ANNEX – REGULATIONS TO PROMOTE INVESTMENT IN URUGUAY

Uruguay provides a robust regulatory framework designed to foster investment within a stable institutional environment characterized by the highest levels of political and social stability in the region.

- Both individuals and corporations can establish businesses in Uruguay without the need to meet prior conditions or secure special permits from the government, and there is no requirement for a local partner.
- The foreign exchange market operates without restrictions, allowing complete freedom for the buying and selling of foreign currency. Uruguay treats domestic and foreign capital equally, offering investment incentives to both categories. Additionally, there are no restrictions on the amount of foreign capital that can be invested in companies.
- The financial market is entirely unrestricted, with no prior approval necessary for the inflow or outflow of foreign currency. There are no limitations on the movement of capital, including the transfer of profits, dividends, and interest, while still adhering to regulations against money laundering and terrorist financing.
- A unified tax system is applied across the country, based on the principle of source taxation, ensuring that income derived from foreign sources or assets located outside the country is not subject to taxation.

Uruguay provides a variety of incentives and benefits for investors, which can be tailored to suit various activities, including industrial, commercial, and service sectors within the country. Key incentive frameworks include those established by the Investment Law, Free Zones, Free Port and Airport Regime, Industrial Parks, and Temporary Admission. This document serves as a concise overview of the primary incentives available to both domestic and international investors, ensuring equal treatment from a tax perspective and in terms of eligibility for these incentive programs.

This framework represents a distinctive investment promotion regime within the region. Uruguay features multiple regimes that enhance its regulatory environment to attract investment. Notable among these are the Investment Promotion Law, Free Trade Zone Law, Free Ports and Airports, Industrial Parks, Temporary Admission, Customs Warehouses, and specific regulations tailored to various sectors. Below is a brief outline of the principal instruments the country offers to encourage investment.

For detailed regulatory information, please refer to the Investors Guide.

LAW FOR THE PROMOTION AND PROTECTION OF INVESTMENTS

Since its introduction in 1998, the Law for the Promotion and Protection of Investments No. 16,906 has created a legal framework aimed at fostering and safeguarding investments within the national territory by both domestic and foreign investors. Following its implementation, several regulations have been enacted to align with the prevailing economic conditions. Foreign investors are afforded the same advantages as their domestic counterparts and are not required to obtain prior authorization to establish operations in Uruguay. The law, enacted on January 7, 1998, recognizes the promotion and protection of both national and foreign investments as a matter of national interest. The regulations governing this law include Decrees 59/998, 455/007, 002/012, 143/018, and 268/020.

This framework offers investors various tax incentives related to the income and net worth of their companies. To qualify for these benefits, the investment project must receive endorsement from the Executive Power. The investments that are promoted can be considered in the calculation of the Corporate Income Tax (IRAE), allowing for deductions ranging from 30% to 100% of the invested amount. However, the tax exemption cannot exceed 90% of the total tax owed. Additionally, the net worth tax on movable fixed assets and civil works is also exempted.

The legislation also encompasses various benefits, including the reimbursement of VAT incurred on the acquisition of materials and services for civil engineering projects, as well as on the purchase of movable assets intended for investment initiatives. Additionally, it offers exemptions from import duties or taxes on movable fixed assets that have been classified as non-competitive with the domestic industry. There are further incentives and specific advantages available, particularly for micro, small, and medium-sized enterprises (MSMEs) and scientific and technological industrial parks.

If a project is endorsed, it may qualify for a range of supplementary benefits. The assessment of the project is based on a scoring system derived from various indicators, which are organized in a matrix with differing weightings. The indicators evaluated include job creation, decentralization, export enhancement, clean technologies, research, development and innovation, as well as the sector of activity. Companies also have the option to apply for a simplified scheme by focusing solely on the job creation indicator.

This framework does not extend to projects that are solely aimed at the construction and subsequent sale of real estate. However, projects that involve the construction of facilities as part of a promoted activity—such as tourism or the expansion or establishment of new productive ventures—may avail themselves of the incentives outlined in the regulation.

