

Profile of URUGUAY

INTRODUCTION

Objectives

This report is intended to present general summary of the characteristics of Uruguay and of the legal and tax systems in force in the country. With the aid of the information presented, anyone who is not familiar with Uruguay will be able to form a general impression of the country. It is not exhaustive in its contents and for specific advice you should contact the office of AGN ACPA.

Area, Population and Climate

Uruguay is situated in the temperate zone of South America, on the Atlantic Ocean and the River Plate. It has a moderate climate with an average temperature of 70°F in summer and 50°F in winter. The land is undulating and crossed by many rivers, with its highest point being 1,600 feet above sea level. The population is homogeneous, the majority being of Spanish and Italian descent. There is a reasonable distribution of income, together with extensive education and health facilities. Uruguay covers 176,215 Km², with a population of 3.200.000 (1997). The rate of population growth is low (0.8%). A solution to the limited capacity for growth is sought through the immigration of skilled workers.

System of Government

Since its independence in 1825, Uruguay has been a Republic with a balance between the Executive and Parliament. The country acquired its own characteristics and became firmly established at the beginning of this century, achieving considerable levels of cultural, social and economic development. Its political stability -one of the best in South America - throughout this century has only been interrupted on two occasions (1933-42 and 1973-84), basically as a result of economic crises affecting the country.

The Parliament and the President of the Republic are elected directly by universal suffrage and remain in office for 5 years. The Executive appoints the Cabinet. The Parliament may censure ministers, in which case, if the President keeps the minister censured, the Parliament may be dissolved and elections called for the selection of a new one. The new Parliament decides whether the minister in question should resign or whether it will allow him to stay on. Traditionally, Uruguay has maintained a careful balance with its neighbours (Argentina and Brazil), in both economic and political terms.

ECONOMY

Agriculture

The characteristics of the soil and climate in Uruguay make it ideally

suited to livestock, both cattle and sheep. Cattle-rearing there is concerned with obtaining animals for milk and meat production, and the development of crosses between breeds which are particularly suited to both purposes. The flocks of sheep produce high quality wools which are among the best in the world.

The country is self-sufficient in grain (wheat, barley, rice, flax, corn, soya and sunflower), and in horticultural and fruit products. In almost all cases, surpluses are produced for export, as well as wines and honey which have the highest increase in last years.

Fishing

Uruguay has exclusive sovereignty over a relatively large zone in the South Atlantic (200 miles), in which it carries out fishing activities. This activity, in its industrial form, commenced a little under twenty years ago and is currently being consolidated.

Tourism

Uruguay has an extensive strip of fine sand beaches on the Atlantic Ocean which attracts tourists, especially from Argentina, during the summer months (20 December to 10 March). The features of *Punta del Este* are well-known, as this is one of the largest summer holiday resorts in that part of the world. Income from tourism is US\$ 400,000 p.a.

Manufacturing

The most highly-developed manufacturing industries are those based on the country's basic products: packing plants, tanned leather goods, milk products, woollen textiles, oils from flax, sunflower, corn and soya, wine and fish-processing. There are also factories for the manufacture of domestic electrical goods to be supplied to the internal market, and to Brazil and Argentina under existing agreements.

Banking and Finance

The number of banks operating in the country is more than sufficient for local requirements. The *Banco Central* does not authorise new banking institutions. At present there are State banks, national banks and subsidiaries of foreign banks. The movement of capital to and from other countries is completely free. The national currency, (the Uruguayan peso, which is currently quoted at 12.00 to the US dollar), is freely floated on the market, there being no control over operations in other currencies. This system means that many non-residents keep financial deposits in the country.

Regional Agreements

Aladi

Uruguay is a founder member of the *Asociación Latinoamericana de*

Integración (ALADI formerly ALALC) ("Latin American Association for Integration"), which has its permanent headquarters in Montevideo. Since 1960, this Association has been increasing the integration of the continent's economies. The task is a difficult one but progress is being made year by year. Regional agreements are favoured within the policy of the ALADI.

Mercosur

Since 1990, the Mercosur agreement, between Argentina, Brazil, Paraguay and Uruguay, is developing. The idea consists in the creation of a Customs Union, as the first stage, in order to arrive to a Common Market.

Nowadays, the process is going on and Chile and Bolivia are associated countries with Mercosur. The Customs Union stage is not yet created, but the integration process is going on.

Chile and Bolivia are associated members. In next future, both may become full members of the agreement.

