Investor's Guide

Tax system

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INVESTMENT, EXPORT AND COUNTRY BRAND PROMOTION AGENCY

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INTRODUCTION

Although in the past year, because of the global health crisis caused by COVID-19, the Uruguayan economy has suffered unfavorable impacts on the investment and employment levels, these have been maintained, adapting and in some cases creating new incentives to promote investment.

Based on the above, Uruguay continues to be positioned as a reliable and attractive destination for foreign investors.

Individuals and corporations can set up companies in Uruguay without having to comply with prior requirements or obtain special permits from the State, nor is it required to have a local counterpart. The foreign exchange market is free, with total freedom to buy and sell foreign currency.

In Uruguay there is no discrimination in the treatment of domestic and foreign capital, and investment promotion incentives are available to both. There are also no limits to the allocation of foreign capital in companies. The financial market is totally free, no prior authorization is required for the inflow or outflow of foreign currency. There are no restrictions on the entry or exit of capital, transfer of profits, dividends, interest, etc., without prejudice to the rules against money laundering and financing of terrorism.

The tax system is unique throughout the territory and is based on the source principle, so as a rule foreign sourced income and assets located abroad are not taxed.

Uruguay has several incentives and benefit schemes for investors, which can be adjusted to different types of activities, whether industrial, commercial or service activities intended to be performed in the country. Among the main incentive schemes available are those established by the Investment Law, free trade zones, the free port and airport regime, industrial parks, and temporary admission. This document is a summary of the main benefits offered by the country, both for domestic and foreign investors, and there is no discrimination between the two from the point of view of taxation or with respect to the qualification for the benefit schemes.

The first four chapters describe the tax benefits created by the Investment Promotion Law and its complementary regulations. This law includes: general benefits for all investments that comply with the conditions established therein; benefits specific to certain types of activities, including external financial intermediation, construction, forestry, graphic industry, maritime or air navigation, software, vehicles or auto parts, biofuels, communication industry and housing, among others, together with benefits that may be requested for specific investment projects.

The remaining chapters describe the treatment of holding companies, the operation of industrial parks, free trade zones, free ports and airports in Uruguay and the benefits that the relevant regulations offer both for potential users and potential operators. Next, it describes the operation and benefits of public-private partnership agreements, which is a tool widely used by Uruguay in infrastructure matters.

Finally, the last chapter describes the different foreign trade-related schemes: tax refunds, temporary admission, export tax refunds, draw-back and customs warehousing.

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URUGUAY'S TAX SYSTEM

1.1 MAIN CHARACTERISTICS

» The Uruguayan Tax System includes indirect and direct taxes, generally defined by the source of income. Indirect taxes are the main source of government revenue.

» The main taxes affecting corporate activities are the Value-Added Tax (VAT), Wealth Tax (*in Spanish IP*), and the Corporate Income Tax - CIT (*in Spanish IRAE*)

» Earnings are taxed by the Corporate Corporate Income Tax (IRAE), Personal Income Tax (IRPF) or Non-Resident Income Tax (IRNR), depending on the status of the earner.

» Benefitted by a wide tax exemption, those operating in Free Trade Zones (FTZs) are not subject to taxation (except specifically excluded industries).

1.2 LEGAL FRAMEWORK

Legislation:

The current Constitution assigns the power to approve national taxes to the Legislature, while the task of administering and collecting taxes falls on the Executive Branch.

During the first semester of each presidential term (five years), the Executive Branch submits the national budget of projected expenses and investments to the Legislative Branch for approval, stipulating the sources of resources necessary to finance the budget.

The 19 departments that make up the country each have the authority to dictate, collect, and control certain specific types of local taxes through their local governments – essentially urban and suburban property taxes, taxes on vehicles, and utility and comptroller fees. In that regard, the most noteworthy taxes are the Tax on Real Estate Property, Motor Vehicle Excise Tax, and the Hygiene and Food Control Tax, although the incidence of these taxes on corporate activities is generally not significant.

The tax collecting agencies are not empowered to change tax legislation. While the Constitution does not explicitly prohibit regulations with retroactive effects, jurisprudence and majority doctrines have traditionally interpreted that such a prohibition is implicit in the general principles enshrined in the Constitution. In practice, laws with retroactive effects are not passed.

Jurisprudence

Tax laws in Uruguay are interpreted in the same way as any other law, using all of the methods recognized by the study of law. Even analogy is an admissible method to fill legal voids, with the limitation that the event that generates the tax may not be extended by this means, nor may infractions or exemptions be created.

In Uruguay, only legal or regulatory norms constitute a source of law, not jurisprudence. Notwithstanding the foregoing, judicial precedents are usually invoked in support of the litigants' position. In relation to the interpretation of facts, the principle of reality imposes to discard in tax matters the use of inadequate legal forms, and in such cases the substance must be preferred over the legal form.

Fiscal Violations

Violations of the rules related to accounting and supporting documentation of the transactions carried out by the taxpayer, filing of tax returns and payment or withholding of taxes are penalized in accordance with the provisions of the Tax Code.

Binding Consultations

If a taxpayer should require clarification regarding the tax authority's interpretation of a norm to a real-world situation, the taxpayer can obtain a written opinion from the tax authority on the topic in question. In such a case, the tax authority will be bound to maintain the criterion supported with respect to the taxpayer. Any change to that criterion must be informed to the taxpayer, and such change will only take effect after such notification. While not binding for all taxpayers, the publication of responses to consultations allows taxpayers to understand the tax authority's opinion on such situation.

1.3 MAIN TAXES

The Uruguayan tax system is largely financed by the application of indirect taxes. In 2020, the Value-Added Tax (VAT) made up approximately 46% of revenue. The collection of direct taxes (especially on income and assets) accounted for a less significant portion, 40% of revenue in 2020.

Corporate Income Tax

The Corporate Income Tax (*in Spanish* IRAE) is an annual tax of 25% on net income from Uruguayan sources derived from economic activities of any kind. Income from Uruguayan sources is considered that comes from activities developed, assets located, or rights used commercially within Uruguay. Income from farming activities is also subject to IRAE taxation, with the taxpayer in such cases occasionally being able to decide between payment of the IRAE or the Tax on the Sale of Agricultural Goods (IMEBA), a tax levied on the sale of certain farm products.

Notably, Investment Promotion Law 16.906 offers a number of exemptions, and several promotional tax regimes designed to stimulate investment in Uruguay. More information is available in the relevant chapter, Promotional schemes for investment.

Personal Income Tax

Personal Income Tax (*in Spanish* IRPF) is a personal and direct tax on the earnings obtained by physical persons residing in Uruguay. For the purposes of this tax, residents are those physical persons that remain in the country for more than 183 days during the tax year, locate their headquarters or the base of their activities within the country, or keep the center of their vital or economic interests in Uruguay. The tax is levied under a dual system that distinguishes earnings derived from productive capital factors (taxed at a rate between 7% and 12%) and earnings derived from work (taxed progressively at a rate up to 36%).

The tax is annual and is generally collected on December 31st. Nonetheless, the regulations provide for advance payments and withholdings for different types of income.

Non-Resident Income Tax

Non-resident Income Tax (*in Spanish* IRNR) is a tax on the income from Uruguayan sources obtained by physical and legal persons who do not reside in the country, meaning they are not permanently established in Uruguay. Rates are between 7% and 12%, depending on the nature of the income. When the taxpayer is an entity constituted, domiciled, residing, or located in a country with a low or non-existent tax rate (or is a beneficiary of such a tax scheme), the tax rate is increased to 25% (except in case of dividends, taxed at 7%). Generally, the tax is collected by means of withholdings through local companies that pay or credit taxable income to the non-resident person. When a designated withholding agent is not involved, the taxpayer must designate a representative in Uruguay and pay the tax directly.

Wealth Tax

The Wealth Tax (*in Spanish* IP) is a tax on the value of total assets in the country – valued according to tax regulations, minus certain liabilities– at the end of the fiscal year, with rates between 2.8% for banks and financial institutions and 1.5% for all other legal entities. The rate increases to 3% for entities constituted, domiciled, residing, or located in a jurisdiction with a low or no taxation or entities that benefit from such a special tax regime. Physical persons pay Wealth Tax at progressive rates that range between 0.2% and 0.7%, and 0.5% and 1.5%, depending on whether or not the taxpayer is a resident of Uruguay. Current norms foresee the gradual, annual reduction of these rates – in certain cases – until reaching a unified rate of 0.10%. Minimum asset values to be reached by Wealth Tax taxation are updated annually by the Executive Branch and are currently set at approximately 115,000 USD for physical persons, a figure that doubles for families.

The Wealth Tax paid by industrial and commercial companies, including financial entities, may be offset up to 1% with the CIT taxed in the same fiscal year (except in the case of non-resident legal entities or resident entities with capital represented in bearer securities or whose owner is a legal entity).

