FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

Services provided by member firms include:

- Assurance & Advisory;
- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com
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JUNE 2016

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# Uruguay

## STRUCTURE OF COUNTRY DESCRIPTIONS

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### I. TREATY WITHHOLDING TAX RATES
MEMBER FIRM

City Name Contact information
Montevideo Juan Antonio Chiarino +598 290 20597
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BASIC FACTS

Full name: Eastern Republic of Uruguay
Capital: Montevideo
Main language: Spanish
Population: 3.32 million (2013 estimate)
Major religion: Christianity
Monetary unit: Uruguayan Peso (UYU)
Internet domain: .uy
Int. dialling code: +598

KEY TAX POINTS

• Only income earned or sourced in Uruguay is subject to personal and corporate income tax. The only exception is foreign source financial income of resident individual or companies owned by Uruguayan resident (except export balances to be received).
• Profits and capital gains arising from industrial and commercial activities are taxed at a flat rate of 25%.
• Withholding taxes apply to dividends, interest, royalties and technical assistance fees paid to non-residents at various tax rates. This also applies to the repatriation of Uruguayan branch profits of non-resident companies.
• Resident and non-resident individuals are subject to income tax (IRPF) on Uruguayan source income at varying tax rates depending on the type of income concerned.

A. TAXES PAYABLE

CORPORATE TAX

Corporations and individuals are subject to corporate income tax (IRAE) on their net income of Uruguayan source originating from industrial, commercial and agricultural activities at a rate of 25%. IRAE is levied on resident legal entities and permanent establishments of non-resident entities. Non-residents with no permanent establishment in Uruguay are subject to a specific tax on income of non-residents (impuesto a la renta de los no residentes). Companies or individuals deriving income from agricultural activities may opt to be subject to IRAE or, alternatively, to the tax on disposal of agricultural goods (IMEBA). However, certain types of companies or companies with income superior to a certain amount cannot choose and are always subject to IRAE.

The tax year is the same as the commercial year of the company, provided that adequate accounting records are kept. Fiscal ending date for agricultural companies is June 30th. Otherwise, the fiscal year is the calendar year. In either case, companies must file their tax returns by the end of the fourth month following the end of their tax year end. Advance tax payments are made on account of the final liability for the relevant tax year. If the total advance payments exceed the final liability, a refund is made by means of credit certificates, which may be used to pay the taxpayer’s future taxes but may not be repaid. Dividends, profit distributions or remittances paid or credited abroad by taxpayers subject to IRAE are also subject to a withholding tax at the rate of 7%.

CAPITAL GAINS TAX

Capital gains are subject to the same fiscal treatment as normal taxable income, and must be
included in the same tax return.

**BRANCH PROFITS TAX**

Branches of foreign corporations are subject to IRAE and IMEBA at the same rate as resident companies. Dividends, profit distributions or remittances paid or credited abroad by taxpayers subject to IRAE are also subject to a withholding tax called IRNR at the rate of 7%. Repatriations of branch profits to a head office outside Uruguay are subject to this tax.

**VALUE ADDED TAX (VAT)**

Imports and the supply of goods and services in Uruguay are subject to VAT at the basic rate of 22%. Land, cattle and non-industrial agricultural products are exempted. Certain essential goods and medicines, as well as new buildings are exempted or are subject to the minimum rate of 10%. A monthly payment is due on sales of the previous month. Tax included in the purchases of merchandise, services and fixed assets is deductible from the tax billed to customers.

**FRINGE BENEFITS TAX**

Corporations and individuals are subject to social security taxation on all salaries and fringe benefits paid to employees, at the rate of 7.5% plus 5% of medical care. Additionally, employees are subject to a withholding tax of 21% on the amounts received. Both percentages are due monthly on amounts paid for the previous month.

**LOCAL TAXES**

Two principal municipal taxes are in force. The main one, 'real property contribution', is due to municipal authorities on land and buildings located in their area. It represents a percentage (generally 1.5%) of the cadastral value and is due yearly over three to six payments. The second tax is payable by owners of buildings on a monthly basis for the services rendered by the local authority. This amount is adjusted periodically according to current inflation.

**OTHER TAXES**

A very important federal tax is the net worth tax, due annually by corporations and individuals. Corporations that pay IRAE are subject to the tax at a standard rate of 1.5% on their net worth, calculated on the difference between taxable property and deductible liabilities. The net worth personal tax return must be payable each year in May, on the basis of net worth as of 31 December of the previous year. In this case, tax rates are progressive.

**B. DETERMINATION OF TAXABLE INCOME**

**CAPITAL ALLOWANCES**

Depreciation of assets used in business activities must be computed at a maximum annual percentage. In principle, depreciation is calculated under the straight-line method. Key depreciation rates include the following:

<table>
<thead>
<tr>
<th>Asset</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery and equipment</td>
<td>10%</td>
</tr>
<tr>
<td>Automobiles</td>
<td>10%</td>
</tr>
<tr>
<td>Buildings in urban areas</td>
<td>2%</td>
</tr>
</tbody>
</table>
TERRITORIALITY

Uruguay taxes income on a territoriality basis rather than a worldwide basis. Hence, overseas income is not taxable. Foreign source income is not taxable in Uruguay, except for foreign source financial income of resident individual taxpayers or companies owned by Uruguayan taxpayers. (except export balances to be received).

STOCKS / INVENTORY

On the basis of original costs in local currency, companies are free to choose between FIFO or average cost. The method chosen cannot be changed without the agreement of the Tax Authority.

