



# BAKER TILLY INTERNATIONAL

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COUNTRY

Doing Business in  
**Uruguay**



# Preface

This guide has been prepared by Baker Tilly Uruguay, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Uruguay.

Baker Tilly International is the world's 8th largest accountancy and business advisory network by combined fee income, and is represented by 145 firms in 110 countries and over 25,000 personnel worldwide. Its member firms are high quality, independent accountancy and business advisory firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be obtained from Baker Tilly Uruguay or any of our independent member firms.

Doing Business in Uruguay has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Uruguay matters can be obtained from Baker Tilly Uruguay; contact details can be found at the end of this guide.


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# 1 Fact Sheet

## Geography

Location	Southern South America, bordering the South Atlantic Ocean, between Argentina and Brazil
Area	68,000m <sup>2</sup> (176,000km <sup>2</sup> )
Climate	Warm temperate
Terrain	Mostly rolling plains and low hills crossed by rivers
Time zone	GMT -3

## People


Population	3.2 million, 1.3 million of whom reside in Montevideo
Religion	The majority of the population is Catholic
Language	Spanish

## Government

Country name	Uruguay
Government type	Democratic Republic with a presidential system
Capital	Montevideo
Administrative divisions	The State is organised into three independent powers – executive, legislative and judicial. The executive power is exercised by a president and 12 ministers. Legislative power rests with the National Assembly or Parliament, which consists of two chambers, namely the Senate, consisting of 30 members and chaired by the country's vice-president, and the Chamber of Deputies, consisting of 99 members representing the 19 departments. The legal system is based on legal regulations approved by parliament and promulgated by the President

### **Economy**

GDP – per capita	US\$6,000 (2007 est.)
GDP- Real growth rate	10.80% (2008 est.)
Labour force	1.13 million (2000 est.)
Unemployment	6.3% (Nov. 08)
Currency (code)	Uruguayan peso (\$U)



## 2 Business Entities and Accounting

### 2.1 Types of Companies and Partnerships

All types of company are governed by Law 16,060 of 1990.

#### 2.1.1 Corporations – companies limited by shares (sociedad anónima)

SAUs (Uruguayan corporations) are organised by a private document in which the founders' signatures are certified by a public notary. At least two founders must appear (whether individuals or legal persons, national or foreign) but the documents do not need to be executed by the investor so their complete anonymity is, therefore, assured.

A corporation's objectives may be wide ranging; they are entitled to carry out activities within the national territory or abroad.

Directors may be Uruguayan or foreigners, resident or non-resident, individuals or legal persons. The board of directors must have a minimum of one and a maximum of seven members.

Companies can be either open (listed on the Uruguayan stock market) or closed (unlisted).

Shares may be issued in bearer or registered certificates, in which case they can be with or without endorsement.

#### 2.1.2 Partnerships

Partnerships may be general partnerships, limited partnerships, capital and industry partnerships (in which some partners put in money while others render services), joint ventures (temporary associations for commercial purposes without incorporation or partnership) and co-operative associations.

It is also possible to organise consortia, economic interest groups (GIE) and unipersonal enterprises in the case of individual undertakings.

Laws and regulations may specify that certain activities (such as financial activities) must be carried on by a particular type of entity.



### 2.1.3 Free trade zone corporations

Free trade zone corporations were created with the specific objective of carrying on business within free trade zones.

Free trade zones have been promoted and developed with the purpose of boosting investment, exports, employment and international economic integration.

Corporations operating within free trade zones are exempt from all taxes “created or to be created” pursuant to Law 15,921 (Act of Free Trade Zones).

The types of operations conducted within free trade zones include:

- Treasury functions (treasury centres), such as group lending, hedging and pooling activities
- Shared service centres where internal functions such as accounting systems, financial control services, invoicing, procurement of products and services, HR support and other administrative and clerical backroom type functions may be centralised
- Service and call centres
- Internet-related companies with activities such as e-commerce, portals, incubators and software houses
- The set-up of assembly or manufacturing plants to centralise production
- Storage and warehousing facilities to deliver products to affiliates and, in many cases, defer the payments of custom duties in the countries where those affiliates are located.