Value-Added Tax

Value-Added Tax (VAT) is a tax on the internal circulation of goods and services within the country, imports of goods, and added value created through construction. Exports are taxed at a rate of 0% and are thus not reached by VAT obligations. The basic VAT rate is 22%, with a minimum rate of 10% applied largely to basic necessities and medicines, as well as a series of goods and services exempt from VAT payment.

As of August, 2015, in accordance with norms for financial inclusion and electronic payments, VAT rates were reduced for the sale of goods and services to end consumers when payment is received through debit cards or other electronic payment instruments. The reduced rate is 20%.

Excise Tax

The Excise Tax (*in Spanish* IMESI) taxes the initial sale by producers or importers of certain products (cigarettes, alcoholic beverages, soft drinks, cosmetics, etc.) on the local market. Exports are not taxed. The rate depends on the item taxed and is generally fixed by the Executive Branch within parameters established by the law.

1.4 INTERNATIONAL ASPECTS

Activities Carried Out Abroad

The Corporate Income Tax taxes earnings from Uruguayan sources, defined as those resulting from activities performed, goods located, or rights used commercially on Uruguayan soil. Nonetheless, some exceptions exist to the principle of territoriality – where certain services provided from abroad (under certain conditions) are considered from Uruguayan sources and are reached by CIT obligations.

Fiscal Regime for the purchase and sale of goods and the mediation of services – according to Tax Authority (DGI) Resolution 51/997

Resident entities that perform activities related to the purchase and sale (trading) of goods without physical passage through Uruguay or those that mediate the provision of services neither delivered nor used on Uruguayan soil, are subject to an (optional) tax regime where CIT can be calculated by applying the rate of 25% to 3% of the difference between the sale and purchase prices of said goods and services, resulting in an effective rate of 0.75%.

Free Trade Zones (FTZs)

Operations carried out in FTZs enjoy broad tax exemptions (except in the case of very specific exceptions), not subject to either internal taxation or import/export tariffs.

Internet Services, Technology Platforms, Applications, or similar

Corporate Income Tax (IRAE) or Non-resident Income Tax (IRNR) obligations apply to earnings from production services, distribution, or mediation of films and other audiovisual transmissions, including those conducted over the Internet, technology platforms, information technology applications, or similar means – as long as the end customer is located in Uruguay. Those services intended to be consumed or used commercially inside the country are also subject to VAT.

For the purposes of the law, activities mediating supply or demand of services over the Internet, technological platforms, applications, or similar are those that **(i)** are basically automated, require minimal human intervention, and are not viable without information technology; and **(ii)** affect – directly or indirectly – the supply or demand of services. These activities are subject to CIT or Non-resident Income Tax and VAT obligations, as long as the provider and/or the consumer of the service is located in Uruguay.

Holding Activities

Corporations in Uruguay can exist for the sole purpose of owning other corporations, located either in Uruguay or abroad – an activity often called "holding".

Income derived from the **ownership** of capital stock in other corporations is not subject to taxation in our country. Nonetheless, income obtained from the **sale** of capital stocks in corporations is subject to Corporate Income Tax obligations, calculated by applying the 25% rate to the sale price minus the fiscal value of the shares sold. The **sale** of capital shares in foreign corporations – as long those assets are located abroad – is not subject to CIT taxation.

With respect to the Wealth Tax, holdings in entities subject to CIT are exempt from taxation. Holdings in shares of foreign corporations – under the definition of territoriality used in Uruguayan legislation – are not subject to Wealth Taxes, as long as those assets are located outside the country.

Holding activities are also exempt from VAT taxation. In the case that these securities are sold, they are exempt from VAT taxation because they either: **a)** involve the sale of shares in foreign corporations, considered circulation of goods abroad and not meeting the territorial requirements for VAT application, or **b)** involve the sale of shares in local corporations, expressly exempt from VAT payment.

It is also worth noting that, as holding activities are not subject to VAT, any payment of said tax – including for the purchase of goods and services necessary to generate earnings from the activity, such as administrative costs, hired professional services, etc. – constitutes an expense for the company, although these amounts tend to be negligible among holding corporations.

1.5 TAX GOVERNANCE

Tax System Administration

National taxes are collected and administered by the National Tax Authority (*in Spanish Dirección General Impositiva* - DGI). The collection of Personal Income Tax (IRPF) is conducted jointly between the Social Security Authority (*in Spanish Banco de Previsión Social* - BPS) and the National Tax Authority.

Municipal taxes are administered and collected by departmental governments.

All information presented by taxpayers to tax authorities or obtained by said authorities in the course of their inspections is secret and cannot be revealed, except in trial for criminal and family cases (and only when the information is considered indispensable), or in cases where the information is requested by a foreign tax authority and meets the criteria established in an Information-Sharing Agreement.

Sworn Affidavits

The tax system is based on sworn affidavits provided by taxpayers, which may be audited by the tax authorities.

Taxpayers reached by the Corporate Income Tax (IRAE) and the Wealth Tax (IP) must present affidavits for these taxes (through forms provided by the DGI) within four months of the end of the fiscal year. On this date, the taxpayer must also pay any remaining obligations, after deducting any monthly payments already made during the tax year. Taxpayers subject to Personal Income Tax (IRPF) or Non-resident Income Tax (IRNR) who have already fulfilled their obligations through monthly deductions are not obligated to present affidavits. In such cases, the deductions themselves act as an affidavit.

Sworn affidavits may be modified in the event of material or legal errors, although modification may not affect legal responsibility for past violations. Modifications or rectifications may not be presented during inspections by tax authorities.

Appeals

Taxpayers can appeal Tax Authority (DGI) decisions by filing a repeal with the agency and simultaneously filing a hierarchical appeal with the Executive Branch. Both appeals must be presented together within ten days of notification of the decision by the DGI. If both appeals are rejected, the taxpayer may appeal before the Administrative Court of Appeals to have the decision declared null.

Payments

In general, direct taxes are collected and paid annually. Taxpayers reached by the Corporate Income Tax, Personal Income Tax (IRPF), Non-Resident Income Tax (IRNR), and the Wealth Tax (IP) must make monthly payments toward their obligations and pay any remaining balance due when they provide their yearly sworn affidavit. IP withholdings on credit balances held with foreign individuals as of December 31 of each year must be paid to the tax authority during the month of May of the following year.

Tax Audits

The National Tax Authority (DGI) may audit the affidavits presented by taxpayers. Audits are generally decided by random sampling and cannot be predicted by taxpayers.

The audit may yield aspects requiring further explanation from the taxpayer.

In the event that the National Tax Authority does not accept the taxpayer's explanations, the agency must formally notify the taxpayer of such aspects. The taxpayer then has ten days to formally respond to the National Tax Authority's observations. Once ten days have elapsed, the National Tax Authority releases a formal assessment of the errors identified and balance due, which the taxpayer is free to appeal.

The National Tax Authority may determine tax obligations when sworn affidavits are not filed or when accounting information is absent or insufficient. All National Tax Authority determinations can be appealed by taxpayers.

Penalties

Failure to pay all or part of the tax at the appropriate time is punishable by a fine of between 5% and 20% of the amount of the tax not paid (depending on the date of payment) and with a monthly surcharge capitalizable on a quarterly basis. Non-payment to the tax authority of withholdings made is penalized with a 100% fine.

Failure to pay (a residual infraction as defined by Article 97 of the Tax Code) is penalized with a fine between one and five times the value of the omitted payment, rising to fifteen times the amount due in the case of fraud. Tax fraud is also punishable as a criminal offense.

Statute of Limitations

The right to collect taxes expires five years after the end of the fiscal year in which the taxable event occurred. The statute of limitations can be extended to ten years when the when the taxpayer has incurred in fraud or does not comply with the obligations to register or file the tax affidavits.

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CORPORATE TAXES (DIRECT TAXES)

2.1 MAIN CHARACTERISTICS

» Only income from Uruguayan sources is taxed.

» Actual net income is taxed, expressed in Uruguayan Pesos, with partial adjustments to account for inflation.

» Dividends obtained from local corporations are not taxed.

» Earnings from capital invested locally are taxed.

» Interests paid on loans to non-residents are deductible within certain limitations and are generally subject to Non-Resident Income Tax (IRNR).

» Wealth Tax (IP) and Corporate Income Tax (IRAE) payments are not deductible expenses.

» Dividends paid abroad are taxed by Non-Resident Income Tax withholding basically when they come from income taxed by CIT for the person who earned them.

» Accumulated earnings taxed by CIT (not reinvested in fixed assets, intangible assets or participations in resident companies, nor destined to increase the gross working capital) that have been in existence for at least four fiscal years will be considered as notional dividends. They will be considered effectively distributed for tax purposes and subject to Non-Resident Income Tax or Personal Income Tax (IRPF) liabilities.

» Liabilities resulting from imports, loans, and deposits in foreign currency kept with people or entities abroad are exempt from Wealth Tax.

2.2 CORPORATE INCOME TAX (IRAE)

The CIT is an annual tax of 25% on earnings from Uruguayan sources from economic activities of any type.

Liable Subjects

Corporations and foreign entities with permanent establishments in the country are subject to CIT for all earnings from Uruguayan sources. All other entities are subject to CIT taxation on corporate earnings, that is, those originating from the combination of capital and labor.

