



Doing business in
URUGUAY

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Preface

The purpose of this handbook is to assist those interested in doing business in Uruguay, by answering the main questions that may arise.

Consequently, in case of planning to set up a business in Uruguay, we highly recommend to complement the information in this guide by consulting the laws, regulations and rulings established in the country and to obtain appropriate professional advice.

The material contained in this handbook is based on information and regulations in effect up to July, 2018.

10 reasons to invest in Uruguay*

Strong political and social stability. The three main political parties have taken turns in office, always keeping a strong respect for the rules of the game and business climate.

1

Macroeconomic soundness. Uruguay has gone through fourteen years of uninterrupted growth with an annual average expansion of 5.7% between 2004 and 2013.

2

Access to market with great potential. Uruguay is a member of MERCOSUR. Moreover, it has entered into a FTA with Mexico, and is negotiating one with Chile.

3

Attractive regimes for investors. Substantial tax exemptions on foreign and domestic investments, Free-trade Zones, Free Ports and Airports, among others.

4

Easy of doing business. Uruguay has fostered a number of reforms resulting in materially efficient and expedite state processes.

5

* Information extracted from Uruguay XXI

10 reasons to invest in Uruguay*

Modern infrastructure. First-class port infrastructure, with Montevideo turning into a regional hub.

6

Leader in technology. Highest internet penetration (ITU, 2015) and greatest download speed of the region (Net Index, 2015). First country in the world to implement the “One Laptop per Child” Program.

7

Talent availability. Growing supply of skilled labor. High proportion of bilingual labor.

8

Respect for the environment. 50% of the global energy matrix and 90% of the electric matrix in Uruguay comes from renewable energy, which makes the country with the largest share of renewable sources in Latin America.

9

A country to live in. Montevideo is the city highest-ranked in Latin America in Quality of Living (Mercer, 2017) and Uruguay is the most peaceful country in Latin America (Global Peace Index, 2017).

10

* Information extracted from Uruguay XXI



COUNTRY PROFILE

Geography

Uruguay is a country with 176,000 km² of land surface and is located in the coast of the Atlantic Ocean, bordering Argentina to its west and Brazil to its north and east.

The country is geographically divided into 19 (nineteen) states. The capital city of the country is Montevideo.

The landscape features mostly plains and low hills (cuchillas) with a fertile coastal lowland.



Climate

Uruguay has a climate that is relatively mild and fairly uniform nationwide.

Seasonal variations are pronounced, but extremes in temperature are rare. Natural disasters are very rare and the water supply is abundant.

Its environment is especially suitable for agriculture, forestation and livestock farming.

Population

In Uruguay live a bit more than 3.2 million people of whom 1.8 million live in Montevideo and its surrounding areas, according to the census carried out in 2011. Approximately 95% of the whole population lives in urban areas.

Language

The official language is Spanish. Nevertheless, English and Portuguese are frequently taught and spoken.

System of Government

Politically, Uruguay has a democratic republic system, with a presidential regime. It is a unitary state, in which the main subjects like justice, education, health, security, foreign policy and defense are all administered nationwide.

The government is divided into three independent powers: Executive, Legislative and Judicial.

The Executive Power is run by the President of the Republic and a cabinet of 13 ministers. The President is voted through national elections and the Ministers are designated by the President.

The Legislative Power consists of the

General Assembly composed of two chambers: a 30-member Chamber of Senators and a 99-member Chamber of Representatives.

The President, Vice President, Senators and Representatives serve a five-year term. The Vice President, the Senators and the Representatives can be consecutively re-elected, but the President can not.

The judicial power administers the Judicial system. It has a national jurisdiction and it is divided in Courts and Tribunals.

State governments are elected in a separate election from the Presidential and each state chooses its own public authorities through a universal suffrage system.



Currency

The Uruguayan monetary system is based on the Uruguayan Peso. The U.S. dollar is used freely and without restrictions for transactions and payments. Likewise, all types of currency and precious metals circulate and are exchanged freely in the domestic market.

Religion

Uruguay is a secular State, so there is no official religion. However, the most popular religion is Roman Catholicism.

High Quality of Living

Montevideo is ranked 1st in Quality of Living of all cities in Latin America (Mercer 2017). On the other hand, according to the Global Peace Index, which measures security in society, Uruguay ranks highest in Latin America and 35th globally.

It maintains a “high” level of human development, ranking in 2016 among the top three in Latin America and 54th worldwide (UNDP 2016).



Regarding the Human Development Index (HDI), Uruguay stays above the average for Latin America and the Caribbean.

The country has kept a strong political and social stability supported by a consolidated democracy and strong legal certainty.

Strong Economy

Uruguay's economy relies largely on agricultural exports and in the service sector, especially tourism and financial services. These sectors, including services related to information technology, logistics and transportation, construction, call centres, and shared service centres among others, have shown significant growth over the last five years.

