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# URUGUAY IN INTERNATIONAL TAX PLANNING

## Summary

- URUGUAY - GENERAL OUTLINE OF THE COUNTRY
- MAIN ASPECTS OF URUGUAYAN TAXATION
  - COMPANIES' TAXATION
  - INDIVIDUALS' TAXATION
  - NON RESIDENTS' TAXATION
- APPLICABLE TAXATION TO INTERNATIONAL OPERATIONS DEVELOPED BY URUGUAYAN ENTREPRISES
- URUGUAYAN COMPANIES WITH OFFSHORE PURPOSES
- URUGUAY AND THE OECD



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## URUGUAY - GENERAL OUTLINE OF THE COUNTRY

- Uruguay is an acknowledged and trusted service center:
  - Geographical location: hinge between Argentina and Brazil.
  - Excellent telecommunications infrastructure.
  - Extensive network of financial institutions
  - Enviably quality of life, much sought after by foreign executives.
  - Legal and Political Stability.



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## URUGUAY - GENERAL OUTLINE OF THE COUNTRY

- In addition, certain traits of Uruguay's legal order, which follows, make this country attractive for foreign investors:
  - Exchange Freedom: any currency is legal tender in the country.
  - Freedom of Capital Flows: Inflows and outflows of capital are equally free, notwithstanding certain precautionary Central Bank requirements, geared to the preservation of the system from criminal activities.
  - Confidentiality: Bank secrecy, and bearer shares.
  - Features of the tax system: The tax system is based on the principle of territory.
  - Absence of discriminatory laws on the basis of nationality or residence.
  - Industrial Promotion: Uruguay promotes the investment granting tax and credit benefits.



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## MAIN ASPECTS OF URUGUAYAN TAXATION

- COMPANIES' TAXATION
- INDIVIDUALS' TAXATION
- NON RESIDENTS' TAXATION



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## COMPANIES' TAXATION

### •MAIN TRIBUTES:

- ✓ INCOME TAX OF ECONOMIC ACTIVITIES ("IRAE")
- ✓ EQUITY TAX ("IPAT")
- ✓ VALUE ADDED TAX ("IVA")
- ✓ SPECIFIC INTERNAL TAX ("IMESI")
- ✓ SOCIAL SECURITY'S SPECIAL CONTRIBUTION ("CESS")



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## COMPANIES' TAXATION - THE "IRAE"

### INCOME TAX OF ECONOMIC ACTIVITIES (IRAE)

This tax imposes a rate of 25% over net income considered to be of Uruguayan source derived from economical activities of any nature (industrial, commercial, agriculture and services) obtained by those indicated by the law.

Are considered to be of "Uruguayan Source" all income resulting from activities developed, property situated or rights economically exercised in the country, independently of the nationality, domicile or residence of the participants in the operation or the place where the agreement was executed.



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## COMPANIES' TAXATION - THE "IPAT"

### EQUITY TAX (IPAT)

- ✓ It taxes (with a 1.5% rate) the assets located in the country, adjusted according to the fiscal rules, up to the end of the fiscal year of the company.
- ✓ Uruguayan source: assets abroad are not taken under consideration for the calculation of this tax.



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## COMPANIES' TAXATION - THE "IVA"

### VALUE ADDED TAX ("IVA")

VAT taxes (mainly at a 22% rate) the internal circulation of goods, the rendering of services in Uruguay, the introduction of goods to the country and the value added to real estate by construction work.



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## COMPANIES' TAXATION - THE "CESS"

### SOCIAL SECURITY'S SPECIAL CONTRIBUTION ("CESS")

- ✓ Enterprises have to pay social security's special contributions over all the remunerations of a salarial character paid to its personnel located in Uruguay.
- ✓ They are contributions in charge of the company (Employers' Contributions - 12.625%) and contributions in charge of the employees (Personal Contributions - max. Rate 21.625%).



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## COMPANIES' TAXATION - OTHER TAXES

### OTHER TAXES

- ✓ Specific Internal Tax ("IMESI")
- ✓ Corporation Control Tax ("ICOSA")



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## INDIVIDUAL 'S TAXATION - THE "IRPF"

### PERSONAL INCOME TAX ("IRPF")

- ✓The "IRPF" is an annual tax (31/12) imposed over income of Uruguayan source obtained by individuals with fiscal residence in our country.
  
