Introduction

Uruguay has several investment incentives and schemes in place, applicable to different types of activities, from industrial to commercial and service activities, intended to be conducted in the country. Schemes provided for by the Investment Law, free zones, free port and free airport schemes, public-private partnership agreements, industrial parks and temporary admission are some of the main incentive schemes available in the country.

This document provides an overview of the main benefits available in Uruguay to national and foreign investors, with no distinction as to tax matters or restrictions on the transfer of profits abroad.

Chapters 1 and 2 describe the tax benefits created by the law on investment promotion and its supplementary provisions. This law includes general benefits applicable to eligible investments (as defined in the law); specific benefits, applicable to certain types of activities, including, but not limited to, offshore financial brokerage, shared-services centers, afforestation, graphic industry, maritime or air navigation, software, vehicles or auto-parts, biofuels, communication and housing industries, and benefits which can be applied for particular investment projects.

Chapters 3 to 5 describe the operational features of industrial parks, free zones, free ports and airports in Uruguay, and the benefits granted by the applicable legal provisions both to potential users and to potential developers.

Chapter 6 describes the operational features and benefits of public-private partnership agreements, which is the current scheme used by the country in most infrastructure works development contracts.

Finally, chapter 7 describes the various foreign trade-related regimes, such as: tax refund, temporary admission, draw-back and customs warehousing.
1. Law on investment promotion

The investment promotion system is governed by Law No. 16,906, whereby the promotion and protection of investments made by national and foreign investors in the national territory are declared of national interest. This Law is regulated by various decrees.

This law makes a distinction between two groups of tax incentives: general investment incentives and specific investment incentives.

1.1 General investment incentives

The beneficiaries of these tax incentives are taxpayers of Corporate Income Tax (IRAE) and the Agriculture - Livestock Goods Sales Tax (IMEBA), who conduct industrial or agricultural activities.

The Law on Investments provides for the following automatic benefits to personal property directly attached to the productive cycle (industrial machinery, industrial premises, agricultural machinery and utility vehicles described in Decree No. 59/998) and to data processing equipment and all personal property required for the full operation of such equipment:

- IRAE exemption to income allocated to the acquisition of the aforementioned property, up to 40% of the investment thus made. On the other hand, the law further provides for up to 20% IRAE exemption to investments in construction and expansion of hotels, motels, inns and buildings, or expansions thereof, bound for the industrial or agricultural activity. The enforcement of this exemption involves also a 40% cap on net income for the fiscal year within which the investment is made, net of exempt income under other provisions. Any investment amount eligible for exemption which exceeds this percentage may be deducted, subject to the same limitations, over the next two fiscal years. Moreover, there must be sufficient accounting profits for exempt income to be held in a reserve for further capitalization.

According to the Micro and Small Enterprises definition contained in Decree No. 504/007, the bill provides for a maximum annual turnover, VAT excluded, of ten million indexed units (UI 10,000,000) to be eligible for exemption for investment purposes.

- Wealth Tax (IP) exemption for the aforementioned property, which are deemed to be taxable assets for the purposes of liabilities deduction in the calculation of the tax.

This exemption shall not apply when the aforementioned property requires an estimated valuation.

- IP exemption to bovine and ovine breeders (male and female) and dairy cattle which meet the requirements set forth in Decree No. 59/998.

- Import VAT exemption and refund of VAT included in the acquisition of this property.

- IMESI exemption to the import of the aforementioned property.
On the other hand, the Executive Branch is empowered to grant the following tax benefits to intangible property, such as: trademarks, patents, industrial models, privileges, copyright, goodwill, trade names and concessions awarded for exploration activities, crops, extraction or exploration of natural resources, other property, procedures, inventions or creations which introduce technological innovation and involve the transfer of technology.

- IP exemption to improvements to fixed assets, intangible and other property. These properties are regarded as taxable assets for the purposes of liabilities deduction.
- An accelerated depreciation regime for IRAE and IP purposes applicable to personal property directly bound for the productive cycle, electronic data processing and the aforementioned intangible assets.
- Up to three-point deduction to the aliquot part of employers’ special contributions to social security for manufacturing companies.

It is worth mentioning that even when the Executive Branch is empowered to grant the foregoing incentives, no sectors are currently benefitted from these provisions.

The general investment incentives have been created by the Law on Investment Promotion and are regulated by Decree No. 59/998.

1.2 Specific investment incentives

Companies operating in any sector of activity that produce an investment project which is further promoted by the Executive Branch will be eligible for additional benefits. These benefits are regulated by sections 10 - 17 of the Law on Investment Promotion, which are regulated by Decrees No. 092/998, 455/007, 002/012 and 299/015.

These benefits are detailed below:

<table>
<thead>
<tr>
<th>Wealth Tax (IP)</th>
<th>Import duties or taxes</th>
<th>Value Added Tax (VAT)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personal property included in fixed assets</strong>: exemption throughout the useful life of this property, provided they are not eligible for other benefits.</td>
<td><strong>Exemption of import duties or taxes, including VAT, for personal property included in fixed assets which are not eligible for other benefits, declared not competitive in the national industry.</strong></td>
<td><strong>VAT refund in the acquisition of materials and services intended for civil works in the market.</strong></td>
</tr>
<tr>
<td><strong>Civil Works</strong>: Up to 8-year exemption if the project is located in Montevideo and up to 10-year exemption if the project is inland.</td>
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</tbody>
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In the particular case of IRAE exemption, vesting of this benefit is subject to the score attained in the matrix of purposes and indicators created by COMAP, based on the information provided by the investor. Indicators included in the matrix of these projects and their weighing ratios are as follows:

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job generation</td>
<td>30%</td>
</tr>
<tr>
<td>Decentralization</td>
<td>15%</td>
</tr>
<tr>
<td>Increase in exports</td>
<td>15%</td>
</tr>
<tr>
<td>Cleaner production or investment in Research &amp; Development</td>
<td>20%</td>
</tr>
<tr>
<td>Sectorial indicator</td>
<td>20%</td>
</tr>
</tbody>
</table>

Each indicator is calculated as a whole number ranging from 0 to 10 and the final score yielded by the matrix is the weighed sum of each of the indicators. According to the calculation formula, the ultimate exemption may not be less than 20% of the invested amount.