During the last decade, Uruguay experimented a significant growth due to a favourable context of prices for seeds and meat and the implementation of stable macroeconomic policies.

Uruguay has positioned itself as a trustworthy and attractive destination for foreign investors, by virtue of a favorable investment climate and promising macroeconomic performance.

Currently, Uruguay looks for a consolidated sustained growth through stable and well-defined economic policies which helps to maintain investors' confidence.

It is important to point out that in Uruguay there is total freedom for incoming or outgoing funds, including foreign currency, precious metals, bonds and shares. There is no restriction on remittances abroad.



MERCOSUR

The MERCOSUR (Southern Common Market) is a US\$ 3.3 trillion-GDP free trade zone comprising Argentina, Brazil, Paraguay and Uruguay.

Its associate countries are Chile, Colombia, Ecuador, Guyana, Peru and Surinam.

Its purpose is to grant free trade on imports of goods from any of these countries, except for goods included in exception regimens.

Uruguay serves as a gateway to the MERCOSUR and other economies in the region (250km to Argentina, 1.970km to Sao Paulo, 1.900km to Santiago de Chile and 1.550km to Asunción).

Strategic Location

As it was mentioned, Uruguay is strategically located as a regional hub for goods distribution to other Mercosur countries through the port of Montevideo.

The city of Montevideo is near the main cities were the highest portion of regional GDP is generated.

Uruguay has an excellent shipping, road, air traffic and waterway connections, including Parana-Paraguay-Uruguay Waterway.



Democracy and Press Freedom

Political, social and economic freedom plus solid institutions make Uruguay a stable and safe place to invest, work and live in.

Uruguay is one of the countries with the highest support and satisfaction towards democracy and Political Stability in the region (World Bank, The Worldwide Governance Indicators, 2016).

According to the report prepared by the Economist Intelligence Unit Uruguay is considered the only country in Latin America with “Full Democracy” with a score of 8.12, and was ranked 15th out of 167 countries worldwide (EIU, 2017).

Also, Uruguay is ranked 1st in South America in 2018 Press Freedom Index published by Reporters Without Borders, which reflects the attitudes and intentions of governments towards media freedom in the medium or long term.



High institutional development

It is well known that stable and efficient institutions are decisive for generating economic growth and enabling business competitiveness.

Uruguay stands out in the region in regards to institutional strength due to a significant degree of independence of the Judicial Power as well as the good existing legal framework.



Bribery and corrupt practices

Uruguay has adopted measures to prevent money laundering and to fight terrorism, which includes the creation of two specialized offices.

The juridical and regulatory framework in this area satisfies the basic requirements issued by the Groupe d'Action Financiere (GAFI).

Courts have ample faculties to seize and confiscate goods or financial instruments involved in money laundering and similar operations. Uruguay offers legal protection to anyone reporting suspected operations.

The Central Bank has a specialized unit to request information from the public sector and the banking sector, as well as from casinos and real state sectors.

In the 2017 edition of the Transparency International's Corruption Perception Index, Uruguay ranked first in Latin America and 23th globally among 180 countries.

Education

Uruguay has very good literacy rates in the region, mainly due to the fact that public education is mandatory and free.

According to the statistics of Ministry of Education, the percentage of Uruguayans without any education is one of the lowest in the region.

Regarding the quality and coverage of public education, these have shown progress over the last few years.

School enrolment levels also compare well with regional countries. In primary education (children from six to eleven years old) Uruguay has a universal scholarship in all sectors of the population, with 99% of the children attending school.

Regarding high school (teens from 12 to 17 years old), the percentage is a bit lower, and 72% of the teens attend education.

Plan Ceibal

The innovative IT program “One Laptop Per Child”, locally known as “Plan Ceibal”, provides a laptop to every child in all public schools in the country.

Uruguay was the first country to implement such program.

The implementation of “Plan Ceibal” had a significant impact on the schools, families and the whole society, granting access to internet to 100% of the students.



Communications

Uruguay stands out in the region for its efficient telecommunications system.

Uruguay is the most developed country in Latin America on information and communications technology (ICT), according to the International Telecommunication Union's (ITU) ICT Development Index 2017.

With an average of 22.6 Mbps downstream, Uruguay has the highest broadband speed in Latin America. The greater broadband speed is possible thanks to the fiber optic, which in Uruguay has the cheapest fee in Latin America.

Uruguay joined the select group of the most advanced countries in the world in digital development, forming the group named D7, which is integrated by South Korea, Estonia, Israel, New Zealand, United Kingdom and Canada.

Energy industry

Uruguay depends heavily on imports of crude oil for its basic energy supply.

In order to satisfy its energy needs, Uruguay has placed a significant emphasis on wind, solar and biomass power. Aligned, the government has set an agenda to foster development of alternative energy and provides financial and political support to businesses involved.