Uruguay has a lot of conditions for becoming the Mercosur's gate. The Tax system as well as the free entrance and leaving of capitals in any currency, gives special conditions that any other Country in the Region can offer.

This reality allows local industries, both present and future, the advantage of having access to wider markets in the area. For further information, see the appendix referring to the system of investments in Uruguay. Our offices are able to provide all the necessary advice and information on this subject.

Free Trade Zones

At various points within the country, situated close to ports, there are extra-territorial zones in which the storage, packing and transformation of raw materials to be exported is allowed. The whole movement of commodities is tax-free as the machinery and other equipment necessary for the industrial processes.

Trading and manufacturer companies, are established in these Zones. Now a days, an important number of companies working for the electronic market, all the world over.

TAX SYSTEM

Taxes on profits

Taxes payable on profits are divided into two large groups: those from profits originating from farming businesses, and those derived from commercial, industrial and service businesses. Since 1 January 1974 there has been no personal income tax.

Profits from farming businesses

Farming businesses have the option of calculate the Income tax on the effective profit, as per accounting systems at the rate of 30% on net taxable income, or to pay a percentage on the sales price of the agricultural products, as an advanced payment or definitive tax, at the land lord decision. Most land lords accept the mandatory payment as definitive.

Profits from businesses and remittances abroad

The *Impuesto a las Rentas de la Industria y el Comercio* (IRIC) in fact comprises two taxes:

- An annual tax (Income Tax at the rate of 30%) which is payable on net profits from Uruguayan sources, originating from the joint use of capital and labour in a customary productive activity, whether this is an industrial, commercial or service activity, carried out by companies, by partnerships or by private individuals.
- A tax which is paid by withholding from earned letting income, grant of use or disposal of trademarks, patents, industrial designs or concessions, and realised by holders domiciled abroad to taxpayers. In the case of technical assistance rendered to taxpayers by foreign domiciled individuals or corporate bodies, the income is tax-exempt if it is taxable in the payee's country of residence and if there is no tax relief in that country. In the same way, the tax attains to dividends or profits paid or credited by taxpayers to individuals or corporate bodies based abroad, provided that this income is taxable in the licensee's country of residence and tax relief exists in that country. This income Tax is calculated on the base of a 30% rate.

Personal Income

There is no tax on earnings from activities not specified in 3.1.1 and 3.1.2, nor is there inheritance or gift tax.

Consumer Taxes

Impuesto al Valor Agregado (IVA) (Value Added Tax)

Payable on the internal circulation of goods, services rendered in Uruguay and on imports. The basic principles of this tax are:

Tax is generated at each market level, due to the added value only. The basic rate is 23%, with certain products taxed at the minimum rate of 12%. Some services and goods are exempted.

Imports receive the same treatment as sales in the internal market. Exports are considered "zero-rated" sales, generating tax relief through

the tax paid on the purchase of raw materials necessary for production.

Purchases of fixed assets generate immediate relief through the tax paid on their purchase.

Impuesto al Consumo (IMESI) ("Consumer Tax")

This is a tax payable selectively on the consumption of certain goods, on the occasion of their first disposal by the manufacturer or importer. It is applicable to alcoholic beverages, tobacco, cosmetics, motor vehicles, electricity, fuels, etc. It encompasses a wide range of rates.

Both consumer taxes account for 70% of the State income from taxes.

Impuesto al Capital (Impuesto al Patrimonio) (Wealth Tax)

This is payable on net capital annually, or in other words, the difference between assets and liabilities, situated on the national territory. The rates are progressive, from 1% to 3.65% for private individuals. The companies pay the Tax at the rate of 1.5%. If the company pays Income Tax (IRIC), the amount of Income Tax is deducted from the Wealth Tax, up to the 50% of this one. So, the effective rate varies from 0.75% to 1.5%.

In nominated bank accounts pay a rate of 5%.

FORMS OF BUSINESS ORGANISATION

Any individual or corporate business, or in other words, any organisation employing capital and labour with a view to obtaining profit, is considered a trader, and should be registered in the Public and General Commercial Register of Trade and should keep certified books of account.

The business organisation can take a variety of forms:

- Companies with bearer or registered shares.
- Branches of foreign companies.
- Personal associations, ordinary partnerships and private limited companies.
- Sole traders.

Legislation also covers companies limited by shares which do not trade in the country (holding companies).

This guide provides a detailed analysis of companies limited by shares (local and holding) and branches of foreign companies.

