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# Foreign Investment in Uruguay

Recent Legal Developments



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## Foreign Investment in Uruguay

Uruguay has demonstrated a committed attitude towards investors, making the respect for the “rule of law” a golden rule.



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# Foreign Investment in Uruguay

Basic Legal Framework

Recent Legal Developments



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# Foreign Investment in Uruguay

## Basic Legal Framework



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## **Foreign Investment in Uruguay Basic Legal Framework**

- Foreign and local investors are treated equally
- Foreign participation in local companies is basically unrestricted
- Foreign investment is generally admitted without any previous authorization before any governmental agency



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## **Foreign Investment in Uruguay Basic Legal Framework**

- Investment projects are entitled to important automatic and non-automatic tax benefits and rebates.
- Uruguay adopts a territorial source principal of taxation
- Capital inflows and outflows are free.
- Uruguay maintains a long tradition for not restricting the purchase currency, even during the harsh 2002 banking and financial crisis.
- Foreign exchange can be freely obtained at market rates and there is no black market for currency exchange.



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## **Foreign Investment in Uruguay Basic Legal Framework**

In event of expropriation, the Uruguayan Constitution provides for the prompt payment of “fair” compensation.

Art. 6 of the US- Uruguay Bilateral Investment Treaty set forth that neither party may expropriate or nationalize a covered investment except under certain circumstances. The compensation shall be paid without delay, be equivalent to the fair market value of the expropriated investment immediately before the expropriation took place





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## Foreign Investment in Uruguay Basic Legal Framework

- In November 2005, Uruguay and the United States signed a Bilateral Investment Treaty (BIT) to promote and protect reciprocal investments, which entered into force on November 1, 2006.
- Among other benefits, the BIT grants national and most-favored-nation treatments to investments and investors sourced in each country. The agreement also includes detailed provisions on compensation for expropriation, and a precise procedure for settling bilateral disputes.



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## Foreign Investment in Uruguay Basic Legal Framework

- Uruguay also has BITs with Argentina, Brazil and Paraguay and 31 other countries  
(Armenia, Australia, Belgium, Canada, Chile, China, Czech Republic, El Salvador, Finland, France, Germany, Hungary, India, Israel, Italy, Luxembourg, Malaysia, Mexico, Portugal, The Netherlands, Panama, Poland, Portugal, Romania, Spain, South Korea, Sweden, Switzerland, United Kingdom Venezuela and Vietnam).



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## **Foreign Investment in Uruguay Basic Legal Framework**

- Uruguay has signed 11 Double Taxation Agreements and seven Tax Information Exchange Agreements (TIEAs).
- Double taxation agreements exist with Ecuador, Finland, Germany, Hungary, South Korea, Liechtenstein, Malta, Mexico, Portugal, Spain and Switzerland.
- TIEAs are in place with Denmark, Faroe Islands, France, Greenland, Iceland, Norway and Sweden.



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## **Foreign Investment in Uruguay Basic Legal Framework**

- The investors may choose between arbitration and judicial system to settle the disputes.
- Uruguay became a member of the International Center for Settlement of Investment Disputes in September 2000 and ratified the main treaty related to the promotion of the arbitration: Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958 - the "New York" Convention, among other instruments



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## Foreign Investment in Uruguay Basic Legal Framework

Uruguay offers a wide range of investment opportunities in different industries, including:

- **Agriculture:** Relevant multinational agribusiness companies have invested in Uruguay in the last years.
- **Forestry:** More than twenty five years ago, forestry was declared by the government to be of national interest. Much of the recent forestry investment has come from foreign investors, including important projects from Chile, Finland, Holland, Spain, United States and Canada.



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## Foreign Investment in Uruguay Basic Legal Framework

- **Tourism and real estate:** Tourism industry is growing constantly in Uruguay and so are investment opportunities in the area. Real Estate related with leisure has literally boomed.
- **Infrastructure:** In the context of the incremental development of industrial, forestry and agriculture activities, more infrastructure will be needed in the coming years, specially roads, railroads, ports and airports.

Aware of the need, the government has recently passed a “Private-Public Partnership” law (so called “PPP”), under which private investors may propose the development of such public infrastructure (or participate in a public bidding), assuming the investor the financing of the project.