TYPES OF BUSINESS ENTITIES

In principle, everyone could choose the legal type of entity which considers more suitable for its purposes without requiring special authorizations.

However, in certain cases or for specific activities the law requires some formalities to comply or certain type of legal entity.

Regarding transparency, according to recent Laws N.18.930 and N.19.484, entities whose capital is represented by bearer or nominative participations, certificates or shares as well as other entities like for example foundations, branches of a foreign company, etc., have to identify and inform to Central Bank of Uruguay the ownership of these participations, the ownership chain and the ultimate beneficial owners. The laws foreseen some exemptions to this obligation but still companies have to keep all the information collected in case it is required by the organism in charge of control of this procedure.

Following, a description of the most generally type of entities used is given.

Limited liability company (Sociedad de Responsabilidad Limitada – SRL)

This kind of company is generally used as a vehicle for small to medium scale business operations due to limitations to the number of partners as it cannot exceed 50 partners. Investor's liability is limited to their paid up capital participation in the company. Capital must be expressed in local currency, and may not be represented by or negotiable certificates.

There is no anonymity for the investors and changes in the ownership of the company require amendment of the partnership agreement or contract. Transfer of ownership between partners is free, in case of transfer to third parties it is required the approval of 75% of the partners.

Except as refers financial activities such as banking and insurance there is no general restriction on activities to be undertaken. No limitations are applicable regarding the nationality and residence of the partners.

Corporations (Sociedad Anónima- SA)

This type of company is the one most commonly used by foreign investors to conduct business operations in Uruguay. The advantages of using an S.A. are basically the limitation of liability, ease of share transfer and continuity of existence and practically they are authorized to perform any type of business.

Capital is represented by shares which may be bearer or nominative. No withstanding the capital is represented by bearer or nominative shares, as it was mentioned before, the company has to communicate to Central Bank of Uruguay the names

of the shareholders as well as the ultimate beneficial owner and the property chain.

Bearer shares can be transferred simply by delivery of the certificates. Nominative shares must be endorsed and their transfer must be communicated to the corporation. Changes in the ownership of shares have to be communicated to Central Bank of Uruguay.

There is no minimum or maximum capital required, 25% of capital must be initially paid up and 50% must be subscribed. The liability of shareholders is limited to paying up the shares of stock they have subscribed.



Incorporation requirements for an SA are as follows:

- There must be at least two founding shareholders.
- Bylaws must be submitted for the approval of the National Internal Audit Office (Auditoria Interna de la Nación) and, once approved, filed at the Public Trade Registry (Registro Público y General de Comercio) and published in the Official Gazette (Diario Oficial) and in another newspaper. The bylaws must include corporate name, legal address, corporate purpose and powers, capital and rules for the administration and management of the company.
- Then, the corporation has to register at the Tax office, at the Social Security Office, at the Ministry of Labor and in case of contracting employees it has to register at the National Insurance Bank.

Although setting up a Uruguayan SA involves a somewhat longer procedure (between 4 and 6 months) than the one required for a SRL, shelf companies are available for purchase, which can start to operate in one working day.

Branch of a foreign company

According to national legal provisions every company organized abroad and willing to perform activities contemplated in its corporate purpose through a branch or any kind of permanent agency in our country must meet the following requirements:

1. Filling with the Public Trade Registry of the incorporation agreement of the foreign company , the resolution authorizing setting up the branch in Uruguay, the corporate domicile, the appointment of one or more persons to manage and represent the company, and the amount of capital allocated to such branch or representation, as required by law.
2. Performing the publications required by law for companies organized in Uruguay.
3. All documents must be legalized by the respective Uruguayan Consulate and then by the Uruguayan Ministry of Foreign Affairs. They must be translated into Spanish.
4. The name of the ownership of the capital, the property chain and its ultimate beneficial owner has to be informed to Central Bank of Uruguay.



Trusts

Trusts are frequently used in sectors like dairy, manufacturing and constructing as another option of financing.

Trusts are more flexible than the classical corporate forms of doing business.

Foreign investors used them as a warranty for their own investors in the country and as a quick way to make investments.





TAX REGIME

As a general rule Uruguayan tax system is based on the source principle (although there are some exceptions) , that means investments located and activities performed outside the country are not subject to taxation regardless of nationality, domicile or residence of the parties participating in the transactions, and regardless the place where the transaction agreements are made.

The tax system is structured on the concept of “residence.” According to that, legal entities are deemed to be resident in Uruguay when they are incorporated according to local legislation. For individuals, they are deemed to be residents if they remain within Uruguayan territory for a period longer than 183 days during the calendar year or when their basis of activity or their centre of vital interest is in Uruguay.