Companies by shares

Three individuals who may not be Uruguayan residents are required for the incorporation of a company limited by shares. A minimum capitalisation of approximately US\$ 50,000.- is also required upon signing the Deed of Incorporation and another similar amount when the Memorandum and Articles of Association are authenticated.

The company pays, once only, a duty of 1% of the authorised capital. The Board of Directors may be one person, there being no restrictions as to the number. The Directors may reside in Uruguay or abroad.

In general, the stipulations of the Memorandum and Articles of Association regulate most important aspects of the life of the company.

Limited companies are always treated as businesses, liable for payment of *Impuesto a la Renta* (Income Tax), since they are stock corporations and therefore naturally fall within the definition of a taxpaying business (see 3.1.2).

Off Shore Companies

A company limited by shares which is set up under the legislation for holding companies is exempt from all national taxes, except for the specific single tax indicated below.

The holding company, which has the legal form of a company limited by shares, should consist of three individuals, whether resident or non-resident. No minimum amount of capital is required until such time as it receives approval of trading.

The Board of Directors may be made up of any number of individuals, one member being sufficient.

These companies cannot keep assets within the country but they can keep liabilities with individuals or corporate bodies resident in Uruguay.

They can conduct any type of operation abroad (buying and selling of securities, shares, etc.; ownership of real property; opening of branches which can carry out any type of commercial or industrial activity, etc.).

In Uruguay, a single annual tax is paid on the difference between assets and liabilities, at a rate of three per thousand (.03%).

Branches of Foreign companies

Branches of foreign companies, are treated, for tax purposes, as limited companies (4.1).

Their trading is governed by the same general provisions as for local businesses.

LABOUR REGULATIONS AND

SOCIAL SECURITY CONTRIBUTIONS

Labour Regulations

The general terms and conditions of employment are regulated by Laws.

The legal weekly working time is 44 hours in general and 48 hours for industries.

Limited overtime is allowed, with payment of supplement.

Annual paid holidays start from 20 days, which are increased one day for each five years.

The holidays time, is paid twice: one with the regular salary and a second one with a vacation salary, which is no taxable for Social Security contributions.

A mandatory bonus of one month salary must be paid yearly.

Social Security Contributions

The general rates, for the industries and commercial enterprises, including Health Insurance are of 18.625%, in charge of the employer.

The employee's contribution is of 24.125%. For lower salaries, the employee's contribution may fall to 19.125%.

Salaries over an equivalent of US\$ 25,000.-, are not taxables.

The employer contribution for manufacturers falls to 18.625%.

GENERAL CONDITIONS OF INVESTMENT IN URUGUAY

Uruguayan legislation treats foreign and the domestic investors alike, and it does not require any specific authorization to start working in the country, to carry out imports, exports, or deposits and banking operations in any currency, to have access to credits or to receive promotional benefits. There is complete freedom in the exchange market to buy and sell in any currency and to arbitrate between any two of them in cash and in term operations. Thus, there is freedom to transfer capital and remit profits abroad. Likewise, there is complete freedom in contracts subscription, and obligations may be nominated in any currency, whether in domestic or international operations. This is also applicable to work contracts.

The non-existence of a *Personal Income Tax* should also be pointed out, as well as the banking secrecy which protects the whole financing system, and the fact that there is no fiat on the part of the

administrative authorities in fixing the prices of almost every kind of goods.

There are different legal systems for investment production. Some of the most important are:

1. The *Industrial Promotion Law*, which constitutes a tax-exemption régime applied to projects for the establishment, the expansion or the renewal of Industrial Plants declared to be in the *National Interest* by the Executive Power. According to this law, it is possible to obtain exemptions from surcharges to imports of capital assets, as well as Capital Tax exemptions and partial exemptions from Income Tax through mechanisms for the channelling and self-channelling of savings.

All investments in fixed assets enjoy an accelerated depreciation régime.

2. The Laws and Decrees establishing special régimes for different sectors: fishing, diary products, mining, hotel industry, etc.
3. The *General Exports System* which envisages, through the régime of Temporary Admission, the exemption from surcharges on the introduction into the country of raw materials for the manufacturing of products to be exported, besides indirect tax deductions and the access to special credit lines.
4. There are also an special credit system for exporters. The entrepreneur obtain a loan for financing the FOB amount of his sales, for 180 – 270 days term. The Bank retains the 30% of the loan, which is deposited at the Central Bank. The exporter pays an interest calculated at a rate determined by Libor rate plus one point, on the full amount of the loan. The Central Bank, credits an interest calculated at the Libor rate on the full amount of the loan. That means that the real rate of interest effective no higher than 1.5 % per year.