prices, with deduction of external inflation through the party of purchasing power in relation to a set of countries. From June 2002, the exchange rate is free with no intervention from the government.

Similarly, there is a total freedom in transfers and remittances to and from the country in any currency.

I.3.3 Imports and Exports

Exports and imports are totally free from quota systems and legal limitations. Importers and exporters must register with *Banco de la República* in order to act as such. (There are no special requirements.)

A drawback system exists for some exports. Permanent entry into the country of goods manufactured abroad, for own or third-party use, with the exception of those brought into free zones, are subject to a compound tariff. This rate, which ranges from 6% to 20%, is composed by the Single Customs Duty and the Import Surcharge.

Certain goods are not subject to the compound tariff because they are negotiated through bilateral agreements with different countries. Preferences exist for the MERCOSUR countries, which in some cases are as much as 75% of the compound rate.[12]

A temporary entry system exists for goods such as: a) raw materials, b) recipients and shipping material, c) matrixes, molds and models to be incorporated in industrial processes geared to exports, d) display merchandise.

There are also temporary admission systems for certain activities or specific projects (for example, public works to be carried out by private companies, projects having national interest status, etc.).

I.3.4 The Uruguayan banking system - A summary

The Uruguayan banking system is organized by Law Decree 15,322, as amended by law 16,327, as well as by law 16,696 (the Central Bank of Uruguay charter). The main players of the system are the Central Bank of Uruguay, commercial banks, financial houses ("*casas financieras*") and off shore banks ("*instituciones financieras externas*" or "*IFEs*").

The Uruguayan system allows entities to operate as full branches of foreign banks or, alternatively, as local subsidiaries of foreign companies or banks.

Banks, financial houses and offshore banks perform "financial intermediation", which activity requires a license granted by the Central Bank of Uruguay.

Law Decree 15,322 defines "financial intermediation" as "*the carrying out, in a professional and customary way, of intermediation activities or mediation between the offer and demand of securities, money and precious metals*".

According to the current regulatory system, only banks are allowed to perform the following operations or transactions:

- Receiving current account deposits and authorizing drawings thereupon by means of checks;
- Receiving sight deposits from residents and receiving sight deposits in local currency from non-residents;
- Receiving time deposits from residents; and

[12] MERCOSUR Agreement, dated March 26, 1991.

- Using the expression "Bank" in their denomination.

Financial houses are defined as those companies authorized to carry out any kind of financial intermediation operation, except for those reserved to banks. Hence, financial houses are allowed to:

- Receive time deposits (over 30 days) from non-residents, either in foreign or local currency.
- Receive sight deposits (less than 30 days) from non-residents, in foreign currency.

Finally, off shore banks (or "IFEs" according to their acronym in Spanish) were created under Article 4 of Law Decree 15,322 and are defined as those entities whose only corporate purpose consists in carrying out intermediation activities regarding the offer and demand of securities, money or precious metals located abroad.

Strict compliance with this "exclusive purpose" enables said institutions to benefit from the tax advantages established under the same article: they "*shall be exempted from all tax obligations levying their activity, their line of business, net worth or income.*" Since such entities are allowed to operate with no residents only and authorized to hold assets located abroad, said concepts have been thoroughly regulated to determine which entities, individuals and/or transactions qualify as "no residents"/ "assets located abroad", to these effects.

Additionally, off shore banks have also been authorized to operate from free trade zones (provided that they also constitute free trade zone companies), thus enabling such entities to additionally engage in financial intermediation with other free trade zone companies.

All banking licenses are granted by the Uruguayan Government with the Central Bank's prior authorization. Applicable statutes provide that in order to obtain the Executive Government's approval, as well as the Central Bank of Uruguay's authorization, legality, adequacy and convenience considerations should be taken into consideration.

In addition, section 10 of Law Decree 15,322 provides that the Government may not grant authorizations to operate as a bank in excess of an annual amount equivalent to 10% of the number of banks that existed during the immediately preceding year.

The Central Bank of Uruguay, as supervising entity, overlooks the financial entities and is vested with the authority to impose minimum capital requirements, liquidity ratios, reserves, maximum exposures, debt ratios, etc, all in line with the Basle Convention principles. Additionally, the Central Bank's prior authorization needs to be sought for any merger, spin off, share transfer, capital increases and/or other by laws amendments affecting or involving financial institutions.

Since the '60s, Uruguayan banks are prohibited from investing in securities or companies beyond the banking specific purpose, thereby mirroring the US system following the 1929 crisis. Although such restrictions were partly released in 1996 (through the permission to invest in publicly registered debt instruments "Obligaciones Negociables"), banks are still impeded to divert resources

in unrelated activities or ventures, the exception being solely those companies that perform bank-related activities (like credit card processors, ATM administrators and stock exchanges).

I.3.5 Free Trade and Preservation of Free Competition

The bill "Free Trade and Preservation of Free Competition Act" -governing issues related to the defense of competition- was approved by the Legislative Power and became a law on July of 2007.

Section 1 of the Act establishes that the Act is of a public nature (being the application thereof mandatory) and aims at "fostering the well-being of current and future consumers and users, through the promotion and defense of competition, incentive to economic efficiency and freedom and equality in conditions of access of companies and products to markets".

From the global reading of the purposes mentioned in the Act (well-being of the current and future consumers, incentive to economic efficiency and equality of access of companies and products to markets) it is possible to conclude that the proper operation of the market is the end objective to be achieved, being such the objective of this kind of rules in several jurisdictions with similar provisions.

According to Section 3 of the Act, the principles and rules of free competition are applicable to all persons who develop economic activities for profit or not for profit purposes, within the Uruguayan territory, be them individual or legal entities, either public or private, national or foreign.

In the application of the above-mentioned principles, the Act prohibits: (a) the abuse of a dominant position, and (b) all practices, behaviors or recommendations, both individual or concerted; provided that they have as effect or object to restrict, limit, hinder, distort or impede the current or future competition in the relevant market. Furthermore, in order to assess the behaviors indicated in letters (a) and (b) above, the enforcement agency "may take into account whether such practices, behaviors or recommendations generate economic efficiency gains for the individuals, economic units and companies involved, the possibility of obtaining them through alternative means and the benefit transferred to consumers" .

All persons (individuals or legal entities, either public or private, national or foreign) will be achieved by these rules, except for the limitations established by law for reasons of general interest. It is stated, conveniently in our opinion, that the companies which benefit from certain privileges of a legal origin and to the extent they exercise such privileges, will not be deemed as incurring anti-competitive practices or abuses of a dominant position. Therefore, in case a company exceeds the scope of the privilege granted, may be achieved by the Act and be liable to the application of penalties.

I.4 Labor relations

In Uruguay there is neither a labor contract law (act) nor a labor code. The rules that govern employment are scattered in different texts of various hierarchies. Therefore, there are constitutional rules, others from a legal source, provisions passed via decrees of the Executive Power and, finally, conventional rules.

The principle is that labor rules are public policy thus the flexibility scheme provided by the texts is very limited.

Labor relations are also ruled by Collective Agreements entered into unions and employers. It must be pointed out that the collective agreements apply to all the employees even to those that are not members of the union. Moreover, it should be noted that judiciary's opinion and specially the books of authority are highly important.

The unions are strong and well organized in the industrial sector. Generally all the workers of the same sector are organized under the same union. Therefore the agreements are entered into between all the employers of the sector and the union.

Collective agreements rule about salary and other related matters such as working conditions, fringe benefits and provisions for salary increase.

Labor contracts are entered into within a private level, between the employee and the employer, with no obligation whatsoever as to the registration or entry before the Ministry of Labor.

The rule related to the duration of the contract is the hiring without time limit. Therefore, even if it is not a requirement of formality, contracts for a specified term should be entered into in writing. For the hiring for a specified term to be valid, there should be a justifiable ground. Said ground lies on the actual duration of the specific work to be done.

As regards the maximum duration of the contract for a specified term, there is no regulation whatsoever. Books of authority in Uruguay and the Uruguayan Judiciary state that the maximum term should be that of the duration of the hired work. Consequently, the term should be fixed for each specific case.

It is widely admitted in Uruguay, and for all labor categories that prior to the employee's final incorporation to the company, a probation contract should be entered into. Due to the fact that probation contracts are not presumed in Uruguay, they should be necessarily agreed upon in writing.

With reference to its duration, it is stated that the maximum term for a probation contract should not exceed three months. During said term, the contract can be rescinded at any time and with no expression of cause. Its termination does not bring along any dismissal compensation whatsoever. Obviously, either in the case of termination of contract before the term is completed or of no confirmation of the employee hired on probation, at said time the accrued leave, holidays salary as well as the annual bonus supplementary wage ("the 13th salary") must be paid.

I.4.1 Working hours and overtime

The regulation of working hours applied to the commercial sector is 44 weekly hours and the limit of the daily hours of work is eight hours. In the industrial sector the working hours applied is 48 weekly hours, and the daily limit is of eight hours.[13]

The weekly rest in commerce is 36 hours. Generally speaking, this is taken from 1:00 p.m. on Saturday all through Sunday. It is possible to agree other days to rest provided that its duration is of 36 consecutive hours.

The weekly rest in the industrial sector is 24 hours, and it is taken on Sundays.

Furthermore, in both sectors there should be a period of rest in between the working hours, which should be taken between the fourth and the fifth hour in commerce, and at the fifth hour in the industrial sector. Its duration may last from thirty minutes to two hours and a half. The thirty-minute rest is paid, being considered as worked time. The one-hour rest might not be paid if agreed upon by the parties. That of two hours and two hours and a half are never paid.

All working time exceeding the maximum limit of the daily working time applicable to each employee is regarded as overtime.[14]

Extra hours have a different surcharge rate depending whether they have been done during a working day or a holiday. The formers are paid double. The latter are worth three times and a half the price of the ordinary hour on a working day.

The amounts paid as overtime are intrinsically considered salary, thus they should be taken into account for the calculation of the remaining labor credits, including dismissal compensation.

The exceptions to the above are, among others, the higher company personnel, that is, those who hold a higher position to the Chief of Department, professionals, highly specialized experts, commercial travelers, in other words, those who arrange sales outside the companies' building.

I.4.2 Annual bonus supplementary wage

It is a special bonus equivalent to one twelfth of the total salaries paid in terms of money by the employer, in the period that runs from December 1, of one year to November 30, of the following year.[15]

Its payment is effected in two parts. The first one is paid in June and corresponds to what was earned from December 1 until May 30. The second one is paid between December 14 and 23, including what was earned in the remaining considered period.

