

DOING BUSINESS IN URUGUAY





URUGUAY

UHY Cr. Hugo Gubba & Asociados
Contadores Públicos - Auditores - Asesores Tributarios

1. Introduction

UHY is one of the world's leading business advisory, consulting and accounting services, with teams operating across 198 offices in 66 countries worldwide. UHY member firms are modern businesses in their respective countries, knowledgeable of local regulations, market practice and cultural norms.

In the global marketplace, UHY member firms offer full service support in every major financial centre worldwide, creating opportunities for extending business interests across all services and sectors.

This publication outlines some of the key issues and information required by someone wishing to come to Uruguay to set up a business. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions, with our local firm in Uruguay:

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UHY Cr. Hugo Gubba & Asociados has been established since 1989 and specialises in Audit, Business Services & Outsourcing, Tax & Corporate, and Labour Services.

This publication is current at September 2008.

We look forward to helping you to do business in Uruguay.

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contents

1.	Introduction	5
2.	Business environment	6
3.	Foreign investment	8
4.	Setting up a business	10
5.	Labour	12
6.	Taxation	14
7.	Accounting & reporting	18
8.	UHY firms in Uruguay	19
9.	UHY offices worldwide	20

2. Business environment

Geography

Uruguay is located in South America on the Atlantic coast between Brazil and Argentina. It has an area of approximately 68,000 square miles (176,000 Km²) excluding the territorial waters.

There are not remarkable topographical features. Most of the area consists of gently undulating hills crossed by long rivers. The weather is mild and healthy throughout the year. The average summer temperatures are between 70 F and 80 F (21°C to 27°C) while in winter are between 50 F and 60 F (10°C and 16°C). Rains may occur in any season, but usually they are heavier in autumn.

Uruguay is divided geographically into 19 states. The cities with the largest number of people are Montevideo, the capital city and major port; Salto and Paysandú (on the shore of Rio Uruguay) and Las Piedras (near Montevideo).

Punta del Este, on the Atlantic coast, 140 kilometers from Montevideo, is one of the most famous resorts in South America, full of life and spirit in the summer season (January and February), and during the rest of the year is a very pleasant and "laid-back" place to live.

Population and Language

According to the census of 2004, the population of Uruguay, is 3.2 million. About 1.3 million live in Montevideo and the surrounding areas. Approximately 89% of the whole population lives in urban areas.

Spanish is the official language. The teaching of English and French has always been popular. Currently, the study of Portuguese is becoming more important as a result of the integration process in MERCOSUR (Mercado Comun del Sur).

Political System and government

Uruguay is politically organized as a democratic republic with a presidential system. According to the current Constitution, the government members are elected every 5 years by a system of universal suffrage.

The Government is organized into three independent powers: Executive, Legislative and Judicial.

The Executive Power is exercised by the president of the Republic and a cabinet of 13 ministers.

The Legislative Power consists of the General Assembly, or Parliament, composed of two Chambers: a Senate consisting of 30 members headed by the Vice President of the Republic and a Chamber of Deputies made up of 99 members representing the 19 states.

The Judicial Power is exercised by the Supreme Court, and the Judges nationwide. The members of the Supreme Court are elected by the General Assembly, and Judges are appointed directly by the Supreme Court of Justice.

Each state chooses its own public authorities, which are also elected by a system of universal suffrage.