According to recent regulations, an individual could also be considered as a resident for tax purposes if he or she complies with any of the conditions mentioned as follows unless he or she can prove his or her residence in other country: a) having an investment that exceeds approx. USD 2.000.000 in

properties located in Uruguay or an investment more than USD 6.000.000 in a company developing directly or indirectly a project declared promoted under the frame of Investment Law.

The main taxes are the following:

Direct taxes

- Corporate Income Tax (IRAE)
- Personal Income Tax (IRPF)
- Non Resident Income Tax (IRNR)
- Net Worth Tax (IP)

Indirect taxes

- Value Added Tax (VAT)
- Excise Tax (IMESI)

Uruguay has signed treaties to prevent double taxation (DTTs) based on the model of OECD and agreements for cooperating in the exchange of information.

Corporate Income Tax (IRAE)

This tax is levied at a rate of 25% on Uruguayan source income obtained by resident entities, permanent establishments of non- resident entities or individuals, from the development of activities, goods located or rights used within Uruguay.

The definition of the permanent establishment is according to OECD rules that is a fixed place of business through which a non resident entity carries on its business.

The taxable income is determined by making the difference between the incomes and expenses, both terms accrued during the fiscal year.

In the case of expenses, the law requires other conditions in order to be deductible:

- they have to be duly documented,
- they have to be necessary for obtaining the taxable income, and
- the expense has to be, for the counterpart, an income subject to IRAE, IRPF, IRNR or to an income tax applicable in a foreign country in case the expense was incurred with a foreign entity.

An inflation adjustment has to be included in the calculation of the taxable income in case the inflation rate accumulated in the last three years is over 100%. Fiscal losses can be carried forward for five fiscal years up to 50% of the taxable income of the fiscal year under determination.

Transactions with foreign related parties are subject to transfer pricing rules according to OECD guidelines, and the same for transactions with entities domiciled in low tax jurisdictions notwithstanding if the parties are related or not.



Personal Income Tax (IRPF)

Resident individuals are subject to IRPF.

There are two categories of income: capital and labor.

Capital income

Capital income includes earnings obtained from holding movable and immovable assets and capital gains derived from the transfer of assets, movable or real estate.

Despite source criteria, an extension applies of such principle, and income derived from holding movable assets outside Uruguay is subject to IRPF.

As a general rule the tax rate applicable to capital income is a flat rate of 12% with some exemptions which are taxed at lower rates like for example: interest on deposits in local currency, interest on debt issued through public subscription and quoted at a stock exchange, dividends or profits paid by IRAE taxpayers.

In certain cases exemptions applied, among others, Interest from public debt titles issued by the Uruguayan State, capital gains from transfer assets not exceeding the amount of UI 30.000 (approx. USD 3.000) individually, and UI 90.000 (approx. USD 9.000) in total during the year.



Labor income

Labor income refers to earnings obtained from rendering personal services as an employee or as an independent.

Under this category it also applies an extension of the source criteria and income obtained by resident individuals derived from rendering services outside Uruguay is subject to IRPF when the payer of the salary or the fees is an IRAE tax payer.

The tax is levied at a progressive rate that vary from 0% to 36% depending on the total annual gross income. Few deductions are allowed to compute, basically those are social security contributions and expenses (a notional expense of approximately USD 1.300 per year per child, duplicated in case of disable children) regarding medical care and education for dependent children.

Non Resident Income Tax (IRNR)

Based on the source principle mentioned before, this tax is levied on the Uruguayan source income obtained by non-resident individuals or foreign entities without a permanent establishment in Uruguay.

During last years some regulations were approved that widened such source criteria. According to that, certain activities (i.e.: technical service fees related to obtain uruguayan source income, advertising services, mediation or disposal of image rights from athletes registered with Uruguayan resident federations) are considered Uruguayan source income and as such taxable by IRNR regardless where the services, rights or activities are provided, exercised or performed.

From 2018 certain cross border activities are subject to this income tax like for example:

- Income derived from production, distribution, or intermediation of cinematographic films and tapes,
- income derived from direct TV broadcasting,
- Income derived from mediation and intermediation in the supply or demand of services provided through the Internet, technology platforms, apps, or similar means.

This tax is collected basically through withholding agents. That is, when an IRAE tax payer pays or credits taxable income to a non resident it will have to withhold the corresponding tax.

The tax rate is 12% flat to be applied on the gross income, with some exemptions which are taxed at lower rates like for example dividends or profits paid by IRAE taxpayers.

Some exemptions apply, among others, for public debt interest, for income derived from activities performed abroad, in customs areas and in free zones, when goods do not have Uruguayan custom territory as the place of destination.

In case of income obtained by entities residents in low or no tax jurisdiction, the tax rate applicable is 25% on the gross income.

Net Worth Tax (IP)

The IP is an annual tax levied on the net worth adjusted for tax purposes of, inter alia, IRAE taxpayers, corporations, joint stock companies, individuals and families.