To gain access to the Investment Incentives Regime, a company is required to present its investment project to the Commission for the Application of the Investment Law (COMAP). This commission will identify the appropriate ministry and agency responsible for evaluating the project, based on its specific nature and activities. Detailed regulations regarding these benefits can be found at the following link: http://comap.mef.gub.uy

The Law for the Promotion and Protection of Investments stipulates that the promotional declaration must pertain to a particular sector of activity. Various sectors have been designated for promotion, each supported by regulatory decrees. The sectors that qualify include remote call centers, shipbuilding, the electronics industry, agricultural machinery manufacturing, power generation, tourism initiatives, the treatment and final disposal of industrial solid waste, vehicle and cargo transportation equipment manufacturing, hydrocarbons, and construction activities related to the sale and lease of real estate for housing and large-scale economic projects.

Companies operating within these specified sectors are required to submit certain documentation to COMAP to avail themselves of the tax incentives. However, projects in the hydrocarbons and agricultural machinery sectors must initiate their application process at the National Directorate of Industry within the Ministry of Industry, Energy and Mining, while those in the energy sector must commence at the National Directorate of Energy within the same ministry.

There exist additional tax incentives available to various sectors that fall outside the purview of the Law for the Promotion and Protection of Investments, thereby exempting them from initiating the process with COMAP. The sectors benefiting from these incentives include Biotechnology, Forestry, Scientific and Technological Innovation, External Financial Intermediation, the Graphic Industry, Software, Vehicles and Vehicle Parts, Biofuels, the Communications Industry, and Housing.

Moreover, automatic exemptions for investments are outlined in the 1996 Ordered Text No. 4 and Regulatory Decree No. 150/007.

For comprehensive details and information on sector-specific regimes, please consult the Investor's Guide. The sectors with specific regimes are: Biofuels, Biotechnology, Remote Call Centers, Shared Services Centers, Construction: Large-scale economic projects, Forestry, Power Generation, Hydrocarbons, Green Hydrogen, Research & Development, Communications Industry, Graphic Industry, Maritime Industry, Tourism Industry, External Financial Intermediation, Agricultural Machinery, Maritime or Air Navigation, Industrial Solid Waste, Software, Vehicles and Vehicle Parts, Electric Vehicles, Vehicles and Equipment for the Transport of Goods, Social Housing.

FREE TRADE ZONE (FTZ) LAW

The government of Uruguay has identified the promotion and development of Free Trade Zones (FTZs) as a matter of national interest, aiming to fulfill various economic and social goals, including job creation, the encouragement of high-tech activities, the advancement of decentralization, and the enhancement of international trade. This is facilitated through a preferential tax framework that offers extensive exemptions. Free Trade Zones are specific areas within the national territory designated by the Executive Power, where a wide range of industrial, commercial, and service activities can be conducted. The National Directorate of Free Trade Zones serves as the regulatory body overseeing these zones in Uruguay.

The legal framework governing Free Zones in Uruguay is established by Law No. 15,921, enacted on December 17, 1987, and subsequently updated in December 2017, along with Law No. 19.566. These zones may be operated either by the State or by private entities that have received the necessary authorization. Privately managed free zones are subject to oversight, supervision, and control by the Free Trade Zone Area of the General Directorate of Commerce, which acts as the primary contact for all regulations, permits, and compliance matters related to free zones in the nation. For state-operated zones, this agency is responsible for their management. Activities in free zones can encompass commercial, industrial, or service operations, and companies established under this regime are permitted to offer services to foreign countries and, in certain instances, to Uruguay itself.

Entities permitted to operate within Free Trade Zones (FTZs) can include both individuals and various types of legal entities. There are no limitations regarding the types of legal entities, provided they serve a specific purpose. Furthermore, there is no differentiation between domestic and international investments, with foreign investments not facing any unique procedures or requirements. A maximum of 25% of the workforce may consist of foreign personnel, although this percentage can be adjusted as needed, accompanied by a comprehensive justification for such modifications. Goods stored in these facilities can remain there indefinitely, and their intended use can be altered at any time.

The benefits granted to companies located in the free zones are the following:

- Exemption from Corporate Income Tax (IRAE), Wealth Tax (IP) and any other current or future national tax.
- Dividends paid to shareholders residing abroad are also exempt from taxation in Uruguay.
- Foreign personnel may choose to contribute to social security in Uruguay or in their country of origin (up to 25% of the total number of employees).
- Purchases and sales of goods and services to and from abroad are exempt from VAT. Sales and services within free zones are also exempt from VAT.
- Companies may also trade and provide services to Uruguay. In this case, there are no tax exemptions for these goods and services rendered to the country.
- Non-resident entities are also exempt from Corporate Income Tax (IRAE) for activities developed with foreign goods declared in transit or kept within the free zone, if they are not destined for the national customs territory. These are exempt from the IRAE as long as the sales destined to the national territory do not exceed 5% of the total sales of goods in transit or kept within the free zone.
- Goods traded by free zones with the rest of the world are exempt from customs duties.