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## Foreign Investment in Uruguay Basic Legal Framework

- **Energy:** Renewable energy is of the utmost interest to the government, as a way to reduce oil and gas imports. The government has launched several international biddings for wind power and biomass, and more biddings are expected to come in the near future.
- Regarding oil and gas, opportunities for upstream activities (both onshore and offshore) have appeared in the last years, through successive international biddings launched by the national oil company ANCAP (such biddings have been denominated "RONDA URUGUAY").



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# Foreign Investment in Uruguay

Recent development





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## Foreign Investment in Uruguay

- The Investment Promotion Regime
- Avoid bureaucratisation
- Social Housing



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# Foreign Investment in Uruguay Recent development

## The Investment Promotion Regime



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

The investment promotion regime is regulated by:

a) Law 16.906

a) Decrees 455/007 and 002/12 (passed in November 2007 and January 2012).



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

Law 16.906 declares that the promotion and protection of investments made by domestic and foreign investors in the country is an issue of national interest.

This law classifies two groups of tax benefits:

- General and automatic investment benefits
- Specific investment benefits (promoted by Government)



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

The regimen grants automatic tax incentives to several activities including:

- personnel training;
- research, scientific and technological development;
- reinvestment of profits; and
- investments in industrial machinery and equipment.



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

- Tax Benefits:

Exemption of:

- a) Wealth Tax (IP) of moveable assets destined to civil work and to electronic data processing.
- b) Import Taxes including VAT of the same assets described above.



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

There are also special regimes to promote the:

- tourism industry and hotel construction,
- renewable energy,
- naval industry,
- production of electronics and electronic equipment,
- call centers and
- construction of agricultural machinery.



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

Special regimes also apply to:

- forestry, printing and communications industries,
- exploitation of hydrocarbons and biofuels,
- exports of software, and
- production of vehicles or auto parts.





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## Foreign Investment in Uruguay

### Recent development

### Investment promotion

**Decree 455/007 and 002/2012** grant significant tax incentives to investors in a wide array of sectors and activities.

- Certain activities -such as the purchasing of land, real estate or private vehicles- are not eligible for the benefits.
- A matrix based on pre-defined criteria list includes the project's:  
**(1)** Employment creation; **(2)** contribution to research and development (R&D) and innovation; **(3)** increase in exports; **(4)** contribution to geographic decentralization; **(5)** use of clean technologies; and **(6)** improvement of social indicators



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

To determine the Corporate Income Tax exemption amount, the project must first be classified according to the investment amount (in Indexed Units (UI)).

The classification table is as follows:

- Small Projects (less than 0.35 million US\$)
- Medium Range 1
- Medium Range 2
- Large Range 1
- Large Range 2
- Large Range 3 (between 50 to 700 million US\$)



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## Foreign Investment in Uruguay

### Recent development

### Investment promotion

- The exemption amount is determined on the tax to be paid, not on taxable income.
- The exempted tax shall be equivalent to a percentage of the amount invested in fixed or intangible assets included in the promotional declaration, whose maximum amount depends on the investment classification in accordance with the following, as an example:

<u>Project</u>	<u>Corporate Income Tax (% of the Investment)</u>
Small	Between 51% and 60%
Large Range 3	Up to 100%



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

- The principal incentive consists of the deduction from corporate income tax of a share of total investment (up to 100%) over a certain period.



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# Foreign Investment in Uruguay

## Recent development

## Investment promotion

Other exemption:

- **Wealth Tax**

Moveable fixed asset goods

Civil works projects

- **Import taxes and fees**

Exemption from import taxes and fees for moveable fixed asset goods that cannot be exempted under other benefit systems and that are declared non-competitive to national industry by the Ministry of Industry, Energy and Mining.

- **Value Added Tax (VAT)**

Return of Value Added Tax for local acquisition (duly documented) of materials and services used for civil works projects.

- **special tax treatment of fees and salaries** paid for research and development



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Investment promotion**

- Decree 455/007 also streamlined procedures for firms requesting tax exemptions and established a "single-window" process to channel investment requests and guide investors.
- The Procedure to obtain benefits: project be sent to COMAP and to the Ministry that corresponds for evaluation. The evaluation periods are set forth in the law (small projects: 30 working days and Large Projects: 60 working dates). In case that the time period expires without a ruling by COMAP, it shall be understood that COMAP has recommended that the Chief Executive grants the benefits.
- Investors can combine benefit, applying for certain tax benefits under Decree 455/007 and for other benefits under sector wide special regimens.