The taxable net worth is computed as the difference between assets and liabilities, adjusted for fiscal purposes according to certain rules provided for in the tax regulations.

In principle all assets located, placed, or economically used in Uruguay are subject to this tax and, accordingly, this tax is not levied on assets located outside Uruguay.

For legal entities, the applicable rate amounts to 1.5% on the taxable net worth as at the close of the fiscal

year. In particular, for banks and other financial entities the tax rate is 2.8% and 3% for entities resident in low or no tax jurisdiction without a permanent establishment in Uruguay.

IP is also applied as a withholding on the balances owed to foreign persons as at December 31 every year.

There is, however, a wide exemption available in this connection, covering the balances deriving from imports, loans, and deposits of non-resident foreign individuals or legal entities.

For individuals and families applies a progressive tax rate ranging from 0.5% to 0.8% applicable on the net worth as at December 31 of each year. There is a non-taxable minimum of approx. USD 130.000 which is duplicated in case of families.



Value-Added Tax (VAT)

The VAT is a tax levied on the sales of goods and the provision of services within Uruguayan territory, on the actual introduction of goods to Uruguay, and on the aggregate value generated through real estate construction, wherever the contract was executed and whatever the domicile, residence, or nationality of the contracting parties.

VAT tax payers are those who develop business subject to IRAE tax, and those individuals that provide personal services.

The VAT taxpayer is allowed to deduct the VAT paid on its purchases of goods and services. This deduction is subject to certain formal requirements and, in addition, the goods and services thus purchased and/or hired must directly or indirectly make part of the cost of the goods and/or services allocated to taxable transactions.

If the taxpayer carries out both taxable and exempt transactions, then the deduction of the VAT of the goods and services purchased which were not exclusively allocated to one or the

other must be distributed pro rata to one and the other kind of transactions.

Goods and services exports are excluded from the VAT. However, although exports are not taxable for VAT purposes, there is a regime providing for the return of the VAT paid by the exporter on the purchases of goods and services that directly or indirectly make part of the cost of the exported goods or services, which materializes through the issuance of a tax credit certificate.

For purposes of recovering the VAT paid in connection with non-taxable transactions, exports are considered to be taxed at a “zero rate”.

Regarding the provision of services, an exemption is granted, inter alia, to the interest paid on public and private securities and bank deposits, the rental of real estate, bank transactions, etc.

The tax that must be paid is the excess of the tax charged on sales over the VAT paid to goods and services suppliers.

The VAT paid on purchases that are directly or indirectly associated to the sale of goods or the provision of services that are exempted from the VAT tax must be computed as a cost for the taxpayer.

There is a basic rate of 22% and a reduced one of 10% that applies for basic food, medicines and services provided by hotels.

Excise Tax

This tax applies on the first sale carried out by importers or manufacturers of goods.

The rates vary with each good from 10% to 133%, the Government fixes a legal maximum for each type of good. The higher rates apply to the sale of alcoholic beverages, tobacco, gasoline, fuel, lubricants, and other petroleum products.

Exports are no taxable.

International treaties

During last years, Uruguay has signed many international tax treaties (OECD based), for the purpose of preventing double taxation and comply with standards on fiscal transparency and exchange of information.

Currently, Uruguay has Double Tax Treaties in force and effect with the following countries: Germany, Ecuador, Hungary, Mexico, Spain, Switzerland, Liechtenstein, Portugal, Malta, India, Romania, South Korea, Finland, United Arab Emirates, Vietnam, United Kingdom, Luxembourg, Singapore, and Belgium.

In addition, our country has signed treaties for the exchange of fiscal information with France, Denmark, Argentina, Norway, Greenland, Canada, Australia, Sweden, Faroe Islands, Iceland, The Netherlands, Chile, South Africa and United Kingdom.

Additionally, during 2016, Uruguay adhered to the Convention on Mutual Administrative Assistance in Tax Matters, and then to the Agreement for the Automatic Exchange of Financial Information.



INCENTIVES FOR INVESTORS

In 2013, Foreign Direct Investment (FDI) executed in Uruguay reached a record high of US\$ 2,796 million. This figure, which accounts for 5% of Gross Domestic Product (GDP), makes Uruguay the second largest FDI recipient in South America from a GDP standpoint.

Promotion and protection of investments has been a consistent State policy in Uruguay. Foreign and domestic investors are treated equally.

Substantial tax exemptions on foreign and domestic investments could be

accessed should investors comply with the conditions established in the Investment Law and regulatory decrees.

Uruguay also has Free Zones where companies can develop industrial, trade or service activities. The Free Zone Users are 100% exempt from: corporate income tax, wealth tax, import taxes and fees and any other tax created or that may be created in the future.



Tax Incentives

Investment benefits under article 53, Title 4, TO 1996

This benefit considers as exempt income up to 40% of the amount invested in certain goods mentioned below, and up to 20% of the investment in the construction or expansion of buildings used for industrial and agricultural activities, subject to the condition that the exempted amount does not exceed 40% of net fiscal profits for the fiscal year.

