

INVESTMENTS IN URUGUAY

Attitude Towards Foreign Investment The Government of Uruguay recognizes the important role foreign investment plays in economic development and strives to maintain a favorable investment climate. Aside from a few sectors in which foreign investment is not permitted, there is neither de jure nor de facto discrimination toward investment by source or origin, and national and foreign investors are treated equally. In 1998, the Uruguayan Government approved a law No.16.906 that declares that promotion and protection of national and foreign investment is in the nation's interest. The law states that (1) foreign and national investments are treated alike, (2) investments are allowed without prior authorization or registration, (3) the government does not prevent the establishment of investments in the country, and (4) investors may freely transfer abroad their capital and profits from the investment. There are no restrictions on technology transfer. The new administration plans to expand the use of a single-window mechanism, instated in mid-2003, to channel all investment requests. One hundred percent foreign ownership is permitted, except where restricted for national security purposes. The Investors Support Center (ISC) was created by the Uruguayan government seeking to facilitate and simplify the process of evaluation of investment projects. According to it, the ISC: centralizes the information for national and foreign investors, avoids delays based on formal defects of the projects by a previous formal evaluation, manages efficiently the investment projects' steps through the different public agencies which evaluate them.

Tax Exemptions/Incentives for Foreign Investors The Investment Law N° 16.906 of January, 1998, grants general and automatic benefits to investments, applicable to taxpayers of corporate income tax who carry out manufacturing or agriculture and livestock activities: - Exemption of Capital Tax on goods devoted to the productive process and on equipment for data processing; - Exemption of VAT and Excise Tax due to the import of such goods and VAT's reimbursement on local acquisitions; - The Law entitles the Executive Branch to grant exemptions of Capital Tax to remodeling and improvements made to: fixed assets of agriculture, livestock production and manufacturing activities, intangible goods such as brands, patents, industrial models, copyrights, 'key values' and concessions granted for the prospecting, crops, extraction or exploitation of natural resources, and other goods, inventions or creations which incorporate technological innovation.

Incentives to the training of personnel. Expenses aimed at training personnel in priority areas may be deducted for purposes of income tax at between one and a half and twice the real amount spent. Incentives to the investigation and scientific and technological development. The expenses made directly by the enterprises or their contributions to private or public institutions for funding projects of investigation and scientific or technological development, particularly in biotechnology, may be computed at one and a half times their actual amount spent for purposes of income tax deduction. Exemption on reinvestment of

profits. Net profits, after deducting all other tax exemptions, may be exempt from income tax (business income tax, or farming tax) up to a ceiling of 40 percent of the taxable base. Exempted income cannot be distributed and must be appropriated to a reserve, which can only be capitalized. These exemptions may be equivalent up to 40 percent of the acquisition cost of machinery and industrial installations, agricultural machinery, fixed improvements in the agriculture sector, utility vehicles; furniture and fittings for equipment and re-equipment of hotels, motels and other lodging facilities, capital goods destined to improve services rendered to tourists in entertaining, information and transportation activities; equipment necessary for electronic data processing and for communications. These exemptions benefit up to 20 percent of the cost of construction and extension of hotel, motel and lodging facilities as well as buildings and their extensions destined to manufacturing activities. Exemption on investments in plant and manufacturing equipment. Machinery and equipment used in the industrial process directly involved in the productive cycle are computed a 50 percent of their fiscal value for purposes of tax on capital. In addition these items are considered exempt assets for this tax, effective at the close of the fiscal year of acquisition, during a 5-year subsequent period. The real estate property destined to agricultural business excluding the improvements is also considered as exempted assets for this tax. Promotional Regimes The Investment Law foresees a set of incentives that depend on the Executive declaring specific investment projects or sectoral activities as worthy of being promoted. The beneficiaries of such privileges shall be companies whose projects or specific areas of activity are declared promoted by the Executive, be they engaged in industry, agriculture and cattle raising, trade or services. In granting such fiscal benefits, special attention will be paid to investments incorporating technological progress, facilitating the increase and/or diversification of exports, in particular those that involve a greater national value added component, that generate productive employment either directly or indirectly, that facilitate productive integration involving a greater national value added component at the different stages of the productive chain, that foster the activities of micro-, small and medium-sized enterprises for their effective capacity for technological innovation and productive job creation, that contribute to a geographical de-centralization and that fall within the sphere of industrial, agro-industrial or service provision activities that require significant labor and local inputs. Benefits. The Executive may grant the tax privileges to the activities or investment projects declared worthy of being promoted: - Income tax: an amount equivalent to the investment made through self-funding is exempted. - Capital tax: assets incorporated to an investment project are exempted for a certain period. - Tax on real estate transfers: on real estate acquired for purposes of the project. - Taxation on importations: the importation of capital goods to be incorporated to the project is exempted from all importation taxes provided the goods are not in competition with the local industry. Pursuant to the Investment Law, the Executive may not grant tariff exemptions counter to the commitments engaged in by Uruguay within the framework of the MERCOSUR agreements. The benefits to be granted by the Executive, pursuant to this Law, in favor of