## 2.2 Branches

Branches of companies incorporated abroad are regulated by the law of the State in which they are constituted, unless the international public order of Uruguay is violated.

For fiscal purposes, local branches of foreign corporations are treated the same as Uruguayan companies.

Foreign companies are allowed to:

- Perform isolated acts evidencing their existence and appear in court
- Establish branches or other permanent establishments in order to perform their corporate objectives.

### **2.3 Trusts**

Uruguay has introduced significant legislation on the trust institute effective from November 2003. However, trusts are not commonly used.

### **2.4 Accounting**

Financial statements must be prepared within four months of the fiscal year-end.

The fiscal year is one year; the year-end date is fixed by the company's management.

Financial statements must be prepared in accordance with the appropriate accounting standards from the Accountants and Economists Uruguayan Association, which are equivalent to International Accounting Standards.

### **2.5 Audit**

The requirements for audit in Uruguay derive from law and the official auditing pronouncement of the Accountants and Economists Uruguayan Association.

The presentation of financial statements audited by independent professionals is compulsory for those companies that have taken full risk with the financial system (eg companies that have a bank loan). It is also mandatory for companies operating within a free trade zone, depending on the level of assets or sales.

## **3 Finance and Investment**

### **3.1 Exchange and Monetary Control**

Besides the national currency, all foreign currencies have legal circulation.

Foreign currencies can be bought and sold freely. There are no restrictions on the purchase and sale of precious metals, private or foreign government securities, commodities, etc. It is exclusively the market which fixes the value of the currencies.

There is also freedom to move capital in national or foreign currency, or any other type of currency, including precious metals or any personal property value.

### **3.2 Bank Services**

Subsidiaries of Latin American, US and European banks are present in Uruguay; in particular, many Latin American banks have their operational headquarters in the country.

The country has been assigned the status “qualified jurisdiction” by the United States.

National bank legislation does not usually distinguish between national and foreign banks; they are, therefore, subject to the same regulations.

### **3.3 Investor Protection**

Foreign investment plays a key role in the development of the economy. No special permission is required to commence operations such as imports and exports, raise loans, or participate in the exchange market.

### **3.4 Investment Incentives**

Incentives currently in force aim to create employment, introduce high technology industries and increase exports.

Investments carried out within the national territory are promoted and protected (see Chapter 5).

Branches, as well as the local companies, may be financed by local banks, loans from abroad, head office, or stockholders.

There are no restrictions on the transfer of profits or the repatriation of capital. State authorisation is not necessary.

### **3.5 Import and Export Procedures**

Uruguay has a free and open economy; there are no restrictions on imports or exports.

Selected custom duties regimes are available:

#### **Ordinary importation regime**

This applies to all goods that will remain permanently in Uruguayan territory without any use or jurisdictional restriction. Full payment of customs duties and import VAT is required upon nationalisation.

#### **Temporary importation regime**

Imports of consumables for the export industry may be subject to the temporary admission regime which permits imports without custom duties, provided that the imported goods are to be used directly in the production of the item to be exported.

To qualify for this region, one of the following conditions must be fulfilled:

- The product to be imported does not exist in the local market
- The product to be imported exists in the local market but the import price is significantly cheaper
- The product to be imported exists in the local market at a reasonable price but the productive process takes longer than if the product is imported.

Prior authorisation is required and the final products must be exported within 18 months.

Under this regime, manufacturing companies may import without duties: raw materials; parts; engines; containers and packing materials; moulds; casts and models; intermediate products; cattle and farming products; and other consumables to be used in the production of the item to be exported.

#### **Draw back regime**

The draw back regime allows the reclaim of import duties on exports after having been used in an industrialised process or in the same State.