This regime applies for the acquisition of certain goods like for example, machines and installations intended for industrial, commercial and service activities (financial and lease activities are excluded), agricultural machinery, vehicles for productive activities, hardware and communication equipment, etc. Regarding construction or expansion of buildings, the exemption applies to the increase of the built-up area.

The benefit does not apply to the purchase of real estate, companies or capital participation in companies.

This benefit applies for those tax payers that incomes generated in the fiscal year before the investment is executed do not exceed UI 10.000.000 (approx. USD 1.000.000). This limitation, will not apply for professional freight companies registered as such at the Ministry of Transport and Public Works.

To get the exemption, the taxpayer must create a special corporate reserve with the accounting profits of the fiscal year or, if these are insufficient, with accumulated profits. This reserve has to be created in an amount equivalent to the income considered exempt under this regime. The goods acquired should not be sold within 3 years after the year of acquisition; otherwise the income considered exempt will be included as taxable income in the fiscal year the sale took place.

Investment benefits under Law 16.906

This law grants tax incentives for investment projects promoted by the Executive Power. Companies interested in applying for the benefits granted under this law have to present an investment project to the authorities that complies with certain requirements.

The project is evaluated by the responsible state office ("Comisión de Aplicación"), which advises the Executive Power whether to declare it as promoted. It also determines the benefits to be granted if the

project is deemed recommendable as promoted. It is important to note that the project is evaluated on the basis of objective criteria, and it is quite easy to obtain the promotional declaration.



Details of the tax incentives granted

Once the project is declared promoted, the fiscal benefit consists of an exemption of CIT, a deduction from the actual CIT tax liability, in an amount equivalent to a percentage of the effective investment included in the project.

The percentage is determined using an evaluation matrix that considers not only the amount of the investment but also other aspects such as the use of clean technologies, geographical decentralization, export growth and diversification, etc.

The term during which the benefit can be applied depends on the exemption percentage granted and the amount of the investment included in the project.

The tax exemption may vary from 20% to 100% of the amount actually invested in the assets included in the project, with a limit of 60% of the tax payable during the years covered by the promotional declaration. The benefits granted under this regime cannot be combined with the benefit granted under article 53 Title 4, TO 1996.

Another promotional regimes

There are other promotional regimes for certain activities like for example, printing industry, naval industry, exploration and exploitation of hydrocarbons , air or sea navigation, and power generation from non-traditional renewable sources.

Promotion investment Treaties

Regarding promotion and protection of investments, Uruguay has signed treaties with: Australia, Argentina, Brazil, Paraguay, Chile, Bolivia, Venezuela, Malaysia, Israel, Saudi Arabia, Egypt, India, Iran, El Salvador, Panama, Nicaragua, United States, Canada, Mexico, Angola, Spain, Belgium, France, Germany, Italy, Sweden, Switzerland, United Kingdom, Finland, Bulgaria, Czech Republic and Romania.

FREE ZONES

In Uruguay there is a Tax Free Zone (TFZ) regime based on Law 15.921 and Law 19.566 and in the Decree 454/88 of 8/7/88.

Approximately 1560 companies are working in the TFZ regime, employing nearly 15,000 people. The majority of companies (54 %) are engaged in activities of trade and logistics. There are more than 140 companies with unique activities of logistics, who work in Export Processing Zones. The most important TFZ by its economic movement are those called "Zonamerica" and "Libertad".

Then, there are those located close to the ports of Colonia and Nueva Palmira, with a surface area of 100 hectares each one, distant to 177 and 261 kilometers respectively from the city of Montevideo in which can operate overseas vessels.

The goods entered in the TFZ from the non free zone national territory are considered to be exports. For its part, the departure of goods from the Free Zones is exempt from any tribute, and if the goods

are entered into the non-free zone Uruguayan territory is considered to be imports, paying the required customs duties.

In the particular case of Mercosur the introduction of goods from TFZ is subject to the common external tariff that applies for the goods that enter from the outside of the area of the Mercosur.

This tariff treatment has reduced the advantages of the products industrialized in the Free Zones compared to products industrialized in non-free zone national territory for the purpose of its introduction to the countries of the Mercosur.

However, the wide tax exemptions for the companies operating within Free Zones still represents a significant advantage for the investor.

Free Zone Users

Free Zone Users are those who acquire their right to operate in a free zone through an onerous contract signed with the operator, either the State or a particular duly authorized. The user can have its own facilities within the Free Zone in accordance with their needs and concerns, it is given a field and the user constructs the building, or is granted the use of an existing building.

On the other hand, users can also purchase their right to operate in Free Zones through onerous contract with another existing user, using or taking advantage of its facilities.