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# Foreign Investment in Uruguay

## Recent development

## Investment promotion

### Decree 002/12:

- Provided additional benefits to micro and small enterprises and to firms operating in industrial parks.
- The decree focused on the quality of the jobs created by the investment (instead of the quantity)
- None of the promotion systems described above differentiates between foreign and national investors.



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# **Foreign Investment in Uruguay** **Recent development**

Avoid bureaucratisation





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## **Foreign Investment in Uruguay**

### **Recent development**

### **Avoid bureaucratisation**

In order to avoid bureaucratic procedures:

- **1) CREATE A FIRM IN 24 HOURS**
- **2) RATIFIED OF HAGUE CONVENTION ABOLISHING THE REQUIREMENT OF LEGALISATION FOR FOREIGN PUBLIC DOCUMENTS.**



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## **Foreign Investment in Uruguay Recent development Create a legal person in 24 hours**

In May 2012 the Government of Uruguay launched a new program through which entrepreneurs are able to register a firm in 24 hours. The program cut the number of public offices involved in the creation of a firm as well as the number of the steps and the number of days required.

This system allows the formation and registration of a corporation (SA and SRL) or sole proprietorship in approximately 24 hours of submission.



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Apostille**

Uruguay has ratified the HAGUE CONVENTION ABOLISHING THE REQUIREMENT OF LEGALISATION FOR FOREIGN PUBLIC DOCUMENTS by the Law Nº 18836

- This Convention entered into force on October 14, 2012.
- The Apostille Convention facilitates the circulation of public documents executed in one State party and to be produced in another State party.
- It does so by replacing the formalities of a full legalization process with the mere issuance of an Apostille (certificate).
- The Apostille should be issued by a Competent Authority designated by the State from which the public document emanates
- Competent Authority in Uruguay is The Ministry of Foreign Affairs



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# **Foreign Investment in Uruguay** **Recent development**

## **Social Housing**



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Social Housing**

- The law N° 18.795 is a “social housing” law recently passed with the purpose of promoting the construction of housing for low income individuals, with tax benefits for construction and refurbishing of small and economic buildings



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# Foreign Investment in Uruguay

## Recent development

## Social Housing Law

### Framework:

- Art. 45 Constitution.
- Law 18.795 (september 2011)
- Law 13.728
- Decree 355/2011
- Res. 1057



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# **Foreign Investment in Uruguay**

## **Recent development**

### **Social Housing Law**

Beneficiaries of the established regime (as are declared promoted by the Government): art. 2

1) Investment projects related to:

1.1) construction, renovation, expansion or recycling properties bound for housing for sale, lease or lease with purchasing option.

1.2) acquisition of social housing built, refurbished, extended and refurbished for lease.

1.3) Social Housing projects developed by social funds and housing cooperatives.

2) The specific activities to improve the supply and demand for social housing



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# **Foreign Investment in Uruguay**

## **Recent development**

## **Social Housing Law**

### Essential notes:

- Habitable area between 32 m<sup>2</sup> and 50 m<sup>2</sup> in case of a bedroom and between 12-19 m<sup>2</sup> additional per bedroom.
- Do not exceed the maximum value set by building regulations





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## **Foreign Investment in Uruguay**

### **Recent development**

### **Social Housing Law**

To obtain tax benefits:

- 1) The existence of a project or activity referred to in Article 2 of Law 18.795
- 2) Resolution of the Government.



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## **Foreign Investment in Uruguay**

### **Recent development**

### **Social Housing Law**

The projects must comply with the following conditions:

- Increase the quantity Social Interest Housing available for sale, lease with purchasing option
- Simplify the access to housing for low and medium socioeconomic sectors.
- Social Integration Contribution
- Improve the financing conditions and guarantees for the purchase, lease-purchase of social housing
- Promote technological innovation in the field of building



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# Foreign Investment in Uruguay

## Recent development

## Social Housing Law

### **Tax Benefits:**

#### Exemptions:

- Corporate Income Tax
- Wealth Tax
- VAT
- Property Transfer Tax



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## Foreign Investment in Uruguay Recent development

### **Key success factors for any Investment:**

- Private sector innovation to create rentable projects.
- Government dynamism in the investment management



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**We hope the best is not behind us.**

**Thank you very much !**