---

13 Law No. 5,350 of November 17, 1915.

14 Law No. 15,996of November 17, 1988.

15 Law No. 12,840 of December 22, 1960.

I.4.3 Holidays

Every employee who completes one-year work is entitled to take in the coming year a 20-day paid holiday.[16]

In case that in the considered period (January 1 to December 31) the employee does not reach one-year work, he will have the right to take a holiday proportional to the worked period.

Furthermore, every four years as from the fifth one extra day of holiday is accrued as seniority.

I.4.4 Holiday salary

It is an amount of money received by the employee before starting the holidays, which aims at a better enjoyment of them. This benefit is equivalent to the net day's wage of holiday. That is to say, the same is obtained by deducting from the holiday's wage, the total contribution to social security, to which the salary is subjected.[17]

I.4.5 Fringe benefits

Voluntary fringe benefits are not very common. The most usual are the payment of meals in money or by luncheon tickets, the payment of tickets of health care organizations for the family of the worker, additional year-end bonuses and the use of company cars and the payment of the house rent for senior management.

I.4.6 Mandatory Profit Sharing Contributions

In Uruguay there are no mandatory profit sharing contributions.

I.4.7 Severance Issues

The principle in terms of dismissal of monthly paid employees is the inexistence of a waiting period. That is, the employee as from the very first day of work is entitled to receive dismissal compensation. There is no rule imposing the obligation of notice of discharge.

I.4.7.1 General system regarding dismissal compensation

16 Law No. 12,590 of December 23, 1958.

17 Law No. 16,101 of November 10, 1989.

When the labor relation is terminated by dismissal the employee is entitled to receive compensation except for the case where there has been a dismissal for cause (which in our system implies notorious misbehavior).

In the case of monthly paid employees this compensation is equivalent to one month for every year or portion worked, with a maximum limit of six month-pay. It should be noted that the term monthly payment includes not only the salary but also any salary remuneration earned by the employee (overtime, commissions, portion of holiday salary, accrued leave, 13th salary, etc.).

The monthly paid employees do not have a waiting period so as to be entitled to dismissal compensation; that is the portion can be from one day to eleven months.

I.4.7.2 Special dismissal systems

- Pregnant employee

In case of dismissal, a pregnant employee or recent mother is entitled to an additional compensation equivalent to six months salary. This compensation, which is objective, is only lost in case of dismissal for cause (notorious misbehavior).

The right to this compensation is acquired from the moment the employer gets to know about the pregnancy and up to a certain period of time after the woman has returned from her maternity leave.

This term, which is not defined by law, has been established by the majority of the Uruguayan Judiciary, in six months.

- Sick employee

The employee who suffers from an illness can not be dismissed neither during the period in which he is entitled to the corresponding health insurance, nor during the next thirty days, excepting the case of dismissal for cause (notorious misbehavior) or cause unrelated to the illness. If this prohibition is violated, the employee has a right to a compensation that doubles the ordinary one.

- Employee who suffers a labor accident

Every employee who suffers an employment related accident or a professional illness can not be dismissed, neither during the period in which he is entitled to the corresponding insurance nor during the 180 days after medical discharge. If this prohibition is violated, then the employer will face two different kinds of compensation depending on the time when the dismissal takes place.

In case the employee is dismissed after the medical discharge, but before his/her actual return to the job, the employer must pay three times the ordinary compensation. If the dismissal takes place within the 180 days after the return, the employee is entitled to claim the fixed ordinary compensation and all the remaining wages until the period is completed.

- Anticipated rescission

In case of termination of a contract with a specified term because of the employer's decision, before the contractual term is over; then the employee has the right to claim as a dismissal compensation, the remaining wages until the contractual term is completed: that is, the salary and other labor credits which correspond to the period which goes from the anticipated rescission of the labor contract, until the termination of the contractual term duly agreed.

I.4.8 Social Security System (SSS)

The SSS covers retirement pensions, health insurance, sick pay and unemployment. The system is compulsory.

The patronal and personal contributions to the SSS, are based on the salary earned by the worker.

The company must also pay to *Banco de Seguros del Estado* an insurance for work related accidents. The cost of this insurance depends on the activity of the company and is proportional to the amount of the total salaries.

I.4.9 Foreign workers

There is no limitation for foreign people to work in Uruguay. In order to work in Uruguay, foreigners must obtain legal residence and a medical certificate of good health.

Foreigners are included in the social security system, so the company must make the contributions for their salaries.

I.4.10 Dispute settlement

All the suits arisen out of labor relationships are subject to the competence of the labor courts. This kind of courts deals with individual labor conflicts. Uruguayan labor law and also labor courts are influenced by the principle of "*in dubio pro operario*", that means a general orientation of the law and the jurisprudence aiming the employee's protection.

The Labor Ministry behaves as a mediator between the unions and the enterprises but its decisions are not mandatory. Its function consists on approaching the parties and to serve solving the conflicts.

II URUGUAYAN TAXES

II.1 Income Tax

The incomes of Uruguayan source will be levied by three different taxes:

II.1.1. Economic Activities Income Tax (IRAE)
II.1.2. Income Tax on Individuals (IRPF)
II.1.3. Income Tax on Non-Residents (IRNR)

II.1.1 Economic Activities Income Tax (*IRAE*)

II.1.1.1 General concepts

The *IRAE* levies with a 25% annual rate the fiscally adjusted net income from Uruguayan source resulting from economic activities of whatever nature (for fiscal exercises started after July 1, 2007)

II.1.1.2 Definition of taxpayers

The following are liable for this tax: 1) Uruguayan corporations (with or without legal capacity); 2) permanent establishments of non-resident legal entities; 3) agricultural associations, agricultural corporations and the private civil corporations with agricultural purposes; 4) autonomous institutions and decentralized services part of the industrial and commercial domain of the government; 5) credit closed-end mutual funds; 6) fiduciary funds, except those used as guarantee trusts; 7) individuals or condominiums, in case they have taxable incomes; 8) associations and foundations, for the income deriving from taxable activities not directly related to their specific purposes; 9) Economic interest groups.

II.1.1.3 Taxable base – definition of net Uruguayan income

a) Fiscal year

The fiscal year coincides with the business year if the company keeps sufficient accounting records. In all other cases it shall coincide with the calendar year.

b) Taxable Base

There is a general taxability hypothesis and two specific situations:

i. Incomes deriving from economical activities (general principle)
ii. Incomes assimilated to incomes deriving from economical activities because of the frequency in the sale of real state properties
iii. Incomes taxed by the IRPF obtained by those who chose to pay IRAE or by those who must pay it compulsory since they exceed the amount fixed by the Executive Power.

There will be considered as income deriving of economical activities:

A) The income obtained by the following entities, without considering the factors involved (labor, capital or both of them together):

i) Stock companies and joint- stock companies
ii) Other corporations regulated by the Law on Commercial Companies (Law 16.060), except for the De facto corporations that are specially regulated in viii).
iii) Agricultural associations, agricultural corporations and private civil companies with agricultural purposes.
iv) Permanent establishments of non-residents entities in Uruguay.
v) Autonomous governmental institutions and decentralized services.
vi) Credit closed-end mutual funds
vii) Fiduciary funds, except those used as guarantee trusts.
viii) De facto corporations and civil corporations. Such companies will not be included neither if they are composed exclusively by resident individuals, nor if their sole income is derived from capital and they are composed exclusively by resident individuals and non-resident entities

B) Not included in A), derived from:

i) Profitable industrial activities, commercial activities and/or services rendered by companies, meaning by "company" a unit of production combining capital and labor to produce an economic result.

ii) Agricultural activities which are destined to obtain primary products (vegetable or animal). This also includes the sale of fixed assets, agricultural services rendered by the producers themselves and grazing, share farming, joint ownership and similar activities permanently, accidental or transitorily exploited.

C) Exempt income

A number or exceptions are granted for certain activities or certain companies and entities.

The following are some examples of the exemptions stated in the current regulations:

i) Income from maritime or air navigation companies. Foreign transport companies may be exempted by the Executive Power under reciprocity conditions.
ii) Income from maritime freight of goods abroad, not included in the abovementioned exemption.
iii) Income from agriculture activities subject to IMEBA, in the event the income is obtained by a taxpayer who makes the option to pay the referred tax.
iv) Income subject to IRPF (unless the option to pay IRAE has been made).

v) Income obtained by taxpayers whose incomes do not exceed the amount annually determined by the Executive Power (currently 305.000 Indexed Units (hereinafter **"IU"**)), approximately US$ 26.000.
vi) Income subject to the IRNR.
vii) Income obtained by cultural or educative institutions.
viii) Income obtained by official agencies of foreign countries, under reciprocity conditions.
ix) Income derived from activities developed abroad and in customs enclosures, port and customs enclosures, customs deposits and Free Trade Zones, performed by non-resident entities and related to foreign merchandise in transit or deposited in said enclosures when said merchandise was not originated in national customs territory, nor destined to it. The exemption shall further be applicable when said merchandise is destined to national customs territory, provided that said operations do not exceed –during the fiscal year- the 5% of the total amount of the selling of merchandise in transit or deposited in said period.
x) Profits or Dividends and capital gains from equity participations.
xi) Income obtained by Free Trade Zone Users.
xii) Those established in the Investment Law and the Forestation Law.

D) Non-taxed income

The Uruguayan tax system will continue to be based on the source criterion, being only the Uruguayan source income therefore taxable.

E) Deductions allowed

In order to obtain the net income, accrued expenses incurred during the fiscal year may be deducted but exclusively if they are necessary to obtain and maintain taxed income and if such expenses are duly documented.

As a general rule, the expenses that may be deducted are those which constitute taxable income for the counterparty, either under the IRAE, IRPF, IRNR or under any form of tax imposed on income in the foreign country. In case of expenses corresponding to personal services rendered in a dependent relationship that generate income taxable by IRPF, these expenses will be only deductible if they are subject to social security taxes.

If the expenses incurred qualify as taxable income by IRPF or IRNR for the counterparty, the deduction will be limited by applying the ratio between the tax rate for those earnings and the IRAE tax rate corresponding to the expense. In case of income levied by IRPF deriving from capital (capital returns or capital gains), or income taxable by IRNR, the deduction shall be limited to the 48% (which results form the proportion between the IRPF and IRNR rate applicable in the referred cases (12%), and the IRAE tax rate (25%)). The exception to this principle are labor gains, which can be deducted in a 100%, whether in a dependant or not dependant relationship.

When the expenses are incurred abroad, deduction could be up to 100% if the taxation rate on this income exceeds or equals 25%. In case the income tax rate abroad is less than 25 %, the percentage to be applied to deduct the expense shall be the one resulting from dividing the rates.