projects or activities that are important because they contribute to the geographic de-centralization process of economic activity in Uruguay, shall be higher in both term and amount to amount to those granted to equivalent projects or similar activities to be implemented in the Department of Montevideo.

Applicable regime. In this declaration of national interest the Executive shall act upon the advise of an Application Committee formed by a representative from the Ministry of Economy and Finance, who shall co-ordinate it, as well as representatives from the Ministry of Industry, Energy and Mining, Ministry of Livestock, Agriculture and Fisheries, Ministry of Labor and Social Security, the Planning and Budget Office of the Presidency and the De-Centralization Commission, and in special cases it can also be formed by representatives of other Ministries or Agencies competent in the area of activity of the applicant company. Industrial Promotion Law. In the framework of the 1974 Industrial Promotion Law, the government has been promoting a number of manufacturing activities through tax exemptions. With the amendments introduced by the Investment Law N° 16.906 of 1998, it is foreseen that the Executive, at the request of companies interested therein, can declare certain sectors or industrial activities of national interest, and the applicants may then be granted the benefits set forth in the Law. For such declaration, the law considers basically efficiency gains to be achieved, increase and diversification of exports incorporating added value as high as possible and the use of labor and materials sourced locally. Benefits. Extensive tax exemptions are granted, comprising among others: - Income tax: an amount equivalent to the investment made through self-funding is exempted. - Capital tax : assets incorporated to an investment project are exempted for a certain period. - Tax on real estate transfers: on real estate acquired for purposes of the project. - Taxation on importations: the importation of capital goods to be incorporated to the project is exempted from all importation taxes provided the goods are not in competition with the local industry. Applicable regime. In order to obtain the benefits mentioned above, the company wishing to be declared of national interest shall submit an investment project to the Application Committee and the latter shall determine which is the relevant Ministry or Agency to evaluate it in view of the nature of the project and the activity it is related to. The relevant Ministry or Agency shall send the evaluation, together with a report in which the benefits it is deemed pertinent to grant are described, to the Application Committee. The Committee shall then make the corresponding recommendations with regard to the fiscal benefits to be granted in the case concerned. The project to be submitted shall include a financial and economic analysis that justifies a reasonable profitability rate and market studies that support the forecasts made. Likewise, the pro-forma invoices of the equipment to be acquired shall be attached thereto.

Acquisition of Real Estate Except for areas considered to be part of the national security domain, there are no restrictions or limitations to ownership of land or businesses by foreign interests. Uruguay grants equal treatment for national and foreign investors. Secured interests in property, both movable and real, are recognized and enforced. Mortgages exist, and there is a recognized

and reliable system of recording such security interests. Uruguay has a legal system that protects the acquisition and disposition of all property rights, including land, buildings, and mortgages. Execution of guarantees is, however, usually a slow process.