Territoriality

Earnings from Uruguayan sources are defined as those obtained through activities carried out, assets situated, or rights commercially used in Uruguay. Earnings obtained from farming activities are also subject to CIT liabilities, although the taxpayer may choose – in certain cases – to pay the Tax on the Sale of Agricultural Goods (IMEBA), instead.

Permanent Establishment

Any physical person, legal entity, or any other type of non-resident entity that carries out all or some of its business in Uruguay through a fixed place of business, will be understood to be permanently established in the country.

The law includes a series of examples to illustrate the situations that constitute permanent establishment, including headquarters, branches, offices, factories, workshops, mines, oil and gas wells, quarries, and any other location from which natural resources are extracted. The definition of permanent establishment also includes construction or installation projects lasting more than three months, and services (including consulting services) provided by a non-resident through employees or other personnel hired by the company for such an end, as long as the activities are carried out (in relation to a single project or any number of projects) during a combined period exceeding six months over any twelve-month period.

The law also includes a "negative list" of situations that do not constitute permanent establishment. The non-definitive list includes **(i)** using Uruguayan facilities to store or exhibit goods or products belonging to the non-resident, **(ii)** using local facilities to store or exhibit products or goods belonging to the non-resident to be used by another company, and **(iii)** keeping a fixed place of business for the sole purpose of purchasing products or goods, gathering information, or any other preparative or auxiliary activity.

When any person that is not an independent agent performing economic activities in the country acts on behalf on a non-resident in Uruguay and regularly signs contracts for that non-resident, the non-resident, for the purposes of any liabilities resulting from the activities performed on that person's behalf, is also considered to be permanently established in the country.

In accordance with the applicable legal provisions, permanent establishments of foreign entities must include in their CIT liquidation all income obtained in the country by the foreign entity ("ancillary jurisdiction"), except for certain exceptions (as in the case of permanent establishments originating in the rendering of services) in which only those incomes effectively linked to their activity in Uruguay are included in their CIT liquidation.

Non-residents that act in the country through a permanent establishment must designate a resident physical or legal person to represent them before the National Tax Authority (DGI). Legal representatives may be held jointly liable for the non-resident tax liabilities. Failure to designate a representative or inform authorities of said designation may result in the presumption of fraud by the National Tax Authority.

Recognition of Income and Expenses

Taxable net income (on which the rate is applied) is calculated considering all income and expenses over the fiscal year.

Earning Calculations

Gross income is obtained by subtracting the costs of production or acquisition from total net sales.

Also considered Gross Income:

» Income from the sale of fixed assets.

» The profit resulting from comparing the tax value and the market sale price of the assets awarded or given in payment to partners or shareholders.

» Income from currency exchange during the fiscal year.

» Income from the sale of establishments or branches.

» Any other increase in assets over the fiscal year, with the exception of those resulting from revaluations of fixed assets or from integrations, reimbursements or redemptions of capital stock.

Adjustments for inflation

In a partial attempt to neutralize the distortive effects of inflation, an adjustment for fiscal inflation is performed by applying the variation in the Consumer Price Index (*in Spanish* IPC) for the months in the previous fiscal year to the taxpayer's fiscal assets at the start of the fiscal year. This adjustment is performed only when the accumulated variation in the IPC for the previous thirty-six months to the end of the tax year exceeds 100%.

Revaluation of Fixed Assets

The value of fixed assets must be revalued as from the month in which they are added to the assets or as from the fiscal year following the year in which they are added due to the variation in the IPC during the fiscal year (the revaluation criterion from the accounting point of view may be different). For the purpose of calculating the result from the sale of fixed assets, their value is revalued until the month or until the end of the fiscal year in which the sale is made. The increase in equity resulting from the revaluation of fixed assets does not constitute taxable income; likewise, the fixed assets existing at the beginning of the year are excluded from the basis of the fiscal inflation adjustment.

Inventory Valuations

Product inventories can be valued either by acquisition or production cost, or by the replacement cost at the end of the accounting period, whichever the taxpayer prefers. Whatever the valuation criteria used, the cost of sold goods is determined by applying the convention of historical costs, thus, when inventories are valued at market values, the difference between market value and historical costs is considered taxable earnings.

To determine the sale costs for livestock, the initial and final inventories are valued at current market rates at the end of the accounting period. Said values are published annually by the Nationa Tax Authority (DGI). Livestock are also excluded from the asset base for calculating inflation adjustment.

Tax reporting may use accounting methods (FIFO, LIFO, or average) that are different to internal accounting practices. Allowances for inventory obsolescence are allowable provided they relate to losses actually incurred. Provisions for possible future losses are not allowed.

Real Estate Valuations

Real estate values of any kind are valued at their market price as of the closing date of the fiscal year. If they are not appraised, they are valued at their cost value, revalued by the variation operated from the month or year-end when the asset entered the equity (at the taxpayer's option), up to the date of liquidation of the IPC.

The capital equity of CIT taxpayers will be valued at the value resulting from the balance sheet of such companies adjusted in accordance with the rules of the Wealth Tax. In the event that these equity participations are shares, this valuation system or the two aforementioned systems may be chosen.

Capital Earnings

Capital gains are considered taxable income, except for revaluations of fixed assets and those derived from the holding of shares or social quotas of other CIT taxpayers.

Interests

Interests are calculated based on the amount accrued. There are no rules governing asset/debt ratios.

Dividends

Dividends paid or credited to taxpayers already subject to CIT taxation are not considered taxable income (exempt income) – in order to avoid double taxation.

Dividends paid to resident physical persons and non-resident physical or legal persons are subject to Personal Income Tax (IRPF) or Non-Resident Income Tax (IRNR) at a rate of 7%, insofar as the dividends are related to earnings already reached by CIT taxation. Dividends and notional earnings from activities subject to CIT taxation receive the same treatment. Dividends and notional earnings are understood to be net CIT-taxable income at least four accounting periods old, even if the competent corporate body has not resolved its distribution.

Dividends distributed by CIT taxpayers are income from movable capital taxed by IRPF at the rate of 12%, provided that such dividends have originated in income from movable capital from non-resident entities. Such passive income obtained abroad and defined by law as income from movable capital from "non-resident entities" does not include income from the sale or transfer of assets abroad (capital gains), nor income derived from real estate investments outside Uruguay. When the entity is a resident of a jurisdiction with a low or non-existent taxation, earnings obtained from the performance of capital and capital gains will be treated as dividends or distributed profits (taxed by CIT at the rate of 12%).

Currency Exchange Differences

Income resulting from differences in exchange rates is reached by the CIT. Such income is determined by revaluations of assets and liabilities in foreign currency over the fiscal year.

Exempt Income

Among others, the following types of income are exempt from CIT taxation:

» Income of air and sea navigation companies. Foreign companies receive the exemption provided that in their country of origin, similar Uruguayan companies are offered the same benefit. The government can grant tax exemption to foreign land transportation companies as well if reciprocal treatment exists for Uruguayan companies.

» Freights for the maritime or air transportation of goods outside of Uruguay not included in the exemption of the previous section.

» Income derived from farming activities that fall under the Tax on the Sale of Agricultural Goods (IMEBA), as long as the taxpayer selects this tax.

» Income subject to Personal Income Tax (*in Spanish* IRPF).

» Income subject to Non-Resident Income Tax (*in Spanish* IRNR).

» Income derived from research and development activities in the area of biotechnology and bioinformatics, and income derived from the production of logic supports and related services (under certain conditions).

» Income from activities abroad or in customs houses, ports, port warehouses, and Free Trade Zones with products from abroad reported to be in transit or stored in such locations, as long as the goods are not made in Uruguay nor intended for the local market. This exemption also applies to goods destined for use in national port facilities, as long as income from these sources does not exceed 5% of total sales of goods in transit or in deposit over the fiscal year.

» Dividends and distributed profits or asset value variations resulting from holding capital shares. This exemption does not include income from the sale of said shares.

» Income of cultural, educational, or athletic institutions.

» Income received by official or diplomatic organizations from foreign countries in which Uruguay enjoys reciprocal conditions or by international organizations of which Uruguay is a member.

» Income of small companies. Companies with income that does not exceed the minimum threshold updated by the Executive Branch yearly are exempt from CIT taxation.

Deductible Expenses

The general principle used to calculate net income is to subtract from gross income those expenses that are necessary to obtain and sustain said income, paid during the fiscal year and properly documented, notwithstanding certain specific limitations and exceptions.

In addition, only those expenses that constitute for the counterparty any of the following may be deducted:

1. income taxed by Corporate Income Tax - CIT,
2. income taxed by Personal Income Tax (IRPF) or Non-Resident Income Tax (IRNR),
3. income taxed by an actual income tax abroad.

Tax norms include a long list of exceptions to this general rule.

In the case of expenses incurred for personal services rendered in a relationship of employment that generate income taxed by the CIT, the deduction is also conditioned to the payment of pension contributions, if applicable.