Moreover, if the expenses incurred abroad are levied by IRNR for the counterparty, and also have a tax imposition abroad, the percentage to be applied to deduct the expense shall result from dividing the IRNR tax rate and the tax rate applicable abroad under the IRAE tax rate. Notwithstanding, the deduction shall never exceed 100% of the expenses.

The regulation also states some items that shall be deducted without any limitations; as an example we can mention the following:

i. extraordinary losses not covered by insurance;
ii. donations to public entities;
iii. uncollectable credits;
iv. personnel compensation (provided that the social contribution taxes had been paid if applicable);
v. depreciation of assets due to obsolescence, wear-out and depletion;
vi. amortization of intangible assets;
vii. expenses for health care, study assistance and similar personnel benefits in the conditions established by the regulations;
viii. tax losses for the last five years if they have been generated after July 1, 2007; or for the last three years if they have been generated before.

The are also some incremented deductions (that could be incremented in a 50% of their real amounts), as for example:

i) Expenses in training courses for the personnel in areas considered as a priority by the Executive Power.
ii) Expenses and remunerations regarded by the Executive Power as necessary to improve the conditions and the environment at the labor place by means of preventive measures.
iii) Expenses made in order to finance scientific and technological investigation and development projects.
iv) Expenses for the procurement of quality certifications under quality standards internationally admitted.

F) Non-deductible expenses

As a general principle the regulation do not allow the deduction of expenses destined to obtain income not subject to IRAE.

Also, the following expenses are not deductible: a) personal expenses of the owner, partner, shareholder or their families; b) losses deriving from illicit operations; c) amortization of goodwill; d)

penalties for delayed payment of taxes; e) capitalized earnings (meaning earnings destined to increase the capital of the company or to create legal or other reserves); f) IRAE Tax and the Wealth Tax.

G) Valuation System

i. Inventory

- Stocks of merchandise are valued whether at their production cost, at their acquisition cost, or at the market price on the closing date of the business year, at the taxpayer's will.
- The adopted system must be applied uniformly and cannot be changed without General Tax Bureau authorization and subject to the relevant adjustments.
- The Tax Bureau may accept other stock valuation systems provided they are in accordance to the type of business, provided they are uniform and provided they do not give rise to any taxation problems.

ii. Fixed assets – Depreciation

Amortization of improvements is calculated at 2% per year for urban and suburban real estate and 3% per year for rural real estate.

In cases of property or improvements incorporated into leased premises and which remain to the benefit of the owner, the period for amortization shall not exceed the lease expiration date.

For movable property the depreciation percentage is a fixed rate based on the number of years of probable useful life of the property. The General Tax Bureau can authorize other depreciation systems if it considers them technically appropriate.

In case of the automobiles, if they are new they could not be depreciated in a period shorter than 10 years.

Intangible assets actually paid for shall be depreciated in fixed installments over a period of 5 years.

Registration expenses for intangible assets having a limited life may either be deducted in the year in which the payment is made or be depreciated in fixed installments over the period of their effectiveness. Goodwill, however, is not amortizable.

Organization expenses must be depreciated over a period of 3 to 5 years.

The General Tax Bureau can authorize any depreciation system it considers to be technically appropriate and justified.

Nevertheless the general accepted system is straight-line depreciation on the following basis and annual percentages: a) intangible assets, 20%; b) automobiles, 10% to 20%; c) machinery and

equipment, 5% to 20%; d) urban real estate, 2%; e) rural real estate, 3%; f) movable property, 5% to 20%.

iii. Inflation adjustment: Brief description

The percentage of variation in the wholesale price index between the closing months of the foregoing year and the year being reported is applied to the difference between:

a) fiscally adjusted assets at the beginning of the year (excluding fixed assets, investments in other companies -except for shares- and assets used for the production of untaxed income,).
b) the amount of liabilities at the beginning of the year including debts in money or in kind, mathematical reserves of insurance companies and accrued liabilities.

If the company has assets assigned to the production of untaxed income, the liabilities must be prorated.

When a) is greater than b) and there was inflation, a tax loss is computed. When b) is greater than a) and there was inflation, a tax gain is computed.

This adjustment shall not be made by taxpayers who had not obtained income from their activities during the fiscal year.

If the variations in the wholesale prices index are not higher than 10% in a fiscal year, the Executive Power shall state that this adjustment will not apply.

II.1.1.4 Losses carried forward

Tax losses from previous years, incurred before July 2007, can be deducted from gross income. Losses of those fiscal years started before July 1, 2007 can be carried forward up to 3 years after they were generated. Losses of those fiscal years started after July 1, 2007 can be carried forward up to 5 years.

In both cases, these losses must be adjusted according to the currency devaluation as from the date it was incurred to the present date.

II.1.1.5 Other relevant fiscal concepts

a) Transfer pricing rules

This matter is specifically considered in the new tax law, applicable as from July 1, 2007. This subject has not been regulated by now.

Operations between an IRAE taxpayer and related individuals or entities shall be considered as celebrated among independent parties when the terms and conditions of such operations are in accordance with the normal market practices among independent entities without prejudice to cases wherein restrictions to the deduction of expenses for net income determination purposes were set out.

This equally applies to transactions and operations between taxpayers and other international offices (branches, headquarters etc.) they are related to.

In case the terms and conditions do not follow normal market practices among independent entities, situation which has to be proved by the General Tax Bureau (hereinafter **"DGI"**), taxpayers will have to make adjustments.

To these effects, the relation between related parties is established when an IRAE taxpayer operates with a non-resident (that could be an individual or entities or establishments constituted, residing or located abroad), and provided that both parties are subject, whether directly or indirectly, to the same management or control (in any way)

When taxpayers operate with non-residents domiciled, constituted or settled in countries of low or null taxation, or which are beneficed by a special regime of low or null taxation, these operations will not be considered as adjusted to the normal practices or market values for independent parties. The referred countries will be determined in a restricted way by the Administration.

In these cases, the adjustment methods to be applied shall be those more suitable for the relevant transaction.

In order to determine the adjusted prices the following methods shall be applied:

i. Comparable prices between independent parties method.
ii. Resale prices between independent parties method.
iii. Cost plus benefits method.
iv. Profit split method.
v. Residual profit method.

These methods shall be applied in the way stated by the regulation, which could state additional methods with similar aims.

b) Permanent Establishment

The definition of permanent establishment refers to a non-resident carrying out its activity in whole or in part by means of a fixed place of business in the Republic of Uruguay. The expression "permanent establishment" includes, but is not limited to: - Management offices – Branches – Offices – Factories – Workshops – Sites for the extraction of natural resources – Construction or installation works or projects, or the supervision related activities, the duration of which shall exceed three months – The rendering of services, including consulting services, by a non-resident through employees or other personnel hired in Uruguay, provided that such activities are performed (in connection with the same or other related project) for a period or periods which, in total, exceed six months within any period of twelve months.

Net income from Uruguayan sources obtained by permanent establishments shall be determined based on the independent accounting of those establishments and making the necessary corrections to fix the actual benefits thereof. If the accounting do not reflect the net income of Uruguayan source, the General Tax Bureau will estimate the gains subject to IRAE that the permanent establishment has.

The totality of income obtained in the country by permanent establishments of non-resident entities shall be included in the calculation of the IRAE.

II.1.1.6 Reorganization of companies

Reorganization of companies (mergers, acquisitions or demergers) can be exempted from Uruguayan income tax only by decree of the Uruguayan government as established in Law 16,906.

II.1.1.7 Liquidation and dissolution

Upon liquidation of a company and until cancellation of its legal status (e.g., a dissolved corporation in the liquidation process) all sworn tax returns must continue to be filed.

The sale of the company's assets to third parties or their adjudication to the partners or shareholders is subject to the same taxation as the active company was (i.e., the difference between the fiscal value and the sales price of the asset constitutes taxable income).

II.1.1.8 General procedures and forms that must be filled in

a) The filing dates

The balance due for the year is paid upon submitting the annual return. The sworn tax return is submitted on official forms and must be accompanied by the pertinent financial statements and other relevant information (auditor's report or a limited review could be required in some cases).

b) When Tax must be paid

IRAE shall be liable on an annual basis. Within the fourth month following the end of the fiscal year a sworn tax return is submitted and any balance not paid in the way of estimated tax during the year is to be paid (or a credit is generated if the estimated taxes paid exceed the final tax amount).

Monthly estimated payments are required. Generally they are based on the tax amount paid the previous year (in the case of large volume taxpayers a ratio is established between sales and the tax paid for the previous year and that ratio is applied to the monthly sales).

II.1.1.9 Special income tax regimes

a) Uruguayan companies doing trading of goods or services under resolution of the Uruguayan Tax Authorities (DGI) No. 51/97

On March 19, 1997, the DGI published resolution number 51/97, which enables a regular joint-stock corporation to claim an special tax regime in case they carry out off-shore intermediation activities of goods and services (insofar as said services are rendered and economically used outside the Uruguayan territory).

In that event, the net Uruguayan source income is set at a rate of 3% of the difference existing between the selling and the purchase price of the intermediation activity of goods and services.

The IRAE that would need to be paid in Uruguay would amount to 25% of the net Uruguayan source income.

By way of an example, we will describe herein below the way to calculate the income tax of this offshore activity:

A= Client
B= Uruguayan company
C= Supplier

	US$
Invoice issued by B to A	1,000
Invoice issued by C to B	(900)
Gross source income	100
Net Uruguayan source income (3%)	3
Income tax in Uruguay (25%)	0,75 (=25% on 3)

b) Theoretical estimate

Procedures for the calculation of the IRAE have been set theoretically for specific special cases.

Those taxpayers who are not bound to keep sufficient records (for example, Sole Proprietors, Limited Liability Companies (LLC), De Facto Corporations, Civil Corporations, provided that the annual income thereof do not exceed 4,000,000 IU, approximately US$ 350,000) may opt to calculate the IRAE on a theoretical basis.

To those effects, the income shall be determined by deducting the salaries of the admitted owners or partners from the figure resulting from multiplying the sales, services and other gross incomes of the fiscal year by the corresponding percentage, according to following scale:

IU value:

Over	**Up to**	**%**
IU 0	IU 2,000,000	13.2
IU 2,000,000	IU 3,000,000	36.0
IU 3,000,000	upwards	48.0

US$ 0,088 approx.

Those who obtain gross capital income or gross labor income and opted to pay the IRAE or those who shall compulsorily pay the IRAE, may pay on a theoretical basis provided they comply with the foregoing, but in such case they shall compulsorily apply the 48% rate.