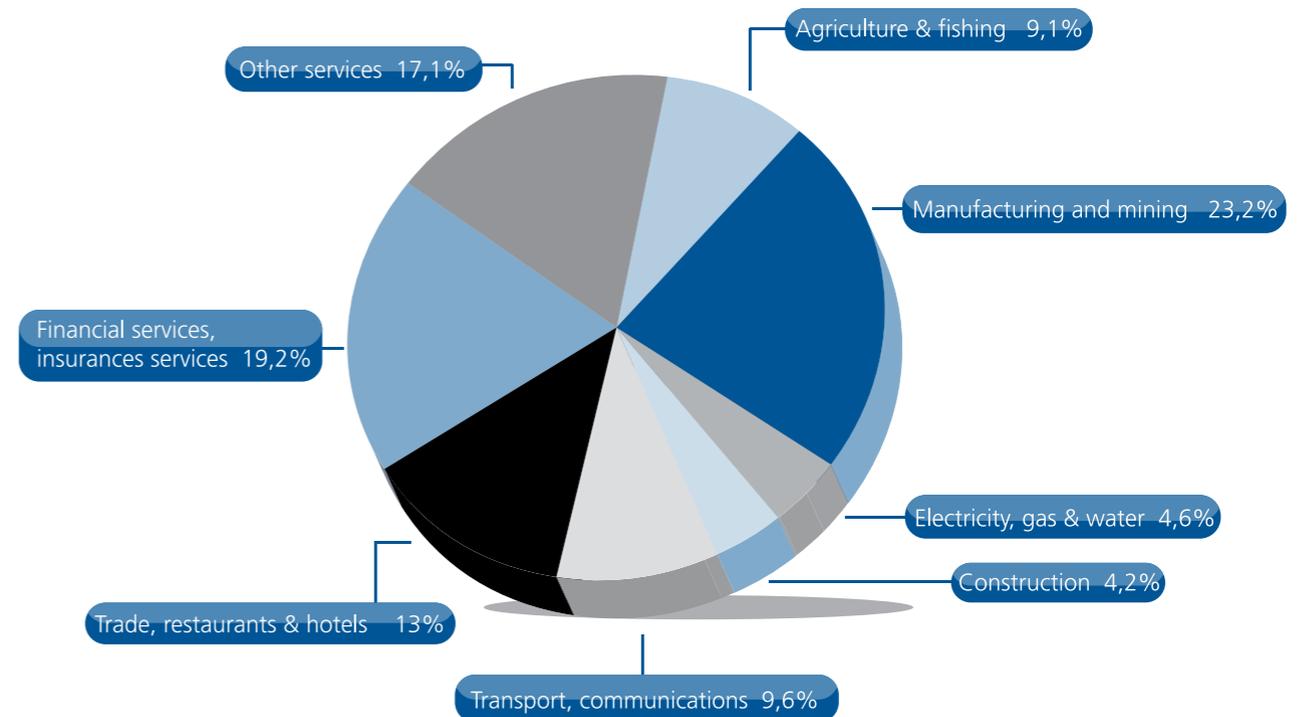
Local governments is primarily responsible for the administration of the affairs of each state, excluding justice, education, health, security, foreign policy, defense, and the fundamental responsibilities of economic and financial matters, which are administered by the central government

Currency

The currency unit is the Peso Uruguayo (\$).

The economy

The composition of Gross Domestic Product (Producto Bruto Interno 2006) by Sector:



Unemployment

Since 2006 unemployment has dropped sharply, but it is still at 7.6% (July 2008) of the active population, being this rate the lowest throughout the Uruguayan history.

Financial institutions

Banks are present in the great majority of transactions in all sectors of the economy. The financial system is under control of the Central Bank of Uruguay (BCU).

BCU is the public agency that regulates the monetary system and manages the credit operations of the central government, the administration of the internal and external public debt, administers of international reserves and supervises exchange transactions.

Stock Markets

In Uruguay the investor can participate into the stock market. Stock Exchange consist of the Bolsa de Valores de Montevideo and the Bolsa Electronica de Valores S.A., the latter one exclusive for banks and other financial institutions. It provides markets for government debt papers and private ones, although the markets for the latter ones are of lesser magnitud.

Additional figures.

Life expectancy	76 years
Literacy	98%
Internet users	One out of 4,6 in habitant
Telephone lines	One out of 3,5 in habitant
Movile phone	One out of 1,16 in habitant

3. Foreign investment

Uruguay has traditionally provided a framework of security to the foreign investor because of its effective enforcement of law and economic stability. Uruguay is also a member of international organizations that promote the safety of investments, such as the Multilateral Investment Guarantee Agency (MIGA) and the International Center for the Submission of Disputes Related to Investments of the World Bank.

Moreover, Uruguay has signed treaties for the promotion and reciprocal protection of investments with several countries such as Germany, Spain, Portugal, Sweden, United Kingdom, Belgium, Holland, Italy, France and Switzerland.