When the expenses constitute, for the counterparty, income taxed by the CIT in category I of such tax (Income from Capital and Capital Gains) or income taxed by the IRNR, the deduction will be limited to the amount resulting from applying to the expense the quotient between the maximum rate applicable to the income of such category in the corresponding tax (12% or 25% in certain cases) and the CIT rate (25%).

For expenses that constitute for the counterparty income taxed abroad, the deduction will be 100% if the actual foreign taxation rate is equal to the local 25% rate or greater. If the actual foreign rate is lower, the corresponding proportion must be made, regardless of the limit referred to above.

It will be assumed that the effective rate is equal to the nominal rate, unless the existence of special regimes for determining the taxable base, exemptions and the like that reduce the tax resulting from the application of such nominal rate are verified. The IRAE regulatory decree adds that when the counterparty is taxed by an actual income taxation abroad and also by the IRPF in Category I (Capital Income) or by the IRNR, the maximum rate of the local tax and the actual rate of the foreign tax will be added in the numerator of the quotient (the deduction may never exceed 100% of the expense).

Regarding deductions of expenses incurred abroad with entities constituted, situated, registered, or residing in jurisdictions with low or non-existent tax regimes or that are the beneficiaries of a special tax regime that ensures low or non-existent taxation (according to the list maintained by the National Tax Authority - DGI), tax treatment in said jurisdictions must be justified and documented, submitting to the National Tax Authority (DGI) a certificate from local tax authorities in the foreign jurisdiction or from external auditors. In the case of any other expense incurred abroad, said certificate must only be obtained when requested by the National Tax Authority (DGI).

Depreciation

Intangible assets (such as brands or patents) depreciate linearly over a period of five years, as long as they represent a real investment and an owner can be clearly identified. Those acquired after July 1st, 2015 depreciate by a fixed rate over the number of years of the potential useful life of said goods. In cases where determining the good's potential useful life is impossible, depreciation is calculated over a period of ten years. The goodwill will not be depreciated in any case. Registration expenses incurred for intangible assets with a limited useful life can – if the taxpayer so chooses – be deducted in the fiscal year when payment was made or be depreciated at a fixed rate over the useful life.

Movable fixed assets depreciate linearly over the potential number of years of their useful life. Brand new cars depreciate over a period of ten years.

Depreciation is calculated as of the next month or accounting period after the good was purchased and a linear depreciation must be applied. However, the National Tax Authority (DGI) may authorize alternative mechanisms that it considers technically sound.

Earnings from the sale of fixed assets are defined as the difference between the sale price and the replacement value of the depreciated good, appraised at the end of the accounting period.

Leasing Contracts

Tax regulations distinguish between financial leasing and operational leasing activities. Financial leasing involves an option to buy the asset at a price below 75% of its fiscal value (reappraised and depreciated historical cost) at a date specified in the contract. In other cases, the activity is considered operational leasing. For tax purposes, financial leasing is treated as a deferred sale. As a result, ownership of the good transfers to the lessor, who recognizes it as a fixed asset with yearly depreciation.

Other Deductions

Notwithstanding the general rule governing expense deductions, the guidelines explicitly recognize the following as deductions:

- Losses caused by accidents or force majeure events, not covered by insurance or indemnity.
- Losses caused by poor (uncollectable) debts.
- Expenses incurred to train personnel in areas considered a priority and expenses incurred to finance research and development projects, which may be computed at one and a half times their actual amount.

Non-Deductible Expenses

The following expenses are not deductible:

- Losses incurred due to illegal activities.
- Penalties for tax violations.
- Expenses for obtaining non-taxable income.
- Personal wages for which no pension contributions are made.
- Income and asset tax payments.
- Expenses to small companies not subject to CIT taxation, under certain circumstances.

Fiscal Losses

Losses incurred during an accounting period can be deducted (adjusted for inflation according to variations in the IPC) from earnings in the following five accounting periods. Losses incurred cannot be deducted from earnings in previous fiscal year.

Accounting

- **Net Income:** Net income subject to taxation is determined as follows:
  - Total net income is obtained by subtracting from gross income all of the expenses necessary to obtain and sustain said income, adjusted for fiscal inflation when necessary. Non-taxable income (from foreign sources or otherwise exempt) is also subtracted, but any portion of the expenses associated with obtaining these incomes must be added back on – finally resulting in net income.
  - If claiming investments exemptions, such amount can be deducted.
  - Then the fiscal losses of previous years are deducted in order to obtain the taxable amount, on which the rate of 25% is applied.

Fiscal Credit

Except for payments on account and offsets with credits generated by other taxes, there are no other credits to offset against CIT.

Although this tax only affects income from Uruguayan sources, taxpayers can claim credit for taxes paid abroad (under certain conditions) when treaty agreements to avoid double taxation are in place. For tax purposes, the consolidation of affiliate companies is not admitted. As a result, losses from one company cannot be offset by earnings from another.

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Transfer Prices

Law 18,083 introduced several rules about transfer prices into the Uruguayan tax system, including the following:

1. **Operations Conducted Between Connected Entities:**

   The regulations establish that when transactions carried out by CIT taxpayers with related companies do not conform to market practices between independent entities (which must be reliably proven by the National Tax Authority - DGI), such transactions must be adjusted according to certain methods provided for by the tax regulations.

2. **Establishing Connection between Entities:**

   The connection is established when a taxpayer subject to CIT taxation completes financial transactions with a non-resident or with entities that operate in tax havens that are benefited by low or non-existent tax obligations (such as Free Trade Zones) and both parties are subject – directly or indirectly – to control or intervention by the same physical persons or legal entities. Alternatively, said controlling entities or persons – whether because of their ownership of company stock or capital, their credit with the company, their functional influence over the company, or any other reason, contractual or not – have decision-making power to orient or define the activities conducted by the entities.

3. **Low or Null Taxation Countries:**

   Operations carried out with non-residents in countries with low or non-existent taxation as determined by regulations, shall be considered operations with connected entities and, therefore, are included within the transfer pricing regime. The same assumption applies to transactions carried out with entities operating in customs exclaves (including local ones) and benefiting from a zero or low taxation regime.

4. **Adjustment Methodology:**

   To determine whether transactions subject to transfer pricing regime reflect reasonable market pricing, the most appropriate method for each type of transaction will be used. The methods included in the regulations, in line with those recommended by the Organization for Economic Cooperation and Development (OECD), are the following: comparable prices among independent parties, resale prices determined by independent parties, cost plus profits, division of profits, and net transaction margins.

5. **Special Sworn Affidavit – Transfer Prices:**

Legal regulation establishes that the National Tax Authority (DGI), in order to carry out a periodic control of the operations subject to the transfer pricing regime, may require the submission of special affidavits containing the data it deems necessary to analyze, select and proceed with the verification of the agreed prices.

On the other hand, the regulation establishes that CIT taxpayers will be obliged to file annual information when they meet any of the following conditions: **a)** they carry out operations included in the transfer pricing regime for an amount exceeding UI 50,000,000 (approx. USD 5,800,000), except for free trade zone users or **b)** they have been notified by the National Tax Authority (DGI).

The annual information must contain: **a)** an informative sworn affidavit containing the detail and quantification of the operations of the fiscal year included in the transfer pricing regime (Form 3001), **b)** a copy of the financial statements of the corresponding fiscal year, when they are not required to submit them by other provisions and **c)** the transfer pricing study with the minimum content required by the tax authorities.

Those who are not obliged to submit the annual information detailed above must keep for the period of limitation of taxes the vouchers and supporting documents of the transfer prices and of the comparison criteria used, in order to demonstrate and justify the correct determination of such prices, the amounts of the compensations or the profit margins declared.

6. **Anticipated Price Agreements:**

The regulations provide for the possibility for taxpayers to enter into Advance Pricing Agreements (APAs) in order to provide certainty to taxpayers regarding the taxation of intercompany transactions in multinational groups.

7. **Master Report and Country by Country Report:**

In accordance with the provisions of Law 19.484 -known as the Tax Transparency Law- and its regulations, CIT taxpayers that are part of a multinational group (GMN) of large economic dimension (those whose consolidated income is equal to or greater than 750 million euros or its equivalent converted into the presentation currency of the consolidated financial statements) and meet the conditions of relationship, will be obliged to file the Country-by-Country Report (hereinafter "CbCR"). The aforementioned law is effective for fiscal years beginning on or after January 1, 2017.

The CbCR must be presented to the National Tax Authority (DGI) within 12 months of closing the accounting period for the group of companies, unless the report has already been filed by the GMN in a country with which Uruguay has signed a sharing agreement for such reports.

Those taxpayers that meet the above conditions must notify the National Tax Authority of the entity that will be submitting the CbCR, the final controlling entity of the GMN, and all of the Uruguayan entities that are part of the GMN.

The above-mentioned law also requires the submission of a Master Report with information about the GMN to which the entity subject to CIT taxation belongs, regarding information about the organizational structure, the activities carried out, the functions performed, the assets used and the risks assumed by each of the entities comprising the group, the intangibles, the form of financing and the financial and tax situation of said group. It is worth noting that there still are no guidelines as to how to submit the report.