As to the agricultural sector, a special theoretical system was established, that takes into account the sales multiplied by the Tax On The Sale of Agricultural Assets (IMEBA) rate increased by 50%.

II.1.2 Personal Income Tax on residents (IRPF)

II.1.2.1 General concepts

An annual individual tax was create since July 2007 in order to levy Uruguayan incomes obtained by individuals derived from activities developed, assets located or rights economically used in the Uruguayan territory.

A dual system is proposed; on the one hand Capital Incomes (with its own rules and deductions) and on the other hand, labor incomes.

II.1.2.2 Definition of taxpayers

Individuals who reside in the Uruguayan territory will be liable for this tax. It must be stressed that the regulation has stated a new concept of residence with a fiscal aim, which is different to the legal concept.

It is considered that an individual has his fiscal residency in the Uruguayan Territory when any of the following circumstances occur, among others:

- That the individual stays more than 183 days in Uruguayan territory during a calendar year. Sporadic absences shall be taken into account unless the Contributor provides evidence of fiscal residence in other country.

- That the individual's main economic or vital activities or interests are settled in Uruguayan territory, whether in a direct or indirect way.

It will also be presumed that the Taxpayer has his usual residency in Uruguayan territory if his wife and his under age children that depend on him have their usual residence in the country.

II.1.2.3 Taxable base

a) Fiscal year

The taxable amount is determined in an annual basis as of December 31st unless the Taxpayer dies, in which case it will be determined at the date of death.

b) Taxable Base

As we stated before, a dual system is proposed.

IRPF will be determined separately in any of the following categories:

CATEGORY I: Incomes derived from returns on capital and net wealth capital

CATEGORY II: Labor Incomes derived from a dependent or non-dependent work relationship, except for those included in the IRAE; pensions and other incomes of similar nature.

Incomes included in CATEGORY I

1. Taxable Base

The incomes derived from capital factor will be divided in two different categories:

A. Return on Capital:

i. Taxable income

The taxable income can be divided in (a) returns over the real state capital, and (b) returns over moveable capital.

Results associated with real state capital or properties are for example leases, subleases and the incorporation or assignment of rights on these assets.

Results over moveable capital are for example deposits, loans and any other capital or credit placement, except for the holding of IRAE and IMEBA taxpayers' shares.

Earnings and dividends distributed by IRAE taxpayers will also constitute incomes of moveable capital as long as such dividends or earnings stem from incomes levied by IRAE and obtained after July 1, 2007 (distribution of incomes or earnings which correspond to accrued results of fiscal years started before July 1, 2007 will not be levied). It must be stressed that this tax will be applied only to the amount of the net taxable base for IRAE. To these effects the losses from previous years will not be considered as part of the net taxable base.

ii. Deductible expenses

With reference to returns on real state properties (leases) uncollectible credits can be deducted (a credit will be considered as uncollectible after three months of the due date established for the payment). There will also be deductible the expenses corresponding to the properties administrative commission (including VAT), fees corresponding to the Lease agreement's subscription and renewal (including VAT), real state tax, *Primaria* tax and subleases (if it corresponds).

On the other hand, returns on moveable capital have no deductions.

B. Net Capital Wealth Increases:

i. Taxable income

Incomes from Net Capital Wealth Increases are those obtained from selling, disposition promises, assignment of hereditary rights, assignment of possessors rights and in the declaratory judgment of the acquisitive prescription, of tangible and intangible assets.

Additionally, the result of comparing the market value with the fiscal value of received donations is also included in case the first value is higher.

ii. Deductible expenses and losses

Irrecoverable credits will be admitted as deductible also in this case.

Losses derived from Net Capital Wealth increases can only be deducted from other incomes derived from net capital wealth increases and only when the origin of these losses is the transaction on real states and vehicles, performed after July 1, 2007 and whose deed had been duly registered before the government institutions.

2. Rates

The general rate is 12%, but some other reduced rates will apply on some returns on capital (3% to 5% over interests, and 7% over dividends or earnings paid or credited by taxpayers of IRAE).

Dividends and profits connected to income non-taxed by the IRAE shall be exempted from the IRPF, while dividends distributed by IRAE taxpayers who obtain taxed and non-taxed income (for example, income of foreign source or exempted) shall be partially exempted; the taxed amount in that case shall be determined by the income composition of the fiscal year wherein they were generated. Last, the distribution of accumulated income of financial years starting before July 1, 2007 shall not be levied by the IRPF.

3. Exempt income

The following incomes are exempt from this tax:

- Interest payments, or any other results deriving from capital, received from sovereign public fixed income securities.

- Previsional Funds results

- Earnings and dividends received, except for those paid or credited by IRAE taxpayers, corresponding to incomes levied by such tax (incomes deriving from fiscal years initiated after July 1, 2007). Profits distributed by partnerships whose incomes are not higher than 4.000.000 IU (Approximately US$ 350.000) will be exempt.

- Increase in the net worth of IRAE and IMEBA taxpayers through capital recovery.

- Income derived from a transfer of shares and other participations in the capital of IRAE taxpayers, provided their capital is composed by bearer shares.

- Donations received.

- Income for difference in the exchange rate of foreign currency or in deposits and credits of foreign currency, except when those credits correspond to accounts receivables related to capital gains, employment incomes or price differences in the transfer of other assets, different from those mentioned before or stated hereunder.

- Income from depreciations derived from the holding of amortizable values or deposits or credits that have amortization clauses (with the previously mentioned exceptions).

- Income from net capital wealth increases originated in assets transfers, provided such transferences individually considered are not higher than 30.000 Index Units (approximately US$ 2.600) and that the total amount of all those transfers is less than 90.000 Index Units (approximately US$ 7.900) a year. If the price does not exist, the market value will be taken into consideration.

- Incomes deriving from the investigation and development in areas of biotechnology and bioinformatics, and the ones obtained by the development of logical supports and services related to them, which will be expressly determined by the Executive Power, and only if the goods and services obtained from the abovementioned activities will be used entirely abroad.

Incomes included in CATEGORY II:

1. Incomes

The incomes included in this category are basically those derived from personal services rendered in dependent or non-dependent work relationships and pensions.

1.1 Dependent work relationships

In this case, it will be considered as taxable income any ordinary or extraordinary income, paid in cash or in kind, that an individual obtains as retribution for his personal activity in a dependent relationship or in occasion of that, including retributive and compensation incomes.

1.2 Non-dependent work relationships

The incomes obtained from services rendered in a non-dependent work relationship will be taxed only if they are not subject to IRAE. The regulations in force allow to deduct a 30% of the total income amount as expenses. Also irrecoverable credits may be deducted (as will be stated on the regulations).

1.3 Retirement payments and pensions

With reference to retirement payments and pensions, we must stress that the ones generated from non-residents pension funds will not be taken into account, unless they were financed by Uruguayan Agencies.

2. Taxable base

In order to obtain the tax base, the three types of incomes shall be added and then, the obtained amount will be levied according to the following rate scale.

Applicable progressive rates depending on annual incomes:

- Up to 60 BPC (US$ 5.300) 0%
- From 60 to 120 BPC (US$ 10.600) 10%
- From 120 to 180 BPC (US$ 15.900) 15%
- From 180 to 600 BPC (US$ 53.000) 20%
- From 600 to 1200 BPC (US$ 106.000) 22%
- More than 1200 BPC 25%

Current BPC *(Base de Prestaciones y Contribuciones)* Value US$ 88 approximately.

To following concepts can be deducted from the amount obtained after the application of the rates abovementioned:

a) General Social Security Contributions
b) Contribution to health insurance (*DISSE*) and the tax on retributions ("*Fondo de Reconversión Laboral*").
c) Contribution to *Fondo de Solidaridad*.
d) The amount paid by the Taxpayer to Medical Assistance Institutions for any under-aged son, with a maximum of 6.5 BPC (approx. US$ 565) per year**.** In case of any disabled son (legally declared, whether or not under-aged), this deduction will be doubled.

These expenses will be deducted after imposing the rate scale detailed as follows:

- Up to 60 BPC (US$ 5.300) 10%
- From 60 to 120 BPC (US$ 10.600) 15%
- From 120 to 540 BPC (US$ 47.500) 20%

- From 540 to 1140 BPC (US$ 100.000) 22%
- More than 1140 BPC 25%

II.1.2.4 Advanced payments

The IRPF is an annual tax. However, the regulation in force establishes that individuals have to make advanced payments on account of this annual tax. Such advanced payments should be made monthly or every 2 months, depending on the nature of the income.

II.1.2.5 Withholding agents

Many of the incomes taxed by IRPF will be paid through a withholding agent. In some cases the withhold performed could be stated as a definitive payment by the taxpayers (It is provided in the law for most of the capital incomes).

II.1.2.6 IRAE option

Those who obtain incomes included in the IRPF will be able to choose between paying this tax or IRAE. The option is valid for the total incomes of the taxpayer, except for those derived from retirement payments and/or pensions and the incomes obtained in a dependent work relationship (salaries).

Once the taxpayer has chosen to pay IRAE, this option will have to remain unchanged for a minimum of 3 fiscal years at least.

Those who obtain a taxable income included in the IRPF for independent personal services (professional, free-lance etc.) will be compulsory subject to IRAE when their income exceeds the maximum established by the Executive Power (currently 4.000.000 IU -approximately US$ 350.000- per fiscal year).

II.1.3. Income Tax on Non-Residents (IRNR)

II.1.3.1 General Concepts

The income levied by this tax is the one derived from activities developed, assets located or rights economically used in Uruguayan territory (Uruguayan source) by individuals or other entities.

In addition, income obtained and related to technical services granted in a foreign country shall be considered of Uruguayan source only if these services are related to the obtaining of income included within the IRAE.

II.1.3.2 Definition of taxpayers

The IRNR taxpayers are non-resident individuals or legal entities not operating in Uruguay by means of a permanent establishment. None of the following hypotheses should be met in order to be included in the definition of non-resident:

- That the person stays over 183 days in the Uruguayan territory during a calendar year. Sporadic absences shall be taken into account unless the person provides evidence of tax residence in another country.
- That the economic activities or individual interests of the person be located in Uruguay, whether directly or indirectly.

It is presumed that the individual has its residence in our country if his wife and under age children depending on him have permanent residence in Uruguay.

When activities of any nature are carried out in the country by an entity with no permanent establishment and there are no withholding agents appointed (to withhold the taxes associated to the earnings derived from such activities), the taxpayer is obliged to appoint a resident to act on his/her behalf.