PUBLIC-PRIVATE PARTNERSHIP CONTRACTS

Law No. 18,786, enacted in 2011, sets forth the regulatory framework for Public-Private Partnership (PPP) agreements. The latest regulation pertaining to this law is Decree 35/018[1].

These agreements involve a public administration delegating the design, construction, and operation of infrastructure or related services to a private entity, which also includes financing, for a predetermined duration

The law permits the establishment of contracts in the following sectors:

- Road works (including rural roads), railways, ports and airports.
- Energy infrastructure works.
- Waste disposal and treatment works.
- Social infrastructure works, including prisons, health centres, education centres, social housing, sports complexes and urban improvement, equipment and development works.
- Hydraulic works for irrigation.

The procurement process encompasses multiple stages, including the initiation of the process through either public or private means, preliminary evaluations, the approval of studies by the Office of Planning and Budget (OPP) and the Ministry of Economy and Finance (MEF), a public invitation for interested parties, the submission of bids, and the subsequent review and awarding of those bids.

The institutional framework for such contracts comprises various entities. The Public-Private Participation Projects Unit, which operates under the Ministry of Economy and Finance (MEF), is tasked with overseeing the economic and financial dimensions associated with the preliminary studies of the projects. Conversely, the contracting public body is accountable for the design, structuring, and execution of public-private partnership contracts, as well as ensuring their proper implementation and the adherence to obligations by all parties involved. Additionally, the National Development Corporation (CND) plays a crucial role in promoting PPP projects and developing the technical guidelines relevant to these initiatives. The Office of Planning and Budget (OPP) is also responsible for ensuring that each project is developed in alignment with the fundamental conditions and characteristics of the PPP contracting model.

[1] A compilation of all relevant regulations can be found at the following link: http://ppp.mef.gub.uy/

TRADE AND INVESTMENT PROTECTION AGREEMENTS[2]

Uruguay has been a participant in the World Trade Organization (WTO) since its establishment in 1995 and is also a member of the Latin American Integration Association (ALADI), which was founded in 1980. Additionally, it has been involved in the Southern Cone Common Market (Mercosur) alongside Argentina, Brazil, and Paraguay since 1991. Although Venezuela joined the trade bloc as a full member in 2012, it is currently under suspension.

TRADE AGREEMENTS WITH ACCESS TO GOODS

Uruguay, whether as a member of Mercosur or independently, has established numerous trade agreements that facilitate access to various markets with preferential tariff rates. Within the framework of Mercosur, it has entered into agreements with several Latin American nations, including Chile (1996), Bolivia (1996), Colombia, Ecuador, and Venezuela (2004), Peru (2005), and Cuba (2006). Additionally, a specific agreement focused on the automotive sector was made with Mexico in 2002. Beyond the regional context, Mercosur has also formed agreements with Israel (2007), India (2004), the Southern African Customs Union (SACU) (2008), Egypt (2010), and Palestine (2011), although the agreement with Palestine has yet to be implemented.

Most of the agreements, with the exceptions of those with Cuba, India, and SACU—which provide preferences for a limited range of products—are designed to create free trade zones with schedules for tariff reductions that vary by country. The agreements with Chile and Bolivia have successfully achieved a 100% tariff reduction across all goods. Aside from Egypt, which has a more recent implementation date (late 2017), the other agreements in effect have accomplished full tariff elimination for the majority of trade prior to 2019.

Recently, Mercosur has reached a preliminary agreement on free trade pacts with the European Union (EU) and EFTA, although some technical details and legal evaluations of the agreements still need to be finalized before signing. Additionally, discussions are ongoing with Canada, South Korea, and Singapore.

Mercosur is a participant in the Global System of Trade Preferences among Developing Countries (GSTP), which has been operational in Uruguay since 2005. The most recent round of negotiations, conducted in 2010 and not yet implemented, proposes tariff preferences ranging from 20% to 70% for various tariff lines with countries such as Cuba, Egypt, India, Indonesia, Malaysia, Morocco, and the Republic of Korea.

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[2] For a more detailed description of the international agreements in force, see the following link: trade agreements.

Furthermore, Uruguay established a bilateral free trade agreement with Mexico in 2003, facilitating the unrestricted exchange of goods and services between the two nations since June 2004, subject to specific exceptions outlined in the agreement.