Income from International Activities

In general, income from activities carried out partially within the country are determined, applying the territoriality criterion, based on the location of the productive factors. Notwithstanding the foregoing, the net income from certain international activities is specifically determined by the regulations, as indicated below.

1. **Transportation Companies:**

   Net income from Uruguayan sources for transportation companies (air, sea, or land) is set at 10% of the gross amount of fares and freight charges corresponding to transportation from Uruguay to foreign countries.

2. **Film and Television Industries:**

   Net income from Uruguayan source for companies producing, distributing or intermediating cinematographic films and tapes, as well as those who make direct broadcasts on television or other similar media, is set at 100% of the payment they receive for their exploitation in the country.

   Likewise, when the provision of these services is carried out through the Internet, technological platforms, computer applications or the like, the income will be considered to be entirely of Uruguayan source when the client of the service is located in Uruguay.

3. **International News Agencies:**

   Net income from Uruguayan sources for international news agencies is set at 10% of their gross income.

4. **Leasing of Containers for International Trade Activities:**

   Net income from Uruguayan sources is set at 15% of the agreed-upon price.

5. **Activities of mediation and intermediation in the supply and demand of services:**

   When these services are rendered through the Internet, technological platforms, computer applications or the like, the income from Uruguayan source is set at 100% when the offeror and the client of the service are located in Uruguay, and at 50% when one of them is located in Uruguay.

   In all these cases the taxpayer may also choose to determine the income net from Uruguayan source on an actual basis, in accordance with the general rules. Once a procedure has been adopted, it may not be changed for a period of five years and authorization from the National Tax Authority (DGI) is required to change the adopted procedure.

6. **Trading:**

   For purposes of CIT calculation, the National Tax Authority (DGI) established a notional regime for the determination of the net income from Uruguayan source in trading operations carried out from Uruguayan territory. According to this regime, the net income from Uruguayan source is determined as 3% of the difference between the sale price and the purchase price of the good or service in the following cases:

   » Purchase and sale of goods located abroad that have neither origin nor destination in Uruguayan territory.

   » Intermediation in the provision of services, provided that such services are rendered and used economically abroad.

   Using this approximate calculation is optional. Taxpayers are free to determine income according to real inputs, according to general rules.

2.3 WEALTH TAX (IP)

The Wealth Tax (*in Spanish* IP) is a tax collected at the end of the tax year on assets located inside the country, owned by industrial, commercial, or farming companies. To calculate the liability, certain debts are subtracted from the total value of assets according to fiscal rules – and the result is taxed at a rate of 1.5%. The rate increases up to 2.8% for banks and financial institutions. Entities constituted, domiciled, or located in jurisdictions with low or non-existent taxation systems that own assets in the country will be taxed at a rate of 3%.

Companies will deduct the Wealth Tax from the amount generated during the same fiscal year for CIT or the Tax on the Sale of Agricultural Goods (IMEBA), except in the case of non-resident legal entities or resident entities with capital represented by bearer securities or whose owner is a legal entity (in which case the aforementioned deduction is not applicable). The maximum limit of the tax credit is 1% of the Wealth Tax generated in the fiscal year.

The tax regulations follow the territoriality criterion, so that the assets located, placed or economically used in Uruguay are computed to calculate the tax. However, when there are assets abroad and exempt assets, only the amount of the computable debts exceeding the value of such assets is deducted from the taxable assets in order to determine the taxable amount.

Industrial and commercial enterprises and agricultural and livestock farms can only compute as liabilities the annual average of debts for loans from local banks, debts with local suppliers (unless they are public law entities that do not pay this tax), debts for taxes (provided they have not matured) and debentures issued by public subscription and that are listed on the stock exchange.

There are numerous exempt assets, such as government securities and securities issued by the State Mortgage Bank (BHU) and the Central Bank of Uruguay (BCU), shares, quotas and participations in the capital of companies that are taxpayers of the IP and bonds listed on the local stock exchange. Within the assets of industries, movable property used in the industrial production cycle is exempt.

In addition, assets used for agricultural and livestock operations are exempt from IP under certain conditions (among them, that the value of the corresponding assets does not exceed approximately USD 1,340,000). If this amount is exceeded, the assets will be subject to Wealth Tax, and a surtax will also be levied on the totality of the assets used for farming and cattle raising. The single rate of this surtax, applicable on the total net worth, ranges between 0.7% and 1.5%, depending on the value of the assets used for the referred activity.

The regulations designate as withholding agents, among others, the entities included in the CIT that were debtors of individuals domiciled abroad or of legal entities incorporated abroad that do not act in the country through a permanent establishment.

Loans and deposits from individuals and legal entities abroad and import price balances are exempt from Wealth Tax and, therefore, are not subject to the withholding referred to above. It should be noted that the regulations consider debts for the acquisition of goods outside the country or in bonded warehouses, customs facilities, port bonded warehouses and free trade zones to be included within the concept of import price balances for the purposes of the above exemption.

Additionally, free trade zone users are exempt from withholding tax on balances derived from the rendering of technical services and the sale of intangible goods, rendered and carried out to free trade zone users by individuals and legal entities domiciled abroad.

3

TAXES ON PHYSICAL PERSONS (DIRECT TAXES)

3.1 MAIN CHARACTERISTICS

Physical persons residing in Uruguay are subject to Personal Income Tax (IRPF) obligations. Furthermore, taxpayers may be subject to Wealth Tax (IP) liabilities when the value of their assets in the country exceeds the non-taxable minimum, set yearly by the Executive Branch. The non-taxable minimum for individuals amounts to approximately USD 115,000, a figure that doubles for family units.

3.2 PERSONAL INCOME TAX (IRPF)

The Personal Income Tax (*in Spanish* IRPF) is a personal , direct tax on personal income obtained by physical persons that reside in Uruguay more than 183 days out of the calendar year, locate their main hub or the base of their activities in the country, or have in Uruguay the center of their vital and economic interests. Unless fiscal residency has been recognized by another country, tax residency by center of economic activities is granted when a person: **(i)** has more than 15,000,000 Indexed Units (UI), approximately USD 1,670,000 invested in fixed assets in the country, **(ii)** has a direct or indirect stock participation in a company amounting to more than 45,000,000 UI (approximately USD 5,015,000) and that entity is involved in activities or projects that have been declared of national interest according to Law 16,906 for Investment Promotion, **(iii)** has real estate investments in Uruguay exceeding 3,500,010 UI (approximately USD 390,000) as long as those investments were made after July 1st, 2020 and the person spends at least 60 days in Uruguay during the calendar year, or **(iv)** participates directly or indirectly in a company with an investment in excess of 15,000,000 UI (approximately USD 1,670,000), as long as the investment was made after July 1st, 2020 and has resulted in at least 15 new jobs during the calendar year that are not due to a reduction in the number of jobs in related entities.

The tax is paid annually, usually the 31st of December of each year, although advanced payments may be made or required for certain types of income.

[1] Family groups made up of physical persons residing in the country may also be considered IRPF taxpayers, as long as the group chooses to file jointly, an option that is only available for employment earnings.

The tax is applied under a dual system, taxing income of two types: income derived from the capital productive factor (Category I) and income derived from the labor productive factor (Category II).

Category I includes income derived from capital gains and capital yields, both movable and real estate. These incomes are subject to CIT tax (at rates ranging from 7% to 12%) to the extent that they are of Uruguayan source, except for income from movable capital yields, which is taxed both in the case of local and foreign source. Likewise, when an individual participates in the capital of resident entities, domiciled, incorporated or located in countries or jurisdictions with low or no taxation, the income obtained by them as capital yields and capital gains will be assigned as dividends or distributed profits (taxed by IRPF as foreign capital yields at the rate of 12%). The transfer of shares and other participations - and the incorporation and assignment of their usufruct - in entities with no or low taxation (or benefiting from a special regime of low or no taxation), whose assets (valued according to CIT rules) are composed (directly or indirectly) in more than 50% by assets located in Uruguay, will also be taxed by IRPF, since they are considered to be of Uruguayan source.

Taxpayers subject to foreign taxes for movable capital earnings may deduct (under certain conditions described in the law) foreign tax payments from IRPF obligations for the same income. The credit claimed may not surpass the value of the tax obligation before the deduction.

Regarding returns on movable capital from non-resident entities, a "grace period" exists allowing physical persons who obtain fiscal residency in Uruguay to choose to pay Non-Resident Income Tax (IRNR) on these obligations instead. Insofar as earning from foreign movable capital investments are not subject to IRNR taxation, choosing this tax would allow the taxpayer to avoid paying taxes on said income during the grace period. Physical persons who obtain Uruguayan fiscal residency may choose to pay IRNR during the tax year when they are granted fiscal residency and for five tax years thereafter. However, changes to the legislation extended that period to ten tax years for taxpayers who obtain fiscal residency after the 2020 tax year. Similarly, those that already made use of the first option for five tax years, may opt to extend the grace period for up to ten tax years, as long as they can document the acquisition of real estate property after January 24th, 2021, valued at least 3,500,000 UI (USD approximately 390,000), and are physically present in the country for at least 60 days out of the calendar year.