The appointed representative will share liability with his represented for the tax payment.

II.1.3.3 Taxable base

a) Fiscal year

The taxable amount is determined annually as of December 31st unless the Taxpayer dies, in which case it will be determined at the date of death.

b) Taxable base

Taxable incomes are classified as follows:

i. Incomes from economical activities and incomes derived from the ordinary sale of real state properties.
ii. Income derived from labor factor.
iii. Return on capital.
iv. Net Capital Wealth Increases.

To these effects:

- the incomes included as i) will be defined in the same way as in the IRAE
- incomes detailed as ii), iii) and iv) will be defined in the same way as in the IRPF

c) Exempt incomes

We detail as follows some examples of exempt income:

- Interests and other results deriving from payments received from sovereign public fixed income securities.

- Interests for loans granted to IRAE taxpayers whose assets destined to obtain non-taxed incomes are 90% or more of their total assets.

- Earnings and dividends paid or credited, except for those paid or credited by IRAE and IMEBA taxpayers corresponding to incomes levied by such taxes. Profits distributed by partnerships whose incomes are not higher than 4.000.000 IU will be exempt.

- Increase in the net worth of IRAE and IMEBA taxpayers through capital recovery.

- Income derived from transfer of shares and other participations in the capital of the IRAE taxpayers when capital is composed by bearer shares.

- Incomes for difference in the exchange rate of foreign currency or in deposits and credits of foreign currency, except when those credits correspond to accounts receivables related to capital gains, employment incomes or price differences in the transfer of other assets, different from those mentioned before or stated hereunder.

- Incomes from amortizations from the holding of amortizable values or deposits or credits that have amortization clauses (with the previously mentioned exceptions).

- Net Worth Capital derived from real estate transfers, when the amount of each individual transfer is not higher than 30.000 IU. and as long as all of them are not higher than 90.000 IU a year.

- Incomes from companies dedicated to sea or air navigation when such exemption benefits Uruguayan companies in the country of origin.

- Air or sea freights from Uruguay towards a foreign country.

- Incomes from activities carried out abroad in relation to goods that are in transit, when these goods are not produced in or destined to the Uruguayan territory. The same treatment will be given to the merchandise in the Free Zone with the same origin and destiny.

- Income obtained by official entities of foreign countries under reciprocity conditions.

- Income obtained by international entities of which Uruguay is a member of.

d) Applicable rates

The general rate of the IRNR shall be 12%, but in case of dividends or profits paid by IRAE taxpayers it shall be 7%.

Dividends and profits connected to income non-taxed by the IRAE shall be exempted from the IRNR, while dividends distributed by IRAE taxpayers who obtain taxed and non-taxed income (for example, income of foreign source or exempted) shall be partially exempted; the taxed amount in that case shall be determined by the income composition of the fiscal year wherein they were generated. Last, the distribution of accumulated income of financial years starting before July 1, 2007 shall not be levied by the IRNR.

In the case of the technical services, a reduction in the IRNR effective rate is projected. In the case of the IRAE taxpayer companies having up to 10% of their total income included under the IRAE, income of Uruguayan source levied by IRNR shall be 5% of the total income, therefore the effective rate applicable to such cases shall be 0.6% (calculated as 12% on 5%).

On the other hand, disposal of nominative shares shall be levied by IRNR; as 20% of the sale price shall be considered as taxed income, the effective rate shall be 2.4% (calculated as 12% on 20%).

e) Incomes from foreign source partially carried out in Uruguay

In the case of incomes from activities which are partially carried out in the country the amount to be taxed will depend on the following:

- Incomes from insurance companies for insurance or reinsurance services which either cover risks in Uruguay or that refer to individuals who have residence in Uruguay at the moment of hiring the policy, are levied on the amounts received as follows: 6.25% for life insurance policies; 16.67% for fire insurance, 20.83% for maritime insurance, and 4.17% for other types of insurance policies.

- Incomes from foreign companies dedicated to sea, land or air transport. The tax rate is 20.83% of the gross amount of tickets and freights from Uruguay to a foreign country.

- Incomes from foreign companies which produce, distribute, or intermediate in cinematographic films, music recordings, broadcast television signals or similar media. In this case, the tax rate is 62.5% of revenue from services rendered in the country.

- Incomes from foreign agencies which broadcast international news: 20.83% on the gross revenue.

- Income from the leasing of containers for international transactions: 31.25% of the agreed fee.

II.2 Net Worth (or Capital) Tax

II.2.1 Net Worth Tax of Uruguayan Legal Entities ("*Impuesto al Patrimonio*" -*IP*)

II.2.1.1 General concepts

The capital or net worth tax is an annual tax paid on properties, assets and rights economically located, placed or used within the country.

The taxable amount is determined by the difference between the taxed assets and the deductible liabilities, and the tax rate is of 1.5% for legal entities.

The law foresees that the Executive Power could state the cancellation with the IRAE until the 50% of the net worth tax to be paid. However, the amount of such cancellation is stated currently in a maximum of 1% of the tax Net Worth Tax.

The abovementioned deduction will not apply in the following cases:

A. Resident entities when their capital is composed by bearer shares.

B. Non resident entities, unless individuals.

If the bearer capital does not represent the whole capital, the benefits will be applied in a proportion that will be determined as the capital composed by nominative shares over the paid in capital at the end of the fiscal year.

Furthermore, the owners of the nominative shares in this case should be individuals.

The Tax Law allow the Executive Power to grant the referred benefits to bearer shares which are traded in a stock exchange.

II.2.1.2 Definition of taxpayers

The net worth tax is applicable to the fiscal net worth of income tax taxpayers or agriculture business income tax taxpayers.

II.2.1.3 Taxable base – definition of Uruguayan net worth

a) Definition of Uruguayan net worth

All properties and rights located, placed or economically used in Uruguay are considered taxable.

In cases the company has assets abroad or exempted assets, liabilities are computed only as the amount exceeding the value of said assets.

The taxable amount is determined by the difference between the taxable assets and the deductible liabilities (as for example commercial debts or debts with Uruguayan banks, tax debts (except for the Net Wealth Tax and IRAE)) and only if the mentioned liabilities exceed the assets located abroad or exempted assets.

For companies keeping sufficient accounting records, net worth is determined on the closing day of their business year. In all other cases net worth is determined on December 31.

b) Deductions allowed

When computing the taxable amount, Public Debt instruments (Treasury Bonds, Treasury Bills, etc.) are exempted assets.

Shares or quotas issued by other companies (who pay the wealth tax as issuing company), bonds or debentures and similar assets subject to the payment of this tax by way of withholding or substitution are also exempt assets.

c) Valuation of major items

In principle, the assets of legal entities are valued according to the rules in force for the income tax (with the exception of partnerships and joint-stock companies who are the holders of agricultural or livestock establishments, in which case wealth is valued pursuant to the rules applicable to individuals).

d) Applicable rates

The rate applicable to legal entities is 1.5 %.

The legal entities which are taxpayers of these tax that act as Banks, Financial companies or those companies whose principal and regular activity consist in the administration of credits or the granting of cash loans, are taxed at a rate of 2.8%.

Numbered bank accounts, savings bonds and similar bearer securities are taxed at 3.5%.

II.2.1.4 Withholding net worth tax

Net worth's taxpayers who have liabilities with non-Uruguayan residents are subject to pay the net worth tax of these assets that non-Uruguayan residents maintain in Uruguay at a rate of 1.5% for companies and progressive from 0.7% to 3% for individuals, households, and undivided estates.

This withholding tax does not apply when the assets that the non-Uruguayan residents have in Uruguay are net worth tax exempted (for example loans made by non-residents to local companies or debts derived from imports of the local company).

II.2.1.5 General procedures and forms that must be filled in

The tax is paid annually, but estimated monthly payments are made at 11% of the tax for the previous year.

The yearly sworn tax return is submitted within the fourth month following the end of the fiscal year, with payment for the relevant balance.

II.2.2 Net Worth Tax of Uruguayan Individuals (IP)

III.2.2.1 General concepts

The net worth (or capital) tax is an annual tax calculated on December 31 by individuals, households and undivided estates. The net worth of this taxpayers are properties, assets and rights economically located, placed or used within the country.

III.2.2.2 Definition of taxpayers

Individuals, households and undivided estates.

III.2.2.3 Taxable base –definition of Uruguayan net worth

a) Definition of Uruguayan net worth

The taxable amount is the difference between taxable assets and deductible liabilities.
Assets and rights located, placed or economically used in Uruguay are computed for tax purposes.
As for the liabilities, only debts with Uruguayan banks are deductible. The total deductible liabilities are calculated as the difference between these liabilities and the assets located abroad or exempted assets.

b) Deductions allowed

The tax is applied (by scales and progressive rates) on the amount exceeding the non-taxable minimum (NTM). Said minimum is adjusted annually per the cost of living index (IPC). Currently it is approximately equivalent to US$ 89,000 (double for households).

Public Debt instruments (Treasury Bonds, Treasury Bills, etc.) are not computed for the taxable amount.

Likewise not computed are shares or quotas issued by corporations (who pay this tax on the net worth of the issuing company), bonds or debentures, savings bonds and similar items subject to payment of this tax by way of withholding or substitution, and deposits in banking institutions (the deposits in banking institutions are computed solely for the purpose of calculating the fixed value for furniture and fixtures in dwellings).

c) Valuation of major items

Real property used by taxpayers as their dwellings is subject to a deduction of up to 50% of its tax value (which is fixed by assessment by the General Real Estate Registry), up to the equivalent of the non-taxable minimum.

Works of art, books and collections are included as household goods and furniture regardless of their value, and they are assessed at a fixed rate of 10% or 20% of the net assets (non-residents do not compute this fixed amount).

Vehicles are valued as per the municipal assessment for Motor Vehicle Registration.

Movable property and livestock of agricultural establishments are computed at 40% of the total tax value of the real property housing itself.

d) Applicable rates

The tax is applied to the amount exceeding the non-taxable minimum amount (NTM).

Rates are applied by progressive scales beginning with the non-taxable minimum in a range from 0.7 % to 2.75 %. This rates will be progressively reduced as from 2008. The reduction could not determine a rate inferior to 0.10%

- Up to 1 NTM 0.7%
- From 1 NTM to 2 NTM 1.10%
- From 2 NTM to 4 NTM 1.40%
- From 4 NTM to 6 NTM 1.90%
- From 6 NTM to 9 NTM 2.00%
- From 9 NTM to 14 NTM 2.45%
- More than 14 NTM 2.75%

III.2.2.4 General procedures and forms that must be filled in

Normally three estimated payments totaling 100% of the amount paid for the previous year are to be made. The Executive Power may, however, modify this percentage as well as the number of estimated payments.