In other words, there may be users who do not have facilities of its own, but use those for existing users who have already purchased or leased a building, office or warehouse with the operator of the Free Zone.

Not only users can operate within the Free Zones of Uruguay. Any domestic or foreign company may develop commercial operations within such zones.

The basic difference between being a Free Zone User and operate in the aforementioned form, is that users are the only ones covered totally of all the benefits granted by the law.



Activities in Uruguayan Free Zones

Free Zones Users can develop in them all kinds of commercial or industrial activities, and services, for other Free Zone Users or third countries including:

- A) marketing, warehousing, storage, packaging, sorting, classifying, fractionation, manipulation or mixture of goods or raw materials from foreign or national origin.
- B) installation and operation of manufacturing establishments, dedicated to the industrialization of the same.
- C) the provision of financial services, information technology, repairs and maintenance, and other professionals that are required to facilitate the operation of the companies established within the zone and the sale of such services to third countries.
- D) Others that in opinion of the Executive Power turn out to be beneficial for the national economy or for the economic and social integration of the States.

Free Zone Users cannot provide services to companies located

or established in non-free zone Uruguayan territory except in certain cases like for example:

- Email, distance courses, electronic signature certificate issuance,
- International call centers except for those whose main destiny is the non free zone Uruguayan territory.

Certain services like software production, and related training services, accounting and administration services to related companies who carry out logistic activities, provided certain conditions, can be provided to non-free zone Uruguayan territory but subject to corresponding taxes.

An amendment was approved and from march 2018 (regulation is still outstanding) it is allowed to provide services from tax free zone to IRAE tax payers companies located in non-free zone Uruguayan territory. These services would be covered by the exemptions granted to the free zone users.

Tax Exemptions

Free Zones Users are exempt from all domestic tax created or to be created (for example, are exempt from value-added taxes, income, wealth, etc.) during the term of their contracts, even those in which by law required specific exemption, with respect to activities develop within the TFZ.

The tax exemption does not include social security contributions applicable to personnel employed in the areas. However, there is an exemption from social security contributions for the foreign personnel who manifests itself not to be interested in qualifying for the Uruguayan social legislation.

Free Zone Users must employ a minimum of 75% of staff consisting of Uruguayan citizens, unless authorized by the Executive Power considering special characteristics of the activity and reasons of general interest. For services activities this minimum is 50%.

International Transit

Goods, services, and raw material introduced in the TFZ and products manufactured within these areas, can departure at any time exempt from taxes. In those cases that goods are introduced from the Free Zones to non-free zone Uruguayan territory, the introduction of such goods will be considered as an import for all purposes.

Supervision and Control

The supervision and control of the free zones is in charge of the Ministry of Economy and Finance.

The control of entry and exit of goods to and from the Tax Free Zones is in charge of the National Customs Office.

Trade

Exports

Exports are not subject to taxes and the exporter can recover by means of credit certificates the internal taxes included in the cost of the goods exported.

There is also, for certain products, a regime of draw-back that allows the exporter to recover the tariffs paid on imports at the time of export if the imported goods are reexported after being manufactured or in the same status as were imported. Currently, there are no limitations on the type of goods to be exported.

Imports

Except for some products like used vehicles, goods may be imported with no restrictions although the imports of certain products must comply with security, sanitary and other controls.

Regarding tariffs, goods entering from non-Mercosur countries are subject to a common external tariff (CET) which varies between 0 and 20% according to the type of good.

Goods from Mercosur countries are generally free from customs tariffs.





LABOR ASPECTS AND SOCIAL SECURITY CONTRIBUTIONS

According to American standards, the workforce in Uruguay is among the well trained and qualified, so that the availability of qualified labor force does not constitute a limitation for new investment projects.

It is possible to make contracts for a short term (three months) at the beginning of the employment relationship. Moreover, in cases that justify it, it is possible to also work with fixed term contracts.

Individual labor relations are regulated by detailed legislation that constitutes one of the bases on which the rule of law in the Uruguay is governed. On the contrary, concerning collective relations the legal system in this area is scarce and it is granted a wide freedom of association.

The trade union movement is organized in associations by company and by sector of activity, being voluntary the affiliation of employees to the Union.

Wages

In Uruguay wage is the set of economic benefits that the worker perceives on the occasion of the employment contract.

Modalities of fixed remuneration (per hour, per day or per month), and variable pay (hourly rate, commissions, holdings, etc.) are included in this concept. When the wage is exclusively variable, or includes variable elements, cannot be, as a whole, lower than the national minimum wage, or the prevailing wage for the respective category or activity concerned.

Working day

The working day is limited to 8 hours a day, totaling 44 hours a week in business and 48 hours per week in the industrial activity. University professionals, vendors and travelers, collectors and senior staff are not reached by this limit.

Breaks

Working hours must be interrupted by an intermediate rest whose duration can be half an hour or two hours and a half depending on the activity.