Category II includes income from employment in a relationship of dependency, as well as income from employment obtained by personal service providers outside the relationship of dependency who are not taxpayers of CIT.

With respect to income derived from the labor productive factor, the following aspects should be noted:

1. Income is determined on an accrual basis.

2. Income resulting from differences in currency exchange rates and price adjustments are included at the value at the time of sale.

3. Income from employment as a dependent employee consists of regular or extraordinary income, in cash or in kind, generated by taxpayers as remuneration for their personal activity as a dependent employee. Severance payments are considered as included in the above, as long as they exceed the corresponding legal minimum and for the amount exceeding such minimum.

4. The tax corresponding to earned income is determined by applying progressive rates linked to an income scale. For such purposes, the sum of the computable income is entered in the scale, applying the corresponding rate to the portion of income included in each bracket of the scale.

5. To calculate obligations, the following table of earning brackets and corresponding rates is used (USD values are approximate):

Taxable annual income	Rate
Up to the minimum taxable income rate of 84 Benefits and Contributions Base Units (BPCs) (USD 9,500)	Exempt
More than 84 BPCs and up to 120 BPCs (USD 9,500 - USD 13,600)	10%
More than 120 BPCs and up to 180 BPCs (USD 13,600 - USD 20,400)	15%
More than 180 BPCs and up to 360 BPCs (USD 20,400 - USD 40,800)	24%
More than 360 BPCs and up to 600 BPCs (USD 40,800 - USD 68,000)	25%
More than 600 BPCs and up to 900 BPCs (USD 68,000 - USD 102,000)	27%
More than 900 BPCs and up to 1,380 BPCs (USD 102,000 - USD 156,500)	31%
More than 1,380 BPCs (USD 156,500)	36%

The value of Benefits and Contribution Base Units (BPCs) for 2021 is 4,870 pesos, approximately USD 113.

6. Taxpayers can deduct the following operations:

   » Retirement contributions to different social security entities

   » Contributions to public health insurance and the Job Retraining Fund

   » Contributions to the Solidarity Fund[2].

   » Expenses on education, food, housing, and health for underage children in the taxpayer 's care, up to 13 BPCs per year per child. This deduction is doubled for the care of children of any age legally determined to be disabled or suffering a serious disability, as defined by the regulations. The same deductions will apply in the case of persons under guardianship and trusteeship.

[2] Non-governmental public entity overseeing a scholarship program for students of the State University and the Technical Professional Education Council, financed by mandatory contributions from graduates from said institutions.

» Amounts paid for bank mortgage loans for the purchase of the taxpayers only and permanent home, provided that the value of the house does not exceed approximately USD 93,500. The deduction is capped at 36 BPCs.

As of January 1st, 2017, to determine the deduction amount, a proportional rate of 8% or 10% – depending on the level of nominal income, not including bonuses or vacation payments – will be applied to the aforementioned deductions.

Nominal annual income	Rate
Nominal Annual Income <= 180 BPCs (USD 20,400)	10%
Nominal Annual Income > 180 BPCs (USD 20,400)	8%

7. Additionally, taxpayers who rent their primary home may deduct up to 6% of the rental price from Personal Income Tax (IRPF) obligations, as long as the landlord can be identified (among other conditions).

8. A 30% deduction for expenses will be made from earned income originated outside the relationship of dependency.

Auxiliary Responsible Actors

As stipulated in Law 18,803, the Executive Branch has designated a series of responsible actors tasked with withholding taxes from third parties.

Except in cases where the law indicates otherwise, responsible actors must:

» Provide taxpayers with documentation on the amounts withheld on each occurrence.

» Submit said amounts within the deadlines and conditions established by the DGI.

» Submit a sworn affidavit regarding the amounts withheld, within deadlines and conditions established by the National Tax Authority (DGI).

Personal Income Tax (IRPF) withholdings include:

1. **Withholdings on Rent:**

   IRPF regulations designate certain subjects as withholding agents for rents and returns on real estate capital paid to taxpayers subject to the IRPF.

   Among the subjects designated as withholding agents are taxpayers subject to CIT included in the National Tax Authority's Directorate of Large Taxpayers or the CEDE Unit of medium-sized taxpayers.

Taxes must be withheld at the moment of payment or credit, applying the following rates to the amount paid to the landlord and any relevant surcharges:

» 10.5% in the case of property rentals.

» 12% in other cases generating returns on real estate capital.

2. **Responsibility for Payment of Income from Dependent Work:**

With respect to income derived from work, the Personal Income Tax (IRPF) regulations designated employers of persons who are active members of the Social Security Authority (BPS) and other social security institutions as substitute taxpayers. For such purposes, an active member is defined as any dependent or non-dependent worker who performs activities covered by such social security institutions.

The withholding will take place on a monthly basis, as a monthly advance payment of the IRPF, on account of its annual liquidation. The amount of the advance payment will be determined by applying to the income of the month the income scale for the determination of the rates and deductions, on a monthly basis (i.e., dividing by twelve the annual scales).

The value of the Benefits and Contributions Base to be considered for the referred determination will be the one established by the Executive Branch, taking into account the increase foreseen for the fiscal year.

In principle, the withholding will be made up of the difference between the amounts that arise from applying the following rates to income and deductions for the period:

To the total of the month's income:

Taxable monthly income	Rate
Up to the minimum taxable income rate of 7 BPCs (USD 800)	Exempt
More than 7 BPCs and up to 10 BPCs (USD 800 - 1,100)	10%
More than 10 BPCs and up to 15 BPCs (USD 1,100 - USD 1,700)	15%
More than 15 BPCs and up to 30 BPCs (USD 1,700 - USD 3,400)	24%
More than 30 BPCs and up to 50 BPCs (USD 3,400 - USD 5,700)	25%
More than 50 BPCs and up to 75 BPCs (USD 5,700 - USD 8,500	27%
More than 75 BPCs and up to 115 BPCs (USD 8,500 - USD 13,000)	31%
More than 115 BPCs (USD 13,000)	36%

The value of Benefits and Contributions Base Units (BPCs) for 2021 is 4,870 pesos, approximately USD 113.

To the admissible deductions:

Nominal monthly income	Rate
Nominal Monthly Income <= 15 BPCs (USD 1,700)	10%
Nominal Monthly Income <= 15 BPCs (USD 1,700)	8%

For the purpose of monthly withholdings, deductions will be computed as per the following method:

» Non-proportional deductions (such as the aforementioned expenses on education, food, housing, and healthcare for underage or disabled children, mortgage payments, retirement contributions to the Professional and Notary Retirement Funds, and contributions to the Solidarity Fund): one twelfth of the annual amount.

» Proportional deductions (basically retirement contributions to the Social Security Authority (BPS) or Banking Retirement Fund, contributions to the National Public Health Fund or the Job Retraining Fund): applying the corresponding percentage for the deduction according to the amount of taxable income.

To this end, the employee must provide, by means of an informative affidavit to the substitute responsible person, the information corresponding to all the personal circumstances related to the deductions (for example, number of children or dependents). This information will be included in the affidavit that the substitute responsible person will make before the Social Security Authority (BPS). The aforementioned affidavit will establish the deductions to be made by the employer or entity.

If the taxpayer chooses not to inform the substitute responsible person about the circumstances that generate the right to deductions, the responsible taxpayer will calculate the withholdings without considering any deduction (however, taxpayers may consider such deductions in their annual tax return).

Employees must present such informative affidavit at the beginning of the employment relationship and when changes to the employment relationship occur.

In addition to the monthly withholdings, the substitute responsible person shall determine an annual adjustment as of December 31 of each year. The balance shall arise from the difference between the tax determined according to the general rules and the withholdings made. If such determination results in a balance to be paid, the substitute responsible person shall make the corresponding withholding and pay it to the collecting agency.

In the event that a balance in favor of the taxpayer results, it will be refunded by the National Tax Authority (DGI) under the conditions determined by the DGI. If the taxpayer obtains the income from work exclusively from a substitute responsible person in the fiscal year, the tax withheld will be definitive, and the taxpayer will

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be released from filing the corresponding tax return. If the taxpayer obtains other income from work taxed by the Personal Income Tax (IRPF), the tax withheld will be considered as an advance payment.

3. **Responsibility for Payment of Income from Non-Dependent Work:**

   The Personal Income Tax (IRPF) regulation designated, among others, the CIT taxpayers included in the National Tax Authority's Large Taxpayers Directorate and in the CEDE Unit (medium-sized taxpayers) as responsible for the IRPF corresponding to the income originated in services outside the relationship of dependency rendered to them by the taxpayers of such tax.

   The withholding will be made on a monthly basis and will only apply in the event that the monthly total invoiced by the IRPF taxpayer to the responsible party exceeds approximately USD 1,200 in the month, excluding Value Added Tax[3].