Net worth is determined annually on December 31. The sworn tax return and payment of the tax amount must be submitted within the terms fixed every year by the Executive Power.

II.2.3 Net Worth Tax of Foreign Legal Entities not Established in Uruguay

The same rules of local legal entities are applicable to the legal entities not established in Uruguay, but the tax is collected through withholding

Loans and deposits made to local residents, as well as import price balances, are not taxed when the holder is a legal entity domiciled abroad.

II.2.4 Net Worth Tax of Non-Residents Individuals

The general rules apply but with certain adjustments (for example, household goods and furniture are not computed).
The rates applicable are the ones considered for Uruguayan individuals (please see II.2.2)
The tax is collected through a withholding agent.

II.3 Value Added Tax (VAT – IVA)

II.3.1 Legal Entities

II.3.1.1 General concepts

This tax is levied on onerous operations related to (a) the domestic circulation of goods, (b) the rendering of services within national territory (c) the introduction of goods into the country and finally, (d) the value added over real property under works by means of administration performed by those who are not IRAE taxpayers, at a 22% basic rate. (Note: (d) applies only after July 1, 2007)

The VAT operates according to the scheme of tax against tax, so that the tax payable shall arise from the difference between the VAT as defined in the foregoing paragraph and the VAT included in the purchase of goods and services.

If the goods that a corporation sells or the services that a corporation renders are VAT exempted (no VAT rate 0 %), the corporation has nothing to deduct from and the VAT it paid on its purchases of goods or services will become part of the costs (in case of exports – VAT rate 0%- the VAT credit is still available to pay other taxes).

Export of goods is subject to this tax at a rate of 0% in all cases. VAT credit of an exportation can be recovered.

Export of services is subject to this tax at a rate of 0% if the services are included in a restricted list which has been provided by the Executive Power. This list can be increased by a decree of the Uruguayan Executive Power.

Some examples of the kind of services included on that list are the following:

i. International Freight of goods ("in transit") outside Uruguay
ii. Services on construction of airplanes and boats
iii. Services rendered in the free-port and Uruguayan free-zones
iv. The following services rendered to non-resident individuals or entities:

- Advice rendered regarding activities developed, assets or rights situated or economically used abroad.
- Services rendered regarding the design, development or implementation of specific logical supports.
- The use license of logical supports.
- The transference of the use and exploitation right of logical supports.

In all these cases it will be required that the services are exploited exclusively abroad.

v. Services rendered by International Call Centers, provided that the main destination of these services is abroad.

vi. Telephony services rendered in Free Trade Zones, Customs enclosures and Port and Customs enclosures, provided the user is physically situated in such areas.

If the service is not included in the list described above, the service will be taxed at a rate of 22%.

II.3.1.2 Definition of taxpayers

The most relevant taxpayers are the following ones:

a. Companies which perform taxed activities in the exercise of for-profit activities included in the IRAE, except for those who have made the option of paying IMEBA.
b. Individuals whose incomes are taxed by IRAE, whether compulsory or by the exercise of the option referred in point II.1.2.5.
c. Individuals who render personal services rendered in a non dependent relationship, not included as taxpayers of IRAE.
d. Individuals or other entities which perform taxed activities and have been appointed as taxpayers of the Income Tax on Non Residents, except in the case of incomes related to Return on capital or Net Capital Wealth increases (for example interests).
e. Government entities involved in industrial and commercial activities. The Executive will determine the date since when these entities will be classified as taxpayers.
f. Those who import or bring taxed goods into the country and who are not included in the foregoing points.
g. Municipalities, for activities that compete with private-sector activity.
h. Associations and foundations, for activities not directly related to their specific purposes.
i. Credit and savings cooperatives.
j. Credit closed-end mutual funds.
k. Fiduciary funds, except those used as guarantee trusts.
l. Those who are levied by this tax for the services of construction.

II.3.1.3 Taxable base

a) Taxable amount

The tax is applicable to all for-profit transactions involving domestic circulation of goods, rendering of services within national territory, entry of goods into the country and value added on works of real state properties.

The taxable amount derives from the value paid in exchange for delivery of the goods or rendering of the service (price) or the value of the imported goods, including the amount of other taxes applicable to the transaction (for example, *IMESI*).

b) Deductions allowed. Tax credit system

The system operates on a tax-against-tax scheme.

VAT is computed on the net invoiced amounts. The taxes paid for those goods or services (acquired directly or indirectly) which are part of the cost of the goods sold or the services rendered by the taxpayer shall be deducted from the gross amount.

If such goods or services are exempt, deduction is not possible and the tax paid for the goods or services purchased becomes part of the company's costs (except in the case of exports, which despite being VAT-exempt- rate 0%- receive this tax credit).

If at the end of the fiscal year the amount of the tax included in purchases is greater than the amount of the tax on sales, a tax credit arises and it can be carried forward to the following year (unless it derives from a difference in the applicable rates, in which case it is not deductible and becomes part of the cost of the inputs).

c) d) Applicable rates

Basic rate: 22% on invoiced amount.

Goods integrating the family standard basket and certain services such as health services shall pay taxes at a 10% minimum rate.

II.3.1.4 Exempted goods and services

The transfer of agricultural and livestock products (ganado), foreign currency, precious metals, securities, farm machinery, journals and educational materials and other items, is exempt from this tax.

Services such as leasing of real property and banking transactions performed by financial intermediation institutions, among others, are also tax-exempt.

Total or partial exemptions also apply to certain entities or activities, such as national aviation, the national merchant marine fleet, cultural and sports institutions, investment companies, etc. (by rule, the exemption is limited to the specific area of activity exempted).

III.3.1.5 General procedures and forms that must be filled in

The tax is calculated and paid in a monthly basis, based on the transactions of the month.

Sworn tax returns shall be submitted monthly or biannually, depending on the taxpayer's volume of business.

II.3.2 Individuals

Professional services rendered outside an employment relationship and against a fee, are subject to a 22% tax (except for personal services related to human health, which are taxed at the minimum VAT rate).

II.4 Specific Internal Tax (*IMESI*)

II.4.1 General concepts

a) Taxable amounts:

The items whose first transfer, use or importation is taxed include:

i. alcoholic and non-alcoholic beverages;
ii. cosmetics and toiletries in general;
iii. tobacco, cigars and cigarettes;
iv. electrical energy;
v. motor vehicles;
vi. lubricants, oil, fuel and other petroleum derivatives;
vii. drinking and industrial alcohol.

The taxable amount is based on the actual sale price of certain articles. In other cases fixed sale prices are established for tax purposes.

b) Deductions:

There are no deductions.

c) Payment:

The tax is calculated and paid in a monthly basis, with payment terms varying according to the item taxed.

d) Main exemptions:

Soaps, deodorants, talcum powder, toothpaste, motor vehicles generally used for farming activities, ambulances, exports of any taxed item, among others.

II.4.2 Rates applicable

Rates vary for each item and are fixed by the Executive Power within the maximums established by law. (For example: cosmetics and toiletries, 20%; tobacco, cigars and cigarettes, 70%; motor vehicles, 30% or 25%, etc.).

II.5 Other Taxes

II.5.1 Tax on the Incorporation and Control of Uruguayan Corporations

The incorporation of an Uruguayan Stock Company is taxed on a rate of 1.5%. The taxable base for this rate will be of an amount of 578.478 Index Units (approximately US$ 50.000). Annually, at the end of each fiscal year, the stock company has to pay a tax of 0,75% calculated on the same amount described before. To these effects, the value of the index unit to be considered for the calculation is the one in force as of December 31 of the previous year.

II.5.2 Tax on Real Estate Transactions

This tax is applicable to the transactions of real estates, at a rate of 2% for the seller and 2% for the buyer. The taxable amount is an average of the real value (defined by the "*Dirección Nacional de Catastro*") of the real estate of the previous 5 years.

II.5.3 Stamp Tax

There is no generalized stamp-tax on documents and contracts.

II.5.4 Inheritance and Gift Taxes

Since the Estate Tax law was repealed in 1974, no taxes have been levied on inheritances and gifts.

II.5.5 Insurance Company Income Tax

This tax is applicable to the gross income invoiced by insurance companies, at a rate up to 5%, depending of the risk subject to insurance (for example, car's insurance is 5%, freight insurance is 2%, life insurance 0.5%, etc.).

II.6 Special Tax Regime for Agricultural Activities

II.6.1 Economic Activities Income Tax (*IRAE*)

II.6.1.1 General concepts

Since July 1, 2007, net income from Uruguayan sources deriving from agricultural activities are subject to *IRAE*. (Please see II.1.1).

II.6.1.2 Taxable base

The following incomes are considered taxable agricultural incomes:

a) Incomes derived from agricultural exploitation.
b) Incomes resulting from the selling of fixed assets affected to the agricultural exploitation.
c) Incomes obtained for the use of goods or the rendering of services, directly or indirectly derived from the agricultural exploitation.
d) Incomes derived from leasing, grazing agreements, share farming and similar activities.

To this effects agricultural exploitation is defined as the activities destined to obtain primary products, whether vegetables or animals.

Expressly excluded are the activities of manipulation or transformation that imply an industrial process, except when these activities could be considered as necessary for the maintenance of the primary products.

II.6.1.3 IRAE or IMEBA option.

The entities which obtain profits from agriculture could choose to be subject to IRAE or IMEBA (please see II.6.2), except the ones that compulsory have to pay IRAE, which are the following:

a. Stock companies and joint- stock companies.

b. Permanent establishments of non-residents.

c. Autonomous governmental institutions and decentralized services.

d. Credit closed-end Mutual Funds.

e. Fiduciary funds, except the ones used as guarantee trusts.

f. The rest of the taxpayers mentioned as compulsory included in IRAE (Other corporations regulated by Law 16.060, agricultural associations, agricultural corporations and private civil companies with agricultural purposes and some de facto companies) whose income is greater than 2.000.000 IU (approximately US$ 175.000) or the owners of real states affected to agricultural exploitations which have an area higher to the equivalent of 1.500 hectares (according to an specific measure named Coneat).

g. Those who perform both agricultural and industrial activities, when the total or partial production of the agricultural activity constitutes an input for the industrial activity and provided that the income of the industrial activity exceeds the 75% of the total income.

The taxpayers who perform both activities and shall not have to pay IRAE mandatory:

i. Shall pay IRAE compulsory for the income deriving of the agricultural and industrial activities when the total or partial product of the agricultural activity constitutes an input of the industrial one.

ii. Will be able to opt for IRAE or IMEBA for the rest of the agricultural activities.

