

## TAXATION IN URUGUAY

The Uruguayan tax system includes a series of taxes levied on consumption of goods and services, income of legal entities, capital, and personal compensation payments. There is also a group of taxes on individuals and legal entities and specific transactions. According to the current Constitution, approval of new tax legislation is vested in the Legislative Power with detailed regulations issued by the Executive Power. Within The 19 provinces, subdivisions of the Uruguayan territory, only have jurisdiction to establish, collect and control certain taxes; basically taxes on urban or suburban real estate, vehicles, and rates for public utilities or control services. The most important taxes are known as 'Real Estate Contributions', 'Vehicle Licenses' and 'Food Control Rate', but their incidence on the business entities, in general, is relatively small. Tax administrators have no discretion to change tax legislation. The tax system operates on the basis of definitive self-assessment, which may be audited by the Tax authority. Subjects of the Income Tax on Trade and Industry and of the Capital Tax must file their tax returns on standard forms provided by the taxation authority on the fourth month following the end of the financial period. On that due date taxpayers must pay any balance of the tax settled after deducting any monthly advance payments made during the year. In general taxes are liquidated and paid on a monthly basis. Subjects to pay the Income and Assets tax must make advance payments on a monthly basis and pay the balance of these tax liabilities when filing their annual tax returns. Withholding income tax on royalties, technical assistance fees, profits or dividends is due within the month following payment or credit to the foreign recipient's account or as otherwise made available. Withholding on the tax on assets of outstanding credit balances of foreign companies or individuals at the end of each calendar year, are due in the following month of April. Tax returns filed by taxpayers can be audited by the General Tax Office. Tax audits are carried out on a random sampling basis; therefore, from the taxpayer's viewpoint, they are unpredictable. The Tax authorities are empowered to make assessments by themselves in cases where sworn declarations or books and other records are missing or insufficient. These assessments may also be appealed.

**Personal Taxation** Currently there is no personal income or estate tax in Uruguay. However, a tax reform plan, including the introduction of a comprehensive personal income tax, is under consideration. Individuals may be taxpayers of income tax as well as of farming income tax, but only insofar as they engage in business (industry, commerce) or in farming activities. The only direct tax on individuals is the capital tax, but, considering the relatively high tax-free limit, it can be said that, in general, foreigners living for several years in Uruguay may disregard the tax burden.

Tax on Assets of Individuals The tax on the assets of individuals, family units and undivided estates is applied on the assets located in the country less certain liabilities and also on anonymous bank accounts. Only assets located, placed or economically utilized in Uruguay are subject to tax. Individuals or legal entities

domiciled abroad are not subject to this tax in respect of loans and deposits in foreign currency made to or with Uruguayan residents. Individuals are considered as domiciled in Uruguay for tax purposes when they are residing or performing most of their business in Uruguay. The assets of individuals, family units and undivided estates are assessed on the basis of current market value with certain exceptions, mainly in the case of real estate and vehicles, the tax values of which are periodically determined by the government. The exempt assets are the shares of entities subject to this tax and of financial entities engaged exclusively in offshore operations; government securities; Bank deposits held by individuals and debts with local banks qualify for deduction as liabilities and to the extent that they exceed the aggregate of exempt assets plus assets located abroad.

**Corporate Taxation** Resident and non-resident companies are taxed on Uruguayan-source income only. The corporate tax (IRIC) is an annual tax on Uruguayan source income, originated on activities carried out by companies, which are defined as productive units which combine capital and labor in order to obtain profits, acting for that purpose either as agents / brokers in the circulation of goods or in the supply and demand of labor. Income tax is also chargeable in certain instances, by deduction at source, on royalties, technical assistance fees and dividends given certain circumstances. The said tax is calculated on net income, resulting from taking gross income and deducting (duly documented) expenses needed to earn the said income; the top rate is 30% per year (the rate was 35% in 2002 and 2003 and was reduced in 2004). Profits from sole traders, partnerships and small businesses (approximate revenue below US\$ 27,000 per year) is not subject to income tax, although small businesses are subject to a fixed monthly tax of approximately US\$ 70. Exemptions are applicable to the income generated by foreign maritime navigation or air transport companies, provided Uruguayan companies are given equal treatment in their countries. Income generated by services or loans to local banks made by foreign credit institutions, with no agencies or subsidiaries in Uruguay, and income generated by companies whose income does not exceed the amount annually established by the Government are similarly exempt. There are, also, partial exemptions to up to 40% of income, granted to investments regarded as being of national interest, and expressly so declared by law. Businesses make monthly prepayments of tax, based on the liability for the previous year or on estimates of the current year's liability. Businesses must submit a self-assessment tax return within four months of the end of the accounting period, and final tax is payable by the same date.