#### **Exports regime**

The basic principle is freedom of exports with no levies or bans.

With regard to VAT, a special regime exists through which exports are exempt.

There is also a regime by which an exporter may reclaim the internal duties (indirect taxes) that are included in the cost of the product exported. The amount to be returned is determined as a percentage of its Free on Board (FOB) value, set by the Executive Power.

### **Free trade zones**

Please refer to section 2.1.

# 4 Employment Regulation and Social Security

## 4.1 Work Permits

In principle, minors under 15 years old may not work in any establishment. However, the Minor National Institute may grant special authorisation in certain cases.

Salary and rest days are agreed according to age.

Non-residents require a work permit to work in Uruguay.

## 4.2 Working Conditions

Working hours are restricted to eight hours a day and a total of 44 hours per week.

The social security system covers disability, old age, retirement, disease, industrial accident, unemployment and death. Affiliation to the system is compulsory except for foreign workers within free trade zones.

## 4.3 Contributions to Social Security

### 4.3.1 Retirement contributions

The Social Security Bank (BPS) is the public body responsible for collecting social security contributions made by companies and employees and keeping up-to-date records of the labour history for each member.

Both employers and employees must pay monthly contributions to the social security system. Employers pay the equivalent of 7.5% of gross payments to all employees from 1 July 2007. Employees pay 15% of their gross salary. These payments cover retirement-related taxes.

### 4.3.2 Health contributions

Employers must make payments of 5% and employees 3% of gross pay. It is the responsibility of the employer to withhold contributions and pay them on a monthly basis. Additional to these contributions, is a contribution to the national health fund (FONASA) which finances children's medical assistance. Employees without children pay 4.5%; those with children pay 6%.

#### 4.3.3 Other contributions

There is an additional contribution – Fondo de Reconversion Laboral (FRL) – that finances the employment of those without a permanent job. Employers and employees must make payments of 0.125% of gross salary.

# 5 Taxation

## 5.1 General Concepts

When defining tax the concept of territorial source is considered for individuals as well as for legal entities. Income resulting from activities performed, assets situated, or rights economically used within the Republic are considered as coming from a Uruguayan source regardless of the nationality, domicile, or residence of those taking part in the transaction or the place where the legal business takes place. The same concept is applicable to net-worth tax which is levied on assets situated within the limits of the Republic.

## 5.2 Corporation Taxes

### 5.2.1 Corporate income tax

Tax is levied on profit or net income of any economic activity of any nature (economic activities income tax – IRAE). The taxable amount is determined by the net income, estimated according to fiscal judgment, which in practice is usually similar to accounting standards with the addition of specific limitations such as the deduction of certain expenses.

The income tax rate is 25% and is imposed on income from industrial or commercial activities of Uruguayan source, as well as on income from farms and properties in rural areas.

Income taxpayers are defined as all types of legal entities and business enterprise owners that carry out taxable activities.

Payers of income tax must make advance payments on a monthly basis and pay the balance of these tax liabilities when completing their annual returns.

Tax losses may be carried forward and deducted as an expense from gross taxable income in the following five financial years. No carry-back is allowed. Tax losses cannot be transferred to other taxpayers except in the case of reorganisations (eg in mergers, tax losses are transferable to the new or surviving entity).

Free trade zone companies are exempted from all national taxes including income tax.



### 5.2.2 Net-worth tax

This is a national level tax assessed at a flat rate of 1.5% per year (effective July 2007). This tax rate is assessed on the excess of taxable assets located in Uruguay over deductible fiscal liabilities.

Individuals are also liable for this tax (refer to section 5.3).

Assets located abroad are not taxable.

Tax must be paid within 120 days after the closing balance sheet date; monthly payments of 11% of the tax paid in the last fiscal year must be made.

### 5.2.3 Cross-border payments

Gross payments of dividends, royalties, technical assistance and earnings of local branches to their parent companies made to foreign beneficiaries are subject to withholding tax.