If the inclusion in the IRAE is verified by option, this tax shall be levied by a minimum of 3 fiscal years in accordance with the regulation.

Taxpayers who obtain income from agricultural services and who have chosen to be taxed by the IRAE can deduct the amount paid of IMEBA from the payment of IRAE.

In some cases and regarding the sale of some products, the taxpayer will have to pay IMEBA compulsory. In such cases and if the taxpayer has made the option or is compulsory included in IRAE, the payment of IMEBA shall be taken into account for the annual payment of IRAE.

II.6.1.4 Deductible expenses

The regulation regarding the deduction of the expenses is the same as for any kind of income included in the general regime of IRAE.

II.6.1.5 Procedures and rates

The fiscal year ends on June 30, and payment is to be made by sworn tax return. The annual rate of this tax is 25%.

II.6.2 Tax on Agriculture Gross Income (*IMEBA*)

II.6.2.1 General concepts

The taxpayers from agricultural and livestock activities can decide to pay the *IRAE* or a tax calculated on the gross income, which is called *IMEBA*.

The taxable amount of this tax is the gross income arising from agricultural or livestock activities.

II.6.2.2 Rates applicable

Rates vary for each item and are fixed by the Executive Power within the maximums established by Law (for example 2.5% for livestock activities and up to 2% for agricultural activities).

II.6.3 Net Worth (or Capital) Tax

Law N° 17.345 established in article 16 that the exemption of IP applies to the assets affected to farming activities.

Since July 2007, the tax law restricted this exemption and established that it will not apply if the company meets one of the following conditions:

A) Being a resident entity and having the whole net worth represented by bearer shares.

B) Being a non-resident entity, except when the owner is an individual.

Furthermore, the article establishes that the IP exemption shall not apply when the company has registered shares but the holders are not individuals.

Finally, the Tax Law authorized the Executive Power to grant to the bearer participations that are quoted in Stock exchange the same treatment given to participations in registered form whose owners are individuals. Although it seems that the reference was made to the local stock exchanges and the immediate shareholder, the Executive Power is entitled to bring a broader solution.

In case the exemption does not apply, the agricultural activities will follow the general regime regarding the Net Worth Tax.

II.6.4 Tax on the Incorporation of Uruguayan Corporations (ICOSA)

Those companies whose assets devoted to agricultural exploitation exceed 50% of the total taxable assets are exempt from this tax.

II.6.5 Value Added Tax (VAT)

Same considerations as for the general regime are applicable, except for the treatment of the transference of agricultural products in their natural state, whose VAT will remain in suspense until they are processed.

II.7 Special Tax Regime for Users of Uruguayan Tax-Free Zones

II.7.1 Tax Exemptions

The State guarantees the user, under its own responsibility for damages, that all tax exemptions as well as any other rights and benefits awarded by the law shall govern during the whole term of the agreement.

With respect to the activities performed by users in Tax-Free Zones, the law provides for a generic and total tax exemption covering all national contributions (existing or future ones), including those which by law require a specific exemption.

i. Economical Activities Income Tax (IRAE). Users of Tax-Free Zones are exempted from payment of *IRAE* with respect to income proceeding from activities performed therein.

Dividends or profits credited or paid by users of Tax-Free Zones to individuals or legal entities domiciled abroad are also exempted from *IRPF or IRNR,* provided that they are originated in incomes not taxed by IRAE.

ii. Net Worth Tax (*IP*). Users of Tax-Free Zones liable to IP, shall not include in their tax returns the net worth involved in the performance of the Free Zone activities.

iii. Value Added Tax (*VAT*). The circulation of goods and the rendering of services within Tax-Free Zones, as well as the introduction of goods from abroad into Tax-Free Zones, are exempted from the payment of *VAT*.

The introduction of goods from tax-free territory into non-tax-free territory shall be considered as an import to all effects.

iv. Specific Internal Tax (*IMESI*). The circulation of goods in Tax-Free Zones and the introduction of goods proceeding from abroad into the tax-free zone, are exempted from the payment of *IMESI*.

v. Insurance Companies' Income Tax. Insurance Companies operating in non-tax-free territory may enter into agreements with users of Tax-Free Zones in order to cover their risks or in order to transport goods from and into Tax-Free Zones. Under such hypothesis, the income deriving from such insurance shall not be included in the calculations of the Insurance Companies' Income Tax.

vi. Tax on the incorporation and control of Uruguayan corporations (ICOSA). Should the user decide to adopt the form of a joint stock company, the law provides for an incorporation procedure different from the general one, which intends to speed up its formation.

When a joint stock company incorporated in accordance with the procedure provided for by law No. 15,921 and its regulatory decree looses its quality of Tax-Free Zone user and wishes to change its purpose to operate in non Tax-Free territory, it will have to follow the general procedure for the amendment of By-laws, paying the tax provided for the incorporation of such companies.

II.7.2 Import – Export duties exemptions

a) Import exemptions:

The law further provides for a generic exemption to contributions on imports in order to facilitate the introduction of goods, services, merchandise, raw materials, etc., whatever their origin, into Tax-Free Zones. Such exemption includes all contributions (or any other payment of equivalent effects) on imports or to be applied in such situation, including those which may by law require a specific exemption.

The contributions involved in this exemption are Customs Taxes, Surcharges, Consular Duties, Parcel Mobilization Duties, Specific Domestic Tax and Value Added Tax.

In contrary, goods, services, merchandise and raw materials from non-tax-free national territory, introduced into Tax-Free Zones, shall be entered according to the provisions in force corresponding to exports at such time.

b) Export exemptions:

A generic exemption to all export taxes or any other instrument of equivalent effect, liens and surcharges (existing or future ones), is also provided for, including those which by law require a specific exemption, for the exit of goods, services, merchandise and raw materials from Tax-Free Zones to foreign countries.

Should such goods or services be introduced into non-tax-free territories they shall be treated as imports.

II.7.3 Benefits of a non-tax nature

Together with the tax benefits analyzed above, the law provides for a series of non-tax benefits.

a) For the setting up of share corporations whose purpose is to be a user of a Tax-Free Zone, a much simpler and rapid procedure than the general one is established.

b) Monopolies of State services over industrial or commercial activities such as those of *ANCAP* (fuels) and *Banco de Seguros del Estado* (State Insurance Bank) shall not apply within Tax-Free Zones.

c) Government agencies providing inputs or services to Tax-Free Zones users may establish special promotional fees, for example *UTE* (electricity), *ANTEL* (telecommunications) etc.

II.8 Import and Export Duties – General concepts

a) MERCOSUR Treaty

Brazil, Argentina, Paraguay and Uruguay signed a treaty – MERCOSUR TREATY – in 1991 (March 26) in order to create a free single market with a common external tariff (rate of external tariff 20%).

The main objective of the MERCOSUR Treaty is the free transit of goods, services, persons and capital between member states, by eliminating customs duties.

The MERCOSUR's common external tariff ranges from 0% to a 20% rate, and is almost 0% for all products from MERCOSUR countries (to avoid paying this import duty, the products from the MERCOSUR countries should meet satisfactorily the requirements regarding the origin – certified by an official authority of each country).

b) Taxable base of import duties

All import duties are calculated on the Custom value of the goods, that in general is the same as the CIF (COST plus INSURANCE plus FREIGHT) value.

c) Customs regulations

Uruguay is part of the World Trade Organization and has adopted the International Classification of Goods.

d) Temporary importation

Uruguay Customs' regulations permit the importation of machinery and goods on a temporary basis, subject to the compliance of certain requirements (some guarantees should be provided by the importer to the Uruguayan Customs to guarantee that these products will be re-exported).

e) Export duties

Uruguay does not impose duties on exports. In addition, as was described before, exporters are entitled to credits of Value Added Tax, and in some cases of reimbursement of export taxes.

III SOCIAL SECURITY CONTRIBUTIONS – LABOR LEGISLATION

III.1 General aspects of the Social Security System

III.1.1 Attributes of its structure

Starting on April 1, 1996 - date in which the Law 16,713 of September 3, 1995 took effect - the Social Security system ceased to be government-owned to become a mixed system, in which the State is integrated through a system of intergeneration solidarity and the "*Administradoras de Fondo Previsional*" (*AFAP*) in a system of individual savings. The worker's choice between the saving by intergeneration solidarity and the individual one will depend on the age of the person, his salary level and on the possession or non possession of retirement conditions on the date in which the Law 16,713 took effect.

III.1.2 Contribution levels

Three contribution levels are thought to be established on the basis of the amount perceived by the employees.[18]

[18] Law No. 16,713 of September 3, 1995.

The first is a state level, based on the distribution system, organized by the "*Banco de Previsión Social*" (hereinafter **"*BPS*"**) and includes all the employees because of their remunerations or sections of them up to US$ 820 approximately. The financing of this level is tripartite. The personal contribution is achieved taking into account the remunerations or sections of them up to US$ 820, but the management contribution is achieved considering the total remuneration amount up to US$ 2,450 approximately.

The second level refers to the retirement system by individual saving, and includes in a compulsory way the remunerations section between US$ 820 and US$ 2,450. This level is organized through the so-called *AFAP*, and it is exclusively financed by the personal contribution.

People that perceive remunerations up to US$ 820 have the possibility to be included in this level, but through a voluntary affiliation. This option will be done up to the 50% of their remunerations.

The third level includes the remuneration section that exceeds US$ 2,450. This section is also organized through the "*AFAP*" but the affiliation is voluntary.

We stress that the options that the law authorizes to achieve by the system of individual saving are irrevocable.

The employee contribution is done over the total amount perceived by the employee for all the activities that the retirement system covers, with a maximum of US$ 2,450. The employer contribution will be done up to a maximum of US$ 2,450.

III.2 Employer contributions

III.2.1 Types of contributions

Three types of contributions correspond to employers:

a) a contribution intended to finance the state's social security system in general (which comprises retirement provisions, pension, benefits for the unemployed, family welfare, maternity benefits, funeral expenses, etc.);
b) a contribution specifically intended to finance the workers' health insurance;
c) a tax which is charged on all retributions and benefits in cash or in kind received by workers.

III.2.2 Rates applicable

The General Social Security contribution is 7,5% as from July 1st, 2007.

The specific contribution for health insurance is 5%.

The rate of the tax on retribution is 0,125 %.

In the case of farming activities the employer's contribution is assessed according to the land held and not to the actual or assessed remuneration.