   The amount of the withholding will be the amount resulting from applying the 7% rate to the sum of the amount paid or credited to the income holder plus the corresponding withholding. The amount withheld will be considered by the taxpayer as a payment on account and will be deducted from the amount of the advances for the same period. If from the year-end payment the taxpayer has a credit for such concept, the same may be destined to pay obligations before the National Tax Authority (DGI) or the Social Security Authority (BPS).

Employees in Free Trade Zones (FTZs)

Our legislation offers a special tax regime to foreigners working in free trade zones. Foreign employees working for FTZ users may choose to not pay Special Contributions to Social Security (CESS) and opt for the 12% Non-Resident Income Tax (IRNR) instead of the IRPF with progressive rates. If the foreign taxpayer chooses such an option, the IRNR rate will be applied to all income from work for an employer located in an FTZ.

Such option must be communicated by affidavit to employers at the beginning of the employment relationship. The employee may not change his or her option for at least three fiscal years.

This option excludes the foreigner from the Uruguayan Social Security System, and therefore the employee will not have social security coverage.

[3] Work in insurance sales and production is subject to withholding, regardless of monthly income amounts.

3.3 PERSONAL WEALTH TAX

The Wealth Tax of individuals, families and undivided estates is levied on assets in the country, deducting certain debts. Only assets located, placed or economically used in Uruguay are taxed.

Physical persons pay Wealth Tax (IP) at progressive rates that range from 0.2% to 0.7% and 0.5% and 1.5% (depending on whether or not the taxpayer is a resident of Uruguay), with a minimum asset value to be reached by the tax of approximately USD 115,000 for individuals and twice that amount for family groups.

Physical persons domiciled abroad, as well as legal entities based abroad, are not subject to Wealth Tax taxation for export balances, loans, and deposits involving Uruguayan residents.

The asset values of physical persons, family groups, and undivided estates are appraised at market value, with some exceptions, mainly the case of real estate properties, where the government periodically calculates their value.

The following assets are exempt from taxation:

» Interests (e.g. shares) in entities subject to the payment of this tax and of financial entities engaged exclusively in the trading of securities and instruments based abroad.

» Public debt.

» Bank deposits of individuals (although computable as household goods and furnishings).

Deductible liabilities basically include the annual average of debts with local banks, and only the amount that exceeds the sum of exempt assets plus assets located abroad will be considered.

4

TAXATION OF INCOME OF NON-RESIDENTS

4.1 MAIN CHARACTERISTICS

» Income from Uruguayan sources obtained by legal or physical persons not residing in the country nor being permanently established in the country is subject to Non-Resident Income Tax (IRNR) obligations.

» The IRNR is applied in proportional rates between 7% and 12%, depending on the type of income, unless the taxpayer is domiciled, constituted, located, or residing in a jurisdiction with low or non-existent taxation. In such a case, the rate is increased to 25%, except in the case of dividends, which are always taxed at 7%.

The IRNR taxes income from Uruguayan sources obtained by physical persons or other entities not residing or permanently established in Uruguay. The tax applies to income of any kind obtained by taxpayers reached by the tax, including corporate earnings, capital earnings, wage earnings, and increases in asset value.

Income from Uruguayan sources is defined as coming from activities developed, assets located, or rights commercially used in Uruguay. Under certain conditions, it is also considered to be of Uruguayan sources income from technical services and advertising services provided from abroad to Uruguayan taxpayers reached by IRAE, as well as income derived from the lease, use, assignment of use or sale of federative, image and similar rights of sportsmen registered in resident sports entities, as well as those originated in mediation activities deriving therefrom.

Similarly, it taxes the provision of services provided through the internet, technological platforms, computer applications or the like under certain conditions (see Chapter 1.4).

In the case of physical persons, a taxpayer is understood to have fiscal residence in Uruguay when any of the following conditions are met:

» The taxpayer remains in the country more than 183 days out of the calendar year

» The taxpayer's main hub or base of economic and vital interests and activities is located in Uruguay.

Legal entities are considered residents if and when they are incorporated according to national laws. Legal entities from abroad and other entities not incorporated under national law that establish their residency in the country shall be considered residents in the national territory as from the completion of the formal procedures provided for in the legal and regulatory provisions in force.

Local taxpayers reached by CIT obligations that pay or credit income (from corporate earnings, capital earnings, or wages) to entities or persons subject to IRNR obligations are held responsible for withholding IRNR payments. If no designated withholding agent exists, the non-resident must designate a resident legal or physical person to act on his or her behalf before the National Tax Authority (DGI). Said representative will be held jointly liable for the non-resident's obligations.

IRNR tax rates are as follows:

- Interests derived from bank deposits in national currency and indexed units, held for more than one year in financial institutions: 7%.
- Interests on obligations and other debt instruments, publicly appraised and traded, with maturity periods exceeding three years: 7%.
- Interests from bank deposits in national currency without adjustment clauses, deposited for one year or less: 7%.
- Dividends or profits distributed or accredited by CIT taxpayers and notional dividends or profits: 7%.
- Income from certificates of participation issued by financial trusts through public subscription and stock exchange listing with terms of more than 3 years: 7%.
- Income obtained by entities domiciled, constituted, located, or residing in jurisdictions with low or non-existent taxation, except dividends or distributed profits paid by taxpayers subject to CIT taxations: 25%
- Other income: 12%.

Regarding dividends distributed by taxpayers subject to CIT taxation, it is worth noting that IRNR rates are applied only to income effectively subject to CIT taxation and obtained in tax years after July 1st, 2007.

The same treatment will apply to notional dividends and profits from income taxed by CIT. Taxable income taxed by CIT (not reinvested in fixed assets, intangible assets or participations in resident companies, nor destined to increase the gross working capital) that have been in existence for at least four fiscal years will be considered as notional dividends.

The law also establishes other exemptions, including the following noteworthy cases:

- Interests on public debt.
- Interests from loans to CIT taxpayers whose assets destined to creating income not subject to this tax make up more than 90% of their total assets (according to fiscal calculation guidelines)
- Increases in asset value derived from assets transferred to the taxpayer, as long as the transfers do not individually exceed a value of approximately USD 3,550 and do not total more than USD 10,650 in the tax year.
- Income from air and sea transportation companies, subject to reciprocity. Income from freight for maritime or air transportation of goods abroad is exempt in all cases.
- Income from activities abroad or in customs houses, port custom facilities, port warehouses, and Free Trade Zones by non-resident entities, with products from abroad reported to be "in transit" or stored in such locations, as long as the goods are not made in Uruguay nor intended for the local market. This exemption also applies to goods destined for use in national port facilities, as long as income from these sources does not exceed 5% of total sales of goods in transit or in deposit over the fiscal year.

The determination and payment of the Non-Resident Income Tax (IRNR) will be made annually, but when the entire tax has been subject to withholding, the taxpayer may choose not to file the corresponding tax return.

Foreign employees working in a Free Trade zone may decide to not contribute to – and thus receive no benefits from the Uruguayan social security system. In such cases, the taxpayer may choose between paying the IRNR (at a proportional rate of 12%) or the Personal Income Tax (IRPF), with progressive rates ranging from 10% to 36%. It should be noted that this option will be applicable to employment income obtained from the free zone user employer.

5

VALUE-ADDED TAX

5.1 MAIN CHARACTERISTICS

» The basic VAT rate is 22%, with a minimum 10% rate applied only to certain goods and services.

» The export and circulation of most farm products is subject to the zero-tax regime, with fiscal credit awarded for any taxes paid during those transactions.

Apart from being the main source of fiscal resources, the main economic objective of VAT is to tax the domestic consumption of goods and services without introducing distortions in trade relations. The VAT is intended to be a non-discriminatory tax, both from the point of view of imports in relation to domestic production and from the point of view of the number of companies taking part in the economic process and their degree of vertical or horizontal integration in it.

Individuals and Companies Subject to VAT

All companies subject to CIT obligations are subject to VAT liabilities. VAT is also applied to physical persons and professional service providers.

Taxable Operations

VAT is levied on imports of goods, the internal circulation of goods and the rendering of services within the Uruguayan territory, as well as the addition of value originated in the construction of real estate. The tax is imposed upon the definitive introduction of goods into the country, the delivery of the good, the rendering of the service or the completion of the work, respectively.

Services delivered through the Internet, technological platforms, computer applications, or the like are also taxed, under certain conditions (see Chapter 1.3).

Exemptions

Among other exceptions, the sale of fresh fruits and vegetables, foreign currency, precious metals, credit assignments, real estate property (with some exceptions), agricultural machinery and accessories, petroleum-based fuels (except fuel oil), milk, farming inputs, books, newspapers, magazines, educational material, and water are exempted from VAT obligations.

Additionally, certain services are also exempt, including interests on public debt and private bank deposits, income from rental property, banking operations (except interests on consumer loans), and personal income for services related to cultural activities.

Calculating VAT

VAT included in purchases of goods and services that directly or indirectly form part of the cost of the goods and services taxed, sold or rendered by the taxpayer (provided that it is specified in the purchase invoice), may be deducted from the VAT invoiced on sales of goods or services rendered.