The government is promoting investment in general and maintains a favourable policy towards foreign investment.

The general scheme is totally open and does not discriminate between foreign and local investors in terms of tax. The foreign investor enjoys the same incentives of local investors.

Any kind of business activity can be undertaken or developed, under the same conditions as local investors. In some particular areas of activity covered by the government, the foreign investor can carry out business and develop activities under the system of granting public works projects.

Formation of corporations or the acquisition of an existing one does not have any restrictions. It is common to acquire Corporations which have not already begun their business activity.

Promotions of investments projects

One of the ways to promote foreign investment has been the establishment of the Ley de Inversiones (Investment Law No. 16.906) which was recently amended by Executive Order Decree No. 455/07.

Any investment project must be filed to the Ministry of Finance at the special commission (COMAP) set up to this end. There are some regulations that establish the term of approval and different tax benefits, which include not paying up to 100% of the income tax for 25 years, and capital tax and as well as value-added tax.

Investments may be made in industrial, services, commercial and agriculture corporations and investment projects will be evaluated for the following items:

- Promotion of new job opportunities
- Increase of exports
- Territorial decentralization
- Increase of domestic added-value
- Use of clean technologies
- Increase of research
- Development and innovation
- The project's impact on economy

There are also areas of tax benefits such as Tourism, Forestry, Software Development and Industrial Parks.

Tax-Free zones

Tax-Free zones, are areas where the entry and exit of goods is entirely free. They are regulated by Law No.15.921 and Decree No. 454/988.

The law stipulates that Tax-Free zones users are exempted from all national taxes, created or to be created, including those in which by law is required specific exemption.

Tax-Free Zones can be public or private and in both cases are authorized and controlled by the National Free Zone Bureau. Currently, FZs have been established in Colonia, Florida, Nueva Helvecia, Nueva Palmira, Río Negro, Rivera, San José and Montevideo.

The Tax-Free zones system has been set up basically to develop the following activities:

1. Trading, storing, selecting, classifying, splitting, assembling, disassembling and other operations which do not imply manufacturing goods and raw materials.
2. Installation and operation of manufacturing establishments.
3. Services in the areas of financing, information, maintenance and repairs, professional advice and others.

Freeports

Freeports, have an especial rules and tax regime, enshrined in the Ports Act (Law No.16.246) and its regulations (Decree No. 412/992 and No.455/994).

The main port of Montevideo receives sea lines from all over the world and is the center

point for exports, imports and transit. It is the first and only terminal in the Atlantic coast of South America that operates under the free port system.

The port has a terminal which, within its boundaries, is a customs exclusion zone where private operators offer a number of international level services including a container terminal and container warehousing.

The following commercial ports are included in this regulation: Montevideo, Fray Bentos, Nueva Palmira, Colonia, Juan Lacaze and La Paloma.



4. Setting up a business

The foreign investor can choose any form of business organization. The most used are the “Sociedad Anónima” and the subsidiary of legal persons abroad.

A company can have a single shareholder, but in certain kind of companies partners must be at least two. There are not pre-requisites or authorization required for a foreign investor and there are not restrictions on expatriating profits or capital.

Although the procedures of setting up a company can be complex and slow, there are companies preconstituted that can be acquired and allow operations to begin immediately.

Uruguayan positive law reflects similar forms of business organization as in different parts of the world, with the possibility of creating a new legal entity as well as the setting up of a branch of a foreign company.

In case of the creation of a new legal entity, the corporate types most commonly used are:

-Sociedad Anonima, SA Company (whose capital can be represented by shares registered or bearer), and

-Sociedad Limitada, SRL Company.

Other less used corporate types are:

- Sociedad colectiva,
- Sociedad en comandita,
- Sociedad de capital e industria,
- Sociedad de hecho, and
- Cooperativas.

Consortiums, EIG and individual companies (soletraders) can also be organized.

Sociedad Anonima (SA)

Companies with bearer shares (SA) is the most common corporate type used for the development of commercial or industrial activities in general. For special activities the law provides some incorporation and operating requirements that differ from those established for common SA .