- ✓The following revenues are taxed by "IRPF":
  - Interests and rents,
  - Capital gains,
  - Income from personal work and services, (except when taxable by IRAE).



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## NON RESIDENT'S TAXATION - THE "IRNR"

- Is a tax levied on any Uruguayan income obtained by non residents.
- It is considered to be a "non resident" any person without a permanent establishment in Uruguay, or that lives more than 183 days abroad or with its principal economic interest abroad.
- In addition to the "Uruguayan source", it is also taxed all income obtained by rendering services from abroad to taxpayers located in Uruguay, as long as such services are used by the receiver in order to earn rents taxed by IRAE
- The tax rate is 12%.



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## APPLICABLE TAXATION TO INTERNATIONAL OPERATIONS DEVELOPED BY URUGUAYAN ENTREPRISES



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## INTERNATIONAL OPERATIONS

### Different kinds of income

- Uruguayan source income: income tax applies.
- Foreign source income: in principle, no income tax applies.
- Income generated in Uruguay and abroad: partially taxed.



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## INTERNATIONAL OPERATIONS

### Main operations

- Non - taxed operations, holding of assets abroad.
  - Bank account abroad.
  - Loans abroad.
  - Shares/participations of foreign companies.
  - Movable goods abroad.
  - Real estate abroad.
  - Trademarks to be exploited abroad.
  - Financial application abroad (except for derivatives and trading - Res 51/997).



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## INTERNATIONAL OPERATIONS

### Main Operations

- Operations partially taxed in Uruguay
  - Advice - Consultancy - Services in general.
  - Commission.
  - Trading of goods between third parties.
  - Trading of services between third parties.
  - Fund Managing for Third Parties.
  - Swaps, derivatives, NDFs, etc.



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## INTERNATIONAL OPERATIONS

### Withholding's comparison: local activity vs. Offshore activity

Description	Company with local activity	Company with offshore activity
Dividends or Utilities	IRNR or IRPF, both on a rate of 7% <u>only</u> when derived from profits taxed by IRAE.	Idem to "Company with local Activity".
Technical assistance abroad.	IRNR (12%).	If the Uruguayan source's income of the Company is less of 10% of the total amount of its income, the withholding tax is of a 0,6% rate. If it does not have Uruguayan Source's income, no withholding tax is applicable.
Capital Profitability Income (interests and similar ones, etc)	IRNR or IRPF, both on a rate of 12%.	If the Uruguayan Company's assets abroad are superior to 90% of its total assets, no withholding tax applies.



## URUGUAYAN COMPANIES WITH OFFSHORE PURPOSES

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- Corporations
- Partnerships



# URUGUAYAN COMPANIES WITH OFFSHORE PURPOSES

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## Corporations

- Common Corporations.
- Free Zone Corporations.
- Financial Investment Corporations (SAFI).



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## CORPORATIONS

- **Major similarities between Corporations:**
  - Bearer or nominatives shares.
  - One or more local or foreign shareholders.
  - One or more local or foreign directors.



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## CORPORATIONS

- **Differences between Corporations:**
  - Purposes and taxation of the ZFs: activities in a specific place and only for abroad (Uruguayan free trade areas are not eligible for MERCOSUR certificate of origin).
  - Purposes and taxation of the SAFIs: offshore corporations that are to be terminated on 2011.
  - Purposes and taxation of the SAUs: principle of the source (however there are differences between holding and trading activities).



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## PARTNERSHIPS

- Partnerships as:
  - Personal Companies.
  - Its capital is not represented in certificates or shares, but it is in the agreement (there are no bearer participations).
  - Used by foreign companies for being considered fiscally transparent (check the box rules).



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## URUGUAY AND THE OECD

- Uruguay is currently in the “grey” list of the OECD.
- In order to comply with OECD requirements, the Government recently entered into Tax Treaties with Mexico and Spain.
- Negotiations are under way in order to sign, in 2010, Tax Treaties with Portugal, Germany, Italy, France, Chile, China, India, Monaco, Andorra and South Korea (12 countries).
- No Tax Treaties are scheduled to be signed with Brazil and Argentina.



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# THANK YOU

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