Overtime

Work that exceeds the conventional or legal limitation of the day must be paid twice on weekdays and two and a half times during non-working days.

Paid annual leave

Workers are entitled to a paid annual leave of twenty consecutive days, which increases at the rate of one day for every four years of antiquity from the fifth year.

In addition, workers are entitled to perceive, a complement destined to a better enjoyment of the license, known as holiday salary. This vacation bonus is exempt from social security contributions.

Special leaves for study are applicable 6 to 12 days per year and for bereavement leave 3 days.

Complementary annual salary

It consists of the twelfth part of the whole of remunerations in money that the worker perceives of the employer in twelve months. It is paid in two halves, one payable in June and the other one in December before the 24th.

Severance pay

The employer has the faculty to dismiss their workers being obliged to pay an indemnity. In the case of the monthly worker, such compensation is equivalent to a monthly salary for each year or fraction of seniority in the company, with a maximum of six months. This indemnity is increased in certain cases like for example pregnancy, illness.

Maternity and Paternity leaves

Pregnant female workers have the right to a leave of 6 weeks before and 8 weeks after childbirth.

They also have the right to receive medical assistance and a stipend corresponding to wages, complementary annual salary, annual leave and holiday salary. These remunerations are paid by the Social Security Office (BPS) not by the employer.

Paternity leave includes 10 days and for private sector 13 days.

Newborn care

The pension system allows the mother or the father (they have to choose which of them) to work part time for the first 6 months after the birth, just to look after the newborn.



Social Security System

The social security system covers the risks of invalidity, old age, retirement, illness, accidents, maternity, unemployment and death.

The affiliation to the system is mandatory, except for foreign workers who perform activities within the free zones. Also, some foreign workers can choose to be excluded from the social security system, under protection of international agreements signed by Uruguay. Among others, Uruguay has signed agreements with Argentina, Brazil, Colombia, Italy, Netherlands, Spain, Israel, etc.

The BPS is the public institution in charge of managing the social security system. It collects basically all the contributions made by the companies and the employees and is in charge of keeping update the records related to the employment history of each affiliate.

The retirement system covers the risks of invalidity, old age and retirement.

There is also a scheme of

unemployment under which the unemployed worker (temporarily or definitively dismissed) who had worked 180 days in the 12 months prior to the unemployment is entitled to receive a percentage of his/her monthly salary.

This coverage period is up to four or six months in case of temporarily unemployment or dismiss respectively, and in cases of transitional unemployment, at the end of the period of six months the worker must be incorporated to the job or is definitely fired.

The worker is entitled to being affiliated without cost to a mutual health care institution. The employment contract is interrupted in case of common illness and BPS paid workers a wage of disease equivalent to 70% of usual wage.

Labor accidents and professional sickness that may affect the worker are covered by a compulsory public coverage system administered by the State Insurance Bank (BSE).

It provides medical assistance and pay annuities for temporary or permanent disablement resulting from an accident or disease.

The employer has the obligation, whenever hires personal, take this insurance with the BSE. The value of the insurance policy will depend on the risks of the activity of the company, the number of employees and the wages paid.

The system is financed by contributions made by the employers and by the employees. The employee's contribution is withheld by the employer when the salary payment takes place. Companies must pay monthly such contributions.

Salaries of dependent workers, including those of Directors of corporations as well as those of partners of personal companies and owners of unipersonal enterprises, are subject to social security contributions and labor Reconversion Fund.

For commercial and industrial companies the contribution rates are as follows:

Social security contributions	Contributions Employer	Contributions Employee
Pensions Fund	7.5%	15%
Health Service	5%	From 3% to 8% (*)
Labor Reconversion Fund	0.125%	0.125%

(*) depending on the amount of salary and the existence of spouse and children



ACCOUNTING STANDARDS

Since 1991 accounting practices have developed significantly with the aim to converge to generally accepted accounting principles (GAAP) applied internationally.

In July 2007, a decree established that for all reporting periods beginning in 2009 it will be mandatory the full application of IFRS in their Spanish version prevailing at that date.

A Decree issued on 2014, approved as an accounting rule compulsory since 2015, the International Financial Reporting Standards (IFRS) for SMEs. After such decree, there were approved some exemptions and local solutions in the application of such international standard.

Companies are free to choose their fiscal year-end and books and records must be kept in Spanish and in local currency.

Independent audit is not required as a general rule but in certain cases is mandatory like for example: financial institutions (banks, insurance companies, and other regulated financial institutions), companies with bank credit facilities over a

certain amount, corporate issuers of shares or debentures in the stock market, healthcare institutions, public transportation companies, etc.

In addition, the Tax Office requires for large and medium size companies to submit either audited financial statements or in other cases financial statements accompanied with a limited review report.

Banking and financial activities are subject to special regulations and limitations.



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