The shares can be issued nominative or bearer, except for the financial, insurance and agricultural corporations, in which they must be nominative.

The responsibility of investors, as shareholders, is limited to the amount of capital that has been paid up. Since its incorporation, the SA can have a single shareholder holding its entire capital.

The investor can finance the SA through loans under similar conditions to those of an independent third part.

There are two kinds of corporations:

-Open: those who resort to public savings or listed its shares on the Stock Exchange, and

-Closed.

The SA Tax-Free Zone (SAZF) is a special type of company, which has the sole purpose of doing industrial, commercial or service activities in Tax-Free Trade. This SAZF enjoys a broad tax exemption scheme which includes income tax.

Sociedad Limitada (SRL)

SRL is the corporate type used by most small and medium companies. It has no operational limitations, except for activities of finance and insurance. The responsibility of the partners is limited to the amount of their capital contribution. There are two exceptions to this principle: for the social security and tax debts .

5. Labour

Labour relationships regarding individual rights and obligations are governed by a detailed legislation.

The relationships are based on a strong autonomy of trade unions and employers to interact freely, while the government plays a secondary and indirect part.

The working day is limited to 8 hours a day, totaling 44 hours per week in commercial activities and 48 hours a week in industrial activities. In commercial activities every employer can adjust the hours of opening and closing. Rules provides that shops can also be opened on Saturdays and Sundays.

Salaries are set in each case with the employee or, in some cases, negotiated inside agreements with trade unions. It is not possible to come to an agreement to give workers a lower rate of pay than the national minimum salary set by the Executive Power or below the minimum for each job category set by the "Consejo de Salarios".

Salaries must be update every six months in accordance with the guidelines set by the "Consejo de Salarios".

Employees' rights

Overtime pay

The work hours that exceeds the statutory limitation of conventional must be paid double time.

Paid annual leave

The workers are entitled to be paid an annual leave of twenty continuous days, which is increased by one day every four years.

Vacation salary

Workers are entitled to receive, in addition to the remuneration of the leave, a vacation salary, for better enjoyment of the paid annual leave.

Thirteenth Mandatory Salary

The Thirteenth Mandatory Salary must be paid to all employees of the private sector. It consists on one twelfth of the total salary received by the employer in the previous twelve months.

Compensation for lay off

The employer has the power to lay off their workers, being forced to pay compensation. In case of a monthly employee the compensation is the equivalent to a monthly salary for every year worked for the company, with a maximum of six months.

Foreign staff

Foreigners working in Uruguay for more than six months must obtain a temporary (up to 2 years) or permanent residence, which is granted without further requirements, than a document proving no criminal records in the country of origin of the worker and some others certificates.

The only restricted activities for foreign workers are:

- Fishing: the captain and at least 50% of the crew must be Uruguayans.
- Uruguayan airline, the crew must be Uruguayan and at least 75% of the employees must be Uruguayan citizens.
- Tax-Free Zones: 75% of the employees must be Uruguayan citizens.

Social Security

The social security system covers the risks of invalidity, old age, retirement, sickness, accident, maternity, unemployment and death. Membership is compulsory, except for foreign workers who work in the Tax-Free zones. Also, some foreign workers may choose to be excluded from the social security system, under international treaties signed by Uruguay.

The government agency leading the security system "Banco de Prevision Social" is responsible for collecting virtually all of the contributions made by companies and employees and to maintain the labour file of each worker.



6. Taxation

Legislation

According to the existing Constitution, passing and issuance of national tax law is the Legislative Power responsibility, whereas it is the competence of the Executive Power to regulate said laws.

During the first half of each government term (5 years), the Executive Power submits for the approval of the Legislative Power the Uruguayan government budget for salaries, expenses and investments, and proposes the sources to finance it.

Taxes can be divided into two categories: National Taxes and State Taxes. Generally state taxes do not have a significant impact on businesses.

Tax authorities

National taxes are administrated and collected by the "DGI – Dirección General Impositiva" Tax Bureau. In case of personal income tax, DGI is assisted by another office for the administration and collection of said tax.

All information submitted by taxpayers to the tax authorities or obtained by DGI during their investigations are secret and can not be disclosed under any circumstances, except in trials.