CAPITAL GAINS AND LOSSES

No special tax rules apply to capital gains or losses. They must be included in the tax return together with the current income.

INTEREST DEDUCTIONS

Interest paid to banks, financial institutions and companies that pay IRAE is deductible without limitation. Interest paid to individuals or to financial institutions located abroad is deductible up to a limited percentage that is established by the Tax Authority.

LOSSES

Losses resulting from the tax return are deductible from gains of the next five years, and, up to that date, are revaluated according to inflation coefficients.

FREE TRADE ZONES

Strategically located within Mercosur, Uruguay offers a very liberal treatment for free trade zones. Those areas of the national territory with a distinctive economic regime enjoy Customs and tax exemptions and are excluded from the jurisdiction of the state monopolies. All types of export focused activities such as commercial, industrial or service oriented activities may be developed in free trade zones. Uruguay also has a very liberal treatment in the ports areas similar to free trade zone areas.

OTHER

An inflation adjustment must be calculated applying the inflation coefficient for the period on the difference between assets (except fixed assets) and liabilities at the beginning of the exercise. If the difference is positive, the adjustment originates a deductible loss, and if it is negative, taxable income. Recently the Government determined that inflation adjustments only applies if inflation rate is more than 10% annually.

C. FOREIGN TAX RELIEF

Foreign tax relief is not available under Uruguayan fiscal law because overseas income is not taxable (except for signed international treaties).

D. CORPORATE GROUPS

There are no special tax rules relating to corporate groups.
E. RELATED PARTY TRANSACTIONS

Taxation of related party transactions must be calculated on the basis of the current local prices, independently of the agreement between the parties. Uruguay applies transfer pricing regulations according to OECD model.

F. WITHHOLDING TAX

Dividends, profit distributions or other remittances paid or credited by taxpayers subject to IRAE are subject to withholding tax at the rate of 7%. Interest paid is subject to withholding tax at the following rates:

- 3% on interest paid by financial institutions out of deposits in domestic currency or indexed units with more than a one-year term;
- 3% on interest on bonds with a term of more than three years issued through a public offer and quoted on the stock exchange;
- 5% on interest from one-year term deposits or deposits of less than a year;
- 12% on other interest.

Royalties paid by taxpayers to non-residents are subject to a withholding tax of 12%. Technical assistance fees paid to individuals or corporations abroad are also subject to a 12% withholding tax.

G. EXCHANGE CONTROL

No exchange controls are in force in Uruguay. All remittances to foreign countries can be carried without limitations through banks, financial institutions and authorised currency exchange houses. All transfers must verify money laundering regulations.

H. PERSONAL TAX

Residents of Uruguay are subject to income tax ‘impuesto a la renta de las personas fisicas’ (IRPF) on their Uruguayan-source income. The only exception is that, from 1 January 2011, income deriving from financial assets located abroad will also be subject to this tax. Income subject to IRPF includes income from dependent or independent personal services, pensions, income from capital, and capital gains. Income tax is assessed under a scheduler system, based on the nature of the income, which is classified as follows:

- Category I: Income from capital and capital gains;
- Category II: Income from dependent or independent personal services and pensions.

Salaries and other remuneration derived by individuals from dependent personal services are subject to individual income tax as applicable in respect of Category II. Income from Category II (income from work) is subject to individual income tax at progressive rates:

<table>
<thead>
<tr>
<th>Taxable Income (estimated in USD)</th>
<th>Tax rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to 700</td>
<td>0%</td>
</tr>
<tr>
<td>701 to 1000</td>
<td>10%</td>
</tr>
<tr>
<td>1,001 to 1,500</td>
<td>15%</td>
</tr>
<tr>
<td>1,501 to 5,000</td>
<td>20%</td>
</tr>
<tr>
<td>5,001 to 7,500</td>
<td>22%</td>
</tr>
<tr>
<td>7,501 to 11,500</td>
<td>25%</td>
</tr>
<tr>
<td>More than 11,501</td>
<td>30%</td>
</tr>
</tbody>
</table>
Individuals are subject to individual income tax on dividends, interest and royalties under the rules applicable to category I. As mentioned above, income deriving from assets located abroad are subject, to IRPF at the rate of 12% from 1 January 2011. Dividends and profit distributions are subject to tax at the rate of 7%, provided that they are paid out of profits subject to IRAE (otherwise they are exempt from tax). Interest is subject to tax at the rates of:

- 3% on interest paid by financial institutions out of deposits in domestic currency or indexed units with more than a one-year term;
- 3% on interest from bonds with a term of more than three years issued through public offer or on the stock exchange;
- 5% on interest from one-year-term deposits or deposits of less than a year;
- 12% on other interest.

Royalties are subject to tax at the standard rate of 12%. Income from immovable property is subject to tax at the standard rate of 12%. For leases of immovable property, housing agency commission, the real estate tax and the primary education tax are deductible for purposes of determining taxable income. Individuals are subject to individual income tax on capital gains under the rules applicable to Category I at the standard rate of 12%.

I. TREATY WITHHOLDING TAX RATES

To date, Uruguay has signed general treaties to avoid double taxation or exchange fiscal information with Germany, Hungary, Spain, Mexico, Portugal, Ecuador, Switzerland, Belgium, Lichtenstein, Malta, South Korea, Argentina, Denmark, Finland, France, India, Iceland, Portugal, Romania, Greenland and Norway.

Uruguay has signed treaties with Brazil, Sweden and Faroe Islands. These treaties are subject to the approval of Parliament. Uruguay has treaties with Paraguay and Chile to avoid taxation on airline companies.