#### **Dividends**

Dividends paid abroad are subject to a tax deduction of 7%.

Dividends paid to a company situated abroad in respect of tax exempt income are not subject to withholding tax.

#### **Royalties**

Royalty payments are subject to 12% withholding tax.

#### **Services and technical assistance**

Services and technical assistance rendered by non-resident individuals are taxed at a rate of 12%, which is withheld by the payer of said service.

#### **Earnings of local branches to their parents companies**

Branches pay local income tax at 25%. A further 7% is withheld on remittance.

#### **Interest and leasing payments**

Withholding tax on interest and leasing payments ranges from 3% to 12% depending on the type of payment.

Interest from loans granted to Uruguayan companies whose assets used for generating tax-exempt income exceed 90% of the total of assets are exempt.

#### 5.2.4 Special tax incentives

##### **Investment law**

This law grants two types of tax benefits:

##### **General benefits for investments**

These benefits are applied generally and automatically to all payers of IRAE carrying out industrial, manufacturing, or extractive activities.

The income tax act establishes that there exists an exemption for investments granted to all taxpayers at a maximum rate of 40% upon the investments carried out during the financial year for obtaining:

- Machines and premises used for commercial and service activities (excluding financial activities and leasing of real properties)
- Farming machinery
- Fixed improvements in the farming sector
- Utility vehicles
- Real property used for equipping and re-equipping hotels, motels and tourist restaurants
- Capital assets for improving the services rendered to tourists
- Equipment for electronic data processing and communications
- Machines, premises and equipment for innovation and specialisation.

##### **Benefits for specific investments**

These apply to projects promoted and approved by the government. Approval can be given to companies or to a specific economic sector.

The main benefits are:

- Exemption from all types of taxes
- Exemption from a percentage of social security payments in respect of the portion of labour used on goods produced for exports
- Exemption from any tax payable on companies' income
- Exemption from port duties and other charges or encumbrances on the import of industrial equipment.

Furthermore, those activities carried out by non-resident entities within customs places, customs port places, customs deposits and free trade zones, or goods in transit within these enclaves and whose origin and destination are different from the Uruguayan territory are tax exempt.

### **5.3 Taxation on Individuals**

#### **5.3.1 Income tax**

Individuals are taxed according to two categories of income – passive income or pure capital income – and labour or personal services income.

In either case, the territorial principle is maintained; income from a non-Uruguayan source is not taxed regardless of its nature.

The first category – pure capital income – includes lease, interest, royalties and dividends (among others). The applicable rate ranges from 3% – 7% depending on the investment.

The second category – labour income – is taxed at progressive rates. A non-taxable minimum exists. The applicable rates range from 10% – 25%. Few deductions are allowed.

There is also a net-worth tax levied on assets of individuals.

### **5.4 Indirect Taxes**

Value added tax (VAT) is levied on the circulation of goods within Uruguay, services rendered inside the national land, and the entry of goods into the country regardless of the place where the contract took place or of the domicile, residence, or citizenship of the persons taking part in the operation. The export of goods and services is not subject to VAT.

The basic rate is 22%; the reduced rate is 10%.

## Member Firm Contact Details

Contact: Emilio Tuneu

### **Baker Tilly Uruguay**

Juncal 1305 – P 13

11000 Montevideo

Uruguay

T. +598 (2) 917 0045

F. +598 (2) 916 6907

E. [chtmerco@cht.com.uy](mailto:chtmerco@cht.com.uy)

# Notes



# Notes





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**WorldHeadquarters**

2 Bloomsbury Street  
London WC1B 3ST  
United Kingdom

**T.** +44 (0)20 7314 6875

**F.** +44 (0)20 7314 6876

**E.** [info@bakertillyinternational.com](mailto:info@bakertillyinternational.com)

**www.**[bakertillyinternational.com](http://bakertillyinternational.com)