Taxation system

The Uruguayan tax system includes direct and indirect taxes. Indirect taxes constitute the main source of income. Our country uses for the determination of all taxes the "principle of the source", meaning that only incomes obtained inside the Uruguayan territory and assets located in Uruguay will be taxed.

Incomes are taxed by:

- For Companies
"Impuesto a las rentas de actividades empresariales" (I.R.A.E)
- For personal
"Impuesto a las rentas de las personas físicas" (I.R.P.F.)
- For non-residents
"Impuesto a las rentas de no residentes" (I.R.N.R.)

The main taxes levied on business activities are the Value Added Tax (I.V.A), the Capital Tax and the Corporate Income Tax (I.R.A.E).

Major Taxes

Corporate income tax (I.R.A.E)

It is an annual tax levied at the rate of 25% of net income coming from economic activities of Uruguayan source.

Agricultural companies in some cases may choose between this tax or I.M.E.B.A (tax applied to the the sale of certain goods produced by that sector).

Personal income Tax (I.R.P.F)

It is a personal annual tax applied to the income of individuals who are Uruguayan residents. For this matter law consider as residents those who stay more than 183 days per calendar year in the country or have their vital or economic center in Uruguay.

This tax is applied under a dual system that distinguishes the income from productive capital (taxed at rates ranging from 3% to 12%) and those derived from work (progresionales rates ranging from 0% to 25 %).

Non-Residents income Tax (I.R.N.R)

This is an annual tax levied on the income of Uruguayan source obtained by individuals and companies who do not fulfill the requirements of residence.

This tax rates range from 3% to 12% depending on the type of income. In general the tax is applied by withholdings through the local companies which have to pay abroad.

When there is not a designated withholdings agent, taxpayers must appoint a representative in Uruguay.

Capital Tax (I.P)

The Capital Tax is a tax levied on assets within the country -excluding certain debts- at the end of the fiscal year.

Annual rates is 2.8% for banks and financial services, 1.5% for the remainder companies. Individuals are also taxed by the I.P, with progressive rates ranging between 0.7% and 2.75% with a minimum amount of approximately US\$ 90,000. In case of families this minimum is doubled.

Value Added Tax (I.V.A)

VAT is a tax on the internal movement of goods and services, imports and added value in the construction of buildings. The basic VAT rate is 22% and there is a minimum rate of 10% applied to essential goods and medicines, as well as a range of goods and services which are exempt from tax.

Specific Internal Tax (I.M.E.S.I)

Specific Internal Tax is levied on the first sale made by producers and importers of certain luxury products (cigarettes, alcoholic beverages, soft drinks, cosmetics, etc.) in the local market. Exports are not taxed. The rate varies

for each item charged and it is usually determined by the Executive within parameters set by law.

Tax Control of Corporations (I.C.O.S.A)

The formation of corporations (S.A) is taxed by this tax, applicable at the time of its foundation and at the end of each fiscal year.

The applicable rates are as follows:

- 1.50% for the foundation of the company.
- 0.75% for each financial year.

This tax does not apply to branches of foreign companies.

Permanent establishment

When an individual or legal corporation or any other non-resident entity develops all or part of its business in Uruguay through in a fixed place business, it is understood to have a permanent establishment in our country.

The law lists as an illustration a number of situations that make up scenarios of permanent establishment, including management headquarters, branches, offices, factories, mines, or any other place of extraction of natural resources.

I.R.A.E is levied on permanent establishments, and they must appoint an attorney to represent them before the Tax Bureau. It will be responsible for the tax liabilities of those whom he represents.

Transfer Pricing

Law No. 18.083 introduces to the Uruguayan tax system some definitions on transfer pricing between related companies, and provides the following:

Operations carried out between related parties, links between companies, countries with low or no taxation and pricing adjustment methods (basically in line with those recommended by the OECD) but the law entrusted to the Executive Power the regulation of such methods.

Income from foreign activities

The income from activities carried out partly within the country are at first considered as Uruguayan source income.

However, the net income of certain international activities are specifically defined by law:

- Transport companies
- TV and film industries
- International news agencies
- Grant of use of containers for international trade.