**Taxation of Special Types of Companies** Uruguayan Financial Services Company (SAFI) is not subject to tax on corporate profits. It pays an annual tax or license fee equal to 0.3% of the net asset value. The taxable base is calculated by taking the amount of shareholder equity and adding to it a figure equal to all liabilities minus twice the shareholder equity. This somewhat complicated calculation normally results in only a nominal figure or zero becoming payable.

**Other Taxes and Duties** Capital Tax This is a tax assessed at the rate of 1.5 percent on assets located in Uruguay less certain debts, of industrial and commercial business entities and farming exploitations, as of the year- end. The tax rate is 2.8 percent for banks and banking houses and 2 percent for other entities. This tax is also levied on personal assets of individuals, at progressive rates, which vary from 0.7 percent to 3 percent, applied on the excess of a non-taxable minimum of approximately US\$ 80,000 for individuals and US\$ 160,000 for married couples.

Customs Duties Imports pay a tax ranging from 6% to 20% of the value of the goods, depending on the type of goods. The Republic Bank charges 1.10% commission on imports.

Property Taxes This tax is levied on the transfer of real estate. Both parties to the transfer contract are subject to this tax at a rate of 2 percent each on the property's tax valuation (generally lower than market value). When the property is transferred without payment, the beneficiary pays tax at a rate of 4 percent on its tax valuation except for direct heirs or legatees, who pay tax at a rate of 3 percent.

Capital Gains Capital gains of businesses, including branches of foreign companies, are taxed as ordinary income, but gains of individuals are not subject to tax. Non-residents without a branch or permanent establishment in Uruguay are not taxed on capital gains arising in Uruguay.

Value-added tax (VAT) Value-added tax (VAT) applies to most transactions at the standard rate of 23%. Registration is compulsory for businesses. The lower 14% rate applies to basic foodstuffs and other essentials, accommodation services of hotels, fruit, flowers and horticultural products in their natural state, and road passenger transport. Exemptions include the transfer and rental of immovable property, certain machinery, goods and raw materials for use in agriculture, qualifying banking operations, medical services and the import of crude oil. Special rules apply to farming. The tax to be paid is calculated by taking the total tax generated by sales and deducting the tax paid on purchases of goods and services. In the case of exports, tax paid for goods and services, which are part of the cost of the exported product, may be deducted from the tax payable; this may lead to a credit in favor of the exporter, which will be repaid.

Excise Tax The Excise Tax represents approximately 27 to 29 percent of tax collection on indirect taxes. This tax is applied on the first sale of various products at different rates for each item. Exports are not subject to this tax.

Tax on Assets of Banking Entities Profit-generating assets of banking entities, as well as those of entities financing purchases through credit cards and the like, are taxable at the end of each month at a standard annual rate which varies between 0.01 percent and 1.5 percent. Certain profit-generating assets are exempt from tax: public debt and credits to nonresidents, provided these do not

exceed deposits received from nonresidents. Credits arising from financial leases regulated by Law No. 16,072 are exempt from this tax.

Tax on Commissions This tax is levied at a rate of 9 percent on income obtained by representatives, dealers, commissioners, consignees, brokers, foreign trade agents, auctioneers, and the like, whenever such income represent their recurrent and main activity. Net income corresponding to gross income subject to the tax on commissions is exempt from corporate income tax.

**Double Tax Treaties** International tax agreements have been signed with Germany, Chile, Paraguay, Hungary and Korea. The purpose of these agreements is to avoid double taxation of certain international activities. The treaty signed with Germany is derived from the 'German Model', which is in turn derived from the OECD model. The main feature of this treaty is the reduction of withholding taxes, when applicable, on the payments or credits to the other country in respect of royalties, technical assistance fees, interest, and dividends. Under certain conditions in Uruguay, all these items except interests are subject to withholding tax when remitted abroad. For business income, the concept of permanent establishment has been introduced in order to accept taxation by the country in which such establishment is located. The treaties signed with the other countries contain regulations similar to the treaty with Germany.