III.2.3 Base amount for the calculation

Calculations of the above rates are generally made on the worker's gross salary (which includes the sum in cash effectively received plus benefits in kind valued in money, commissions, over-time, productivity, payments, complementary annual wage, etc.).

III.2.4 Time for payments

Within 10 days of the end of the month in which the salaries are generated.

III.3 Employee's withholdings

III.3.1 Types of contributions

The employee should also make the same contributions indicated in III.2.1, and the employer is under the obligation to withhold and pay the respective amounts. The contribution indicated in a), in this case, is intended to finance the state's social security system and the system of individual savings, as described on III.1 above.

III.3.2 Rates applicable

The general contribution to social security is 15%.

The specific contribution to health insurance is 3%, 4,5% or 6% (depending on the employee's salary and the children in his custody).

The tax on retributions is 0,125%.

In addition to these withholdings, the employer has been appointed as surrogate responsible for the Income Tax on Individuals (IRPF) abovementioned.

III.3.3 Base amount for the calculation

The base amounts for the calculation of the rates of reference are those indicated in III.2.3.

III.3.4 Time for payments

As indicated in III.2.4.

III.4 Benefits of the employees

III.4.1 Minimum national salary and Family Welfare

The Government sets compulsory minimum monthly national salaries and daily wages for the private enterprises, which are periodically updated (at present they are equivalent to approximately US$ 170 and US$ 7 respectively).

III.4.2 Complementary Annual Wage

Every employer has the obligation to pay a complementary annual wage equivalent to one twelfth of the total remuneration paid during the previous year (calculated between December 1 and November 30).

This thirteenth salary should be paid between December 1 and December 24 of each year, but in recent years the authorities have provided for one half of this amount to be paid in advance in the month of June (on account of the whole amount).

The contributions and taxes indicated above are also levied on the complementary annual wage, except for the 5% FONASA contribution.

Other bonuses may be freely granted by employers, and should they be regular and permanent, they shall also be subject to the contributions and taxes abovementioned (should they be sporadic and extraordinary, they shall not be subject to any charges whatsoever).

III.4.3 Labor Accident Insurance

An insurance to cover labor accidents is compulsory.

The premiums -charged to the employer- are fixed according to tables prepared by the State Insurance Bank taking into account the type of activity performed by the insured individual.

III.4.4 Vacation

Every employee is entitled to twenty consecutive working days (including Saturdays) of paid annual vacation and to a special bonus (equivalent to his net daily salary, multiplied by the total number of vacation days).

The special vacation bonus is not subject to social security contributions, and it may be higher than usual depending on collective agreements entered into by each sector of activity,.

Employees with more than five years of employment in the firm are entitled to one additional day of holiday for every four years of employment in the same firm.

The annual vacation can be divided into 2 periods of not more than 10 days with the joint agreement of the employees.

III.4.5 Indemnity for termination of employment

Every employee is entitled to an indemnity for dismissal (except when it is due to notorious misconduct) consisting in the total remuneration corresponding to one month's work for every year or part of the year that he has been employed (with a maximum indemnity of six months' pay) calculated on his last effective salary plus one twelfth of the complementary annual wage.

Payment is to be made within ten days of the dismissal. This amount is not subject to social security contributions.

Special indemnities are provided for certain cases (e.g. a pregnant woman).

III.5 Foreign personnel

III.5.1 Restriction for foreigners to work in Uruguay

In principle there are no restrictions (documents certifying permanent residence in the country and good health are the only requirements), and no differences are made in the labor treatment nor in any other.

III.5.2 Visas

Citizens of the majority of the Occidental countries have free entrance without needing any visa.

Permanent residence permissions are largely given.

Any person who has legally entered the country (even as a tourist) is able to ask for a permanent residence permission and to start working immediately even if the permission is still in process (which lasts approximately three months).

III.5.3 Remunerations. Place of payment.

There are no differences with the local personnel. Their remunerations must fit the minimum requirements in effect.

The payment might be done whether in Uruguay or abroad and in any currency.

III.5.4 Entrance and temporary way out of personal goods

In principle there are no restrictions for the entrance or way out of personal goods.

With the residence provisional visa (even if the permanent residence is not yet given) all the personal effects, furniture, etc (with the exception of vehicles) can be introduced into the country.

III.5.5 General social taxes preferential system

Does not exist.

III.5.6 Special preferential social security and income tax regime applicable to foreigners who work for a tax-free-zone user

The generic exemption to all national contributions existing now or in the future provided for in law 15,921 does not include Special Social Security Contributions nor non-tax Contributions (in favor of the Bank's Pension Fund, Professionals' Pension Fund and Notarial Retirement Fund).

Whenever the user simultaneously employs both Uruguayan and foreign personnel, the latter may not be required to contribute to the social security system which would otherwise correspond (State or non-State). To these effects it would be necessary for the users to supply the Direction of Tax-Free Zones with a list of foreign personnel in its payroll, and for such employees (individually and under oath) to declare their decision to be excluded from the benefits of the Social Security system in force in the country (foreign personnel should not exceed 25% of the total number of employees of the tax-free zone user; to avoid this limitation, an authorization from the National Tax-Free Zone Department is required).

Regarding the income tax, those foreigners who do not have the Uruguayan Nationality, who rend their services at a Tax-Free Zone in Uruguay, and had been excluded of the Social Security System according to what was stated before, will be able to choose to be taxpayers of IRPF or IRNR, but only regarding the incomes obtained in the dependent relationship they have as employers of an Tax-Free Zone User.

The option mentioned above can only be made regarding the activities that are rendered exclusively at the Tax-Free Zone and only if such activities do not refer, neither directly or indirectly, to services rendered to residents settled outside the Tax-Free Zone.

III.6 Personal Insurance

The local corporation must pay an insurance over its payment based on the salaries amount it pays (the percentage will depend on the activity of the corporation, and normally it raises up to a 5%).

IV TAX TREATIES – GENERAL CONSIDERATIONS

The only treaties were signed with the Federal Republic of Germany and the Republic of Hungary.

Internal legislation only provides for some cases of international activities (e.g., transportation), establishing reciprocity criteria.

WITHHOLDING TAX RATES URUGUAY-COUNTRY	DIVIDENDS	INTEREST	ROYALTIES	TECHNICAL ASSISTANCE
Republic of Germany	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 10%
Republic of Hungary	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 15%	Shall not exceed 10%

V PROMOTION SYSTEMS – GENERAL CONSIDERATIONS

V.1 General Promotion Regime – National Interest

A general system has been established for promoting industrial activities, along with special promotion systems for specific activities and sectors.

a) The Industrial Promotion Law[19] makes it possible to grant national interest status (ex officio or at the request of the interested parties) to any activity, specific project or company fulfilling objectives such as a) increasing and diversifying exports of processed goods incorporating the greatest possible value added; b) establishment of new industries and expansion or reform of existing industries, when same implies better use of raw materials and labor; c) technological research geared to exploitation of non-exploited local raw materials, training of technicians and workers, etc.

National interest status implies promotional benefits in terms of credits (to buy assets, cover establishment expenses, imports, raw materials, etc.) and in terms of taxes (total or partial exemption from taxes, assessments, contributions and rates or public prices, as well as total or partial exemption from taxes and duties on imports or in connection with imports).

With the exception of certain generic benefits regarding imports of equipment, all other tax benefits must be requested by the interested parties and must be expressly granted or recognized by the authorities in each case.

b) Some activities and sectors have specific promotion systems (with varying benefits), such as fishing, merchant marine, national aviation, hydrocarbons, etc.).

V.2 Investment Law - Law No. 16,906 - *("Ley de Promoción y Protección de Inversiones")*

Law 16,906 of January 20, 1998, establishes four sections to protect and promote Uruguayan investments made by foreign or local investors.

Section I declares of national interest the promotion and protection of Uruguayan investments made by either local or foreign investors. This section also guarantees the free transfer abroad of the capital and profits in any currency.

Section II declares some tax exemptions of net worth tax of investments in movable assets or fixed assets of an industry, hardware, and other investments in technologic innovation areas. This section includes the exemption from VAT and Specific Internal Tax on the acquisition of movable assets of an industry and hardware.

---

19 Law No. 14,178 of March 28, 1974; Title 3, *Texto Ordenado* 1996, articles 54 to 60.

Section III declares specific exemptions to specific investments that should be approved by the Executive Power (Ministry of Economy and Industry). The Uruguayan Government guarantees these exemptions for the approved period of the investment.

Section IV establishes some tax benefits for leasing contracts in specific situations and exempts from taxes (upon prior authorization from the Executive Power) the mergers, split-offs and transformations of companies.[20]

V.3 New Regulatory Decree of the Investment Law Nº 16.906

Recently the Executive Power approved a new Regulatory Decree of the Law 16.906 (Investment law).

The Investment Law grants several fiscal benefits to those investment projects declared as promoted ones by the Executive Power, among which we could find the net worth tax exoneration, the import taxes exoneration and the "canalización del ahorro" (saving canalization) benefit (regarding the income tax).

Until now those who were granted such benefits were only those investment projects related to industrial or agro-industrial areas, according to the criteria of the Application Commission.

We understand that the most outstanding items of the new regulation are the following:

- It mentions the will of expanding the exonerations objective scope by including the investments in commercial and services areas.

- A direct income tax exoneration is provided for, based on 2 parameters: 1) the project dimension, given by the invested amount, and 2) the score obtained by the project, which will be determined based on a matrix of objectives stated by the Executive Power.

- The small projects (of less than approximately US$ 280.000) will have to follow simpler presentation, quantification and follow-up control procedures. This is to encourage small and middle companies to use this promotional regime. In case they obtain the required score, they will be able to be entitled to an income tax exoneration for a period of 3 to 5 years and for an amount that may vary between the 50% and the 60% of the invested amount.

- The middle and big projects will have more requirements in their presentation, valuation and follow-up. As a counterpart, they will be able to obtain (as long as they reach the requested score) exonerations between the 70% and the 100% of the invested amount, and such exoneration could be used for up to 25 years.

[20] Law No. 16,906 of January 20, 1998; Decree Regulation No. 92/98 of April 28, 1998.

- In addition, a special criteria is provided for regarding the mega investments or projects of great economic significance (higher than US$ 550 millions): they are given an exoneration up to 100% of the invested amount for a period of 25 years.

- The formalities are rationalized by establishing deadlines to the judgment of the Application Commission. If the Application Commission does not give an answer before such deadline it will be understood that the recommendation of such entity is the one arising from the application of the matrix previously mentioned.

We are enclosing a detailed memo where each of the above-referred items are explained in depth according to the information provided by the Ministry of Economy and Finances in its presentation dated November 28, 2007.