In this activities net income from Uruguayan source is set at 15% of the agreed price or can be determined on real basis by the taxpayer.

Tax Treaties

Uruguay has signed treaties to avoid double taxation with Germany and Hungary. These treaties settles aspects of taxation and are seen as a good mechanism for encouraging local investments.

The treaty signed with Germany is derived from the "German model", which is based on in the model of the OECD. The main aspect of this treaty is the reduction of the tax to be withheld when it is applicable on payments

or credits to another country signatory of the treaty by royalties, technical assistance, interest and dividends.

Under certain conditions, all items mentioned above except interest, are subject to tax through withholding when making payments or credits from abroad.

According to what is stipulated in the treaty, the rates are reduced to the following:

Dividends, royalties and interest:
Up to 15%
Payments for technical assistance:
Up to 10%

The treaty signed with Hungary contains similar provisions to the treaty signed with Germany.



7. Accounting & reporting

Accounting standards in Uruguay set the mandatory application of most of the international accounting standards (IFRS) issued by the IASB (International Accounting Standards Board) since 2004.

The Central Bank of Uruguay has the authority to set accounting standards for financial institutions.

The financial statements of industrial, commercial and services companies must be made according to a model settled by Decree 103/991.

All companies exceeding some fixed limits are required to complete a reporting pack to be presented to the government control agency

The financial statement report includes:

- Balance Sheet
- Profit and loss statement
- Statement of change in shareholders equity
- Cash flow
- Explanatory notes to the financial statements
- Audit Report : Audit Opinion, Review Report or Compilation Report.

Auditing standards

The generally accepted auditing standards are the International Auditing Standards issued by the International Federation of Accountants (IFAC).

Financial institutions, companies with a certain level of debts in the financial system, corporate issuers of shares or debentures in the stock market and public transport companies must file audited financial statements.

Although auditing is no legally regulated, to audit certain institutions as financial institutions or some other companies like transport or health companies, auditors must be registred at Banco Central del Uruguay.

8. UHY firms in Uruguay

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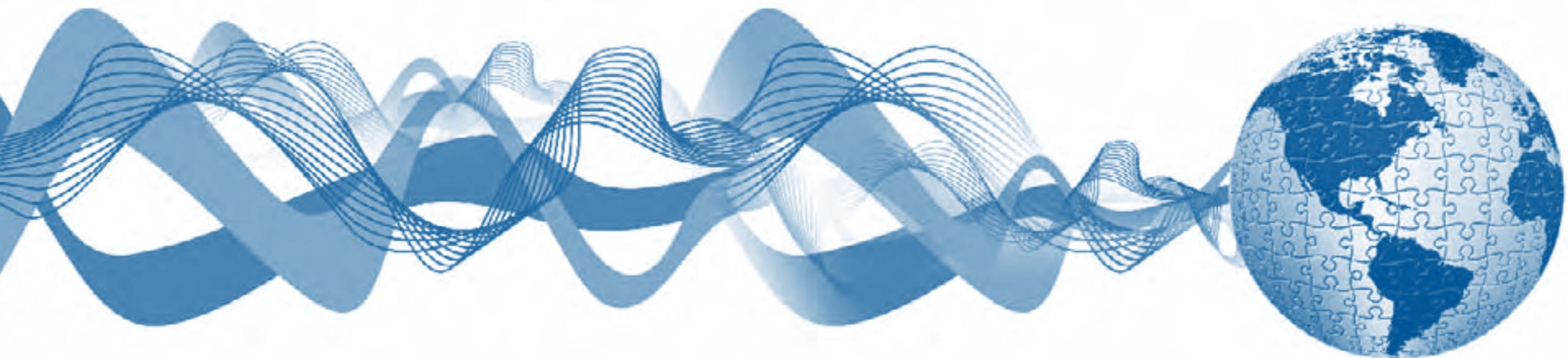
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9. UHY offices worldwide

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A large, stylized white logo of the letters 'UHY' is centered on a dark blue background. The letters are bold and have a modern, rounded font style. A horizontal white line is positioned below the 'U' and 'H'.

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