In 2016, Uruguay also entered into a bilateral free trade agreement with Chile, which encompasses areas not addressed by ACE 35.

In the automotive industry, which falls outside the scope of the Mercosur regulations, Uruguay maintains active bilateral agreements with Argentina and Brazil, which are subject to regular updates.

Additionally, Uruguay benefits from unilateral preferences provided under the Generalized System of Preferences by Australia, New Zealand, Norway, and Switzerland.

INVESTMENT PROTECTION AGREEMENTS

Uruguay has established Investment Protection and Promotion Agreements (IPPAs) with 34 nations, including Spain, the United States, Finland, France, Japan, and the United Kingdom, among others. An Investment Cooperation and Facilitation Protocol is currently in effect within Mercosur. The most recent agreement to take effect was with the United Arab Emirates on July 28, 2021. Furthermore, a new agreement with Australia, intended to supersede the existing one, came into force on January 27, 2022. Negotiations for IPPAs are ongoing with Turkey (currently under legal review and nearing signature), Qatar, and Saudi Arabia.

Uruguay has engaged in negotiations within Mercosur to establish specific chapters that outline disciplines and commitments regarding investment in the Free Trade Agreements with the European Union and the European Free Trade Association (EFTA).

Currently, discussions are ongoing with Canada, Korea, and Singapore concerning free trade agreements that encompass free trade chapters.

AGREEMENTS ON TRADE IN SERVICES

Uruguay participates in several negotiating bodies for trade in services:

General Agreement on Trade in Services (GATS): multilateral negotiations within the WTO. All 164 members of this organization participate, but negotiations on market access have been at a virtual standstill since 2008.

In the framework of the Doha Round, Uruguay has been participating since 2017[4] (together with about 60 countries) in the negotiation of a reference document with disciplines applicable to measures related to the process of authorization to provide a service, such as licensing and qualification requirements and procedures, and technical standards affecting trade in services. The Domestic Regulation Reference Document was signed in December 2021 by 64 WTO Members[5].

Preferential agreements with services chapters: In parallel to the GATS, and as permitted by its rules, several preferential agreements have emerged that include services negotiations.

The Montevideo Protocol, which came into effect in 2005, outlines the framework for the liberalization of trade in services within Mercosur, detailing specific commitments for each member country. As of now, Mercosur has conducted seven rounds of negotiations that have expanded upon the initial commitments. Uruguay formalized the outcomes of the seventh round through Law No. 19,629, which was published on July 27, 2018. In 2009, a Protocol on Trade in Services was signed between Mercosur and Chile, which took effect between Uruguay and Chile in 2012. Additionally, in July 2018, the Mercosur-Colombia Agreement on Services was signed.

The agreements between Mercosur and both the European Union and the European Free Trade Association are currently undergoing legal review and include dedicated chapters that outline provisions and commitments related to services.

Additionally, Uruguay has engaged in bilateral negotiations concerning services. The Uruguay-Chile Free Trade Agreement, known as Economic Complementary Agreement No. 73, which became effective in December 2018, features a chapter on services that incorporates the commitments established with Chile under the Mercosur-Chile Agreement.

Furthermore, the Uruguay-Mexico Free Trade Agreement, designated as Economic Complementary Agreement No. 60, encompasses provisions addressing all forms of services as stipulated by the General Agreement on Trade in Services (GATS).

Presently, Uruguay is in the process of negotiating trade agreements within Mercosur that also include chapters on services with Canada, Korea, and Singapore.

DOUBLE TAXATION AND INFORMATION EXCHANGE AGREEMENTS

Uruguay has double taxation treaties in force with 24 countries. Germany (2011), Argentina (2013), Belgium (2017), Chile (2018), South Korea (2013), Ecuador (2012), United Arab Emirates (2016), Spain (2011), Finland (2013), Hungary (1991), India (2013), Italy (2020), Japan (2021), Liechtenstein

(2012), Luxembourg (2017), Malta (2012), Mexico (2010), Paraguay (2019), Portugal (2012), United Kingdom (2016), Romania (2014), Singapore (2017), Switzerland (2011) and Vietnam (2016).

Argentina has established an information exchange agreement that includes a provision to prevent double taxation in specific instances.

While negotiations with Brazil have been finalized, the double taxation treaties have not yet been implemented.

Furthermore, Uruguay has entered into 14 additional information exchange agreements and is a participant in the Multilateral Convention on Mutual Assistance in Tax Matters.