Receipts must comply with certain minimum guidelines established by the relevant rules, including being consecutively numbered, identifying both the seller and buyer, including the seller's National Tax Authority identification number, and separately listing the value of the good or service and the amount of the tax.

Rates

The basic rate is 22%, with a minimum rate of 10% applicable to certain goods such as basic foodstuffs and medicines, as well as services provided by hotels related to lodging.

No special rate is applied to luxury goods, although some such goods may be reached by Excise Tax (*in Spanish* IMESI) obligations.

As of 08/2015, in application of the provisions of the regulations on financial inclusion and electronic means of payment (Law 19,210 and its regulations), the VAT rate was reduced for sales of goods and services to end consumers provided that payment is made by debit cards or electronic money instruments.

Zero-Tax Rate

The export and sale of farming products in their natural state – excluding fruits, flowers, and vegetables – by taxpayers subject to CIT taxation are charged a 0% VAT rate. This implies that, although the tax is not included in the invoice, the purchase VAT corresponding to the goods and services that directly or indirectly integrate the cost of the products can be recovered.

Farming products in their natural state are primary goods, either animal or vegetable, that remain in the state in which they are obtained on the farm – that is, without any industrial manipulation or transformation, except when these processes are necessary to preserve the good. For the purposes of VAT liabilities, the regulations consider debarked rolls of wood as "farming products in their natural state."

Exempted Goods and Services

In the case of exempt goods and services, VAT included in the acquisition of goods and services included in the cost of goods sold or services rendered cannot be deducted and becomes a cost factor.

VAT Collection

VAT is collected by the National Tax Authority (DGI), taxpayers must turn over the tax monthly, in the month following the month in which the taxable event occurred. Those taxpayers that are included in the Cede Group or Large Taxpayers of the DGI (medium or large taxpayers, respectively) must file the VAT return on a monthly basis, while those that belong to the Non-Cede Group must file it on an annual basis. If a credit in favor of the taxpayer arises from the return, it is carried forward to the following month or year (without adjustment for inflation) until it can be absorbed by the VAT sales.

In the case of exporters and other similar taxpayers, the tax authority issues credit certificates for the amount of VAT on purchases, which may be used for the cancellation of other tax debts or endorsed, as the case may be, in favor of the exporters' suppliers. These certificates may be requested on a monthly basis and are mostly issued within two months of their request.

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OTHER TAXES

6.1 MAIN CHARACTERISTICS

» Certain consumer goods, such as alcohol, tobacco, fuel, cosmetics, and automobiles, are subject to specific tax applied to the type of good.

» Public Limited Companies pay a control and supervision tax, both when they are incorporated and at the end of every accounting period.

6.2 EXCISE TAX (IMESI)

The Excise Tax (*in Spanish* IMESI) currently represents between 9% and 10% of tax revenues and is applied to a wide range of products at differential rates.

The tax applies to the initial sale of any kind by the manufacturers or importers of certain products on the local market. Exports are not taxed.

The tax rate varies for each taxable item and is set by the government within parameters established by law.

The goods subject to the highest tax rates are alcoholic beverages, tobacco, fuel, lubricants, and other petroleum products. The maximum rate on alcoholic beverages is 85% and 70% for tobacco. Petroleum products are taxed based on their sale price with different rates depending on the product, up to a maximum rate of 133% as is the case of refined gasoline. Other taxable products such as alcohol, soft drinks, cosmetics, and non-diesel motor vehicles are taxed at rates that generally range between 10% and 40%.

6.3 CONTROL TAX ON PUBLIC LIMITED COMPANIES

Public limited companies are subject to Tax on the Control of Public Limited Companies (ICOSA) liabilities, applied at the moment of the company's incorporation and at the end of each accounting period. Those companies that are incorporated outside of Uruguay but claim fiscal residence in the country are also subject to ICOSA obligations.

Applicable rates are as follows:

1. 1.50% for the incorporation of a public limited company.

2. 0.75% at the end of each accounting period.

The taxable amount on which to apply the referred rates is set in Indexed Units (578,428 UI, approximately USD 65,000), and must be based on the quotation given by the government as of December 31 of the year prior to the occurrence of the generating events.

The tax corresponding to the closing of the fiscal year may be allocated to the Wealth Tax (IP) of such period. If there is a surplus for such concept If there is a surplus for such concept, it will not be considered as a refund (acting in fact as a minimum IP).

This tax does not apply to the branch offices of foreign corporations.

6.4 TAX ON INSURANCE COMPANY INCOME

Insurance companies are subject to a tax on their gross income. The general maximum rate is 5%, except for marine insurance whose rate is 2%, life insurance whose rate is 0.5%, fire insurance whose rate is 15%, and motor vehicle insurance whose rate is 10%.

When the company is not properly licensed to sell insurance in Uruguay, applicable rates can climb as high as 40%.

6.5 TAX ON THE SALE OF AGRICULTURAL GOODS (IMEBA)

The Tax on the Sale of Agricultural and Livestock Goods (*in Spanish* IMEBA) is levied on the first sale by producers to CIT taxpayers of various goods such as wool and hides, live cattle, grains, milk, poultry products, apiculture and rabbits, fruits and vegetables.

Exports by producers and self-consumption by CIT taxpayers are also taxed.

Tax rates range from 0.1% to 2.5% depending on the type of good.

The sale of wool, hides, live cattle, cereals and oilseeds, milk, poultry and apiculture products, forestry products and the export of horticultural products, fruit, citrus, flowers and seeds in their natural state is subject to an additional tax of 0.4%.

An additional tax of 0.2% also applies to the sale of wool, leather, live cattle, grains, and oilseeds.

Agricultural companies will be obliged to pay CIT instead of IMEBA when any of the following conditions are met:

- When the entity is a public limited company, a joint-stock company, the permanent establishment of a non-resident entity, or a trust.
- When they obtain income exceeding approximately USD 225,000 (the income obtained during the immediately preceding fiscal year is considered for such purposes).
- When their operations takes place on land totaling more than 1,250 CONEAT[4] hectares.

6.6 TAX ON ASSET TRANSFERS

This tax is levied on the transfer of real estate property. Both the selling and buying parties are subject to a tax rate of 2% on the actual value of the property (which is generally lower than its market price).

When the property is transferred without any kind of payment, the beneficiary must pay the tax at a rate of 4%. Direct heirs are responsible for payment of this tax at a rate of 3%.

[4] CONEAT is an index measuring the productive capacity of land, where 100 represents the median productive capacity of land in Uruguay.

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INTERNATIONAL TREATIES

Uruguay has entered into treaties to avoid double taxation (CDI) with Germany (in 1987 and renegotiated in 2011), Hungary (1993), Mexico (2010), Spain (2011), Switzerland (2011), Liechtenstein (2012), Portugal (2012), Ecuador (2012), Malta (2012), South Korea (2013), Finland (2013), India (2013), Romania (2014), United Arab Emirates (2016), Vietnam (2016), United Kingdom (2016), Luxembourg (2017), Singapore (2017), Belgium (2017), Chile (2018), Paraguay (2019), Italy (2020) and Japan (2021). These treaties govern tax aspects and generally follow OECD models, with some adopting frameworks from United Nations models.

In addition, Uruguay has signed tax information-sharing agreements with France (2011), Iceland (2012), Denmark (2013), Greenland (2013), Argentina (2013, with clauses to avoid double taxation), Norway (2014), Canada (2014), Australia (2014), the Faroe Islands (2015) Sweden (2015), the Netherlands (2016), Chile (2016), the United Kingdom (2016), Guernsey (2017), and South Africa (2017).

Agreements to avoid double taxation are currently in the works (in different stages of diplomatic negotiation and parliamentary approval) for both Brazil and Colombia.

Additional agreements are also being negotiated with the United States, Malaysia, the Netherlands, Ireland, and Russia.

Uruguay XXI
INVESTMENT, EXPORT AND COUNTRY BRAND PROMOTION AGENCY

WHO WE ARE

We are the agency responsible for the promotion of exports, investment and country brand. We work to enhance the export capacity and competitiveness of Uruguayan companies, promote the country as an attractive destination for productive investments and promote the country brand Uruguay Natural in the world.

Together with other institutions, we are part of the National System of Productive Transformation and Competitiveness (Transforma Uruguay) that works to promote the productive and innovative economic development of the country, with sustainability, social equity and environmental and territorial balance.

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- Macro and sectorial information. Periodically, Uruguay XXI prepares studies on Uruguay and the various sectors of the economy.
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- Contact with the main actors. We generate contacts with government entities, industrial actors, financial institutions, R&D centers and potential partners, among others.
- Promotion. We promote investment opportunities in strategic events, missions and business rounds.
- Facilitation of visits to the country of foreign investors, including organization of agenda of meetings with, for example, public authorities, suppliers, potential partners and business chambers.
- Support in establishment and expansion. We facilitate your establishment in the country and support you to achieve the growth of your business in Uruguay.

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