In the case of investments of major economic significance equal to or in excess of U.I. 7 billion, Section 16 of Law 16,906, as regulated by Decree No. 455/007, and Decree No. 477/08 provides for the possibility of submitting to the Executive Branch an application to obtain tax benefits greater than those established by Decree No. 002/012. For the purposes thereof, the interested party must submit a written application to the Presidency of the Republic Secretary’s Office, who will analyze the investment project jointly with the competent Ministries and will draft an Investment Agreement Project to be considered by the Executive Branch.

1Approximately US$ 730 million, according to values by February 2016.
1.3 Benefit application procedure

The application is submitted to the Ministry of Economy and Finance (MEF) Private Sector Support Unit (UNASEP). The investment project is sent to the Commission for the Enforcement of the Investment Law (COMAP, for its Spanish acronym), which will determine which Ministry and institution will assess the project depending on its nature and the corresponding activity. Projects that qualify within the trade and service sector are assessed by the Ministry of Economy and Finances; those that qualify within the industrial sector are assessed by the Ministry of Industry, Energy and Mining; those that qualify within the agricultural sector are assessed by the Ministry of Livestock, Agriculture and Fisheries; and those that qualify within the tourism sector are assessed by the Ministry of Tourism and Sports.

Once it has been assessed by the corresponding Ministry, COMAP makes the relevant recommendations to the case presented.

COMAP has 60 business days to pronounce on the matter, counted as of the date the project is submitted. The term can be extended another 60 business days if further information is requested.

If the deadlines expire before COMAP has issued an opinion, COMAP will be deemed to have recommended the Executive Branch to grant the benefits established in said institution’s guidelines to the project under study.

Once COMAP has pronounced on the matter (or where there is a tacit approval), the project is referred to the Executive Branch for approval, while the company may already start using the benefits thus granted.

After the investment project has been approved, COMAP is in charge of its follow-up, reason for which the company must produce its financial statements along with a compilation report, limited review or audit report, as applicable, and a complementary affidavit with information to assess compliance with the indicators that give rise to the benefits.

1.4 Special benefits for 2016

For investment projects submitted between December 1, 2015 and December 31, 2016, exemptions derived from the application of the indicators matrix shall be increased by 10%; provided, however, that investments favored by other promotional schemes shall be disregarded. This benefit shall only be valid for investments actually executed until December 31, 2017, provided that these account for at least 75% of the overall investment committed to the project.

Moreover, investments made between December 1, 2015 and December 31, 2016, shall be computed on 120% of the invested amount for the purposes of calculating the Corporate Income Tax-exempt amount. This additional computation shall not be deducted from the total exempted amount.
2. Specific sector schemes

The Law on Investments conveys that eligibility for exemptions may apply to a specific sector activity. In this framework, the following sectors have been promoted: Call Centers, Shared-Services Centers, Shipping and Electronics Industry, Manufacturing of Agricultural Machinery and Equipment, Power Generation, Tourism, Forestry Industry, Treatment and Final Disposal of Industrial Solid Waste, Vehicle Manufacturing and cargo transportation equipment, Hydrocarbon and Biotechnology Industry.

Companies from sectors eligible for promotion under the Law on Investments must appear before COMAP 2 offices to access to said benefit, except for Hydrocarbon, Biotechnology and Agricultural Machinery related projects, all of which must start the process with the Ministry of Industry, Energy and Mining’s National Industry Board 3; and Energy-related projects must start the process before the Ministry of Industry, Energy and Mining’s National Energy Board 4.

The documents required to complete the process vary depending on the sector involved in the project. The applicant will be advised of the documents required upon beginning of the process. These documents usually include an Affidavit with a description of the activity to be developed and for which the company is deemed to be included in the promoted sector, and supporting documents that the company submitting the project is up to date and clear with its obligations, among other documents.

Moreover, there are other benefits granted by Uruguay according to the sector, regardless of the provisions set forth by the Law on Investments. The following sectors are favored with these incentives: Offshore financial brokerage, shared-services centers, afforestation, graphic industry, maritime and air navigation, software, vehicle and auto-parts, biofuel, communication and housing industries.

2.1 Biofuels

Biodiesel and ethanol producing companies which are authorized by the Ministry of Industry, Energy and Mining may have access to Wealth Tax exemption on fixed assets and to 100% Corporate Income Tax (IRAE) exemption for a term of 10 years.

Applicable legal provisions: Law 17,567, Law 18,195 and Decree 523/008

2.2 Biotechnology

Any activity generating biotechnological products, services and processes in the national territory is promoted under Law 16,906. Such activities are subject to 90% IRAE exemption between 2012 and 2017, 75% between 2018 and 2019 and 50% between 2020 and 2021. To receive these benefits one of the following events must occur:

• Implementation of a Development Program for Suppliers of biotechnological products and services.
• The company should be a micro, small or medium biotechnological product and/or service producing enterprise.
• It should be a new company producing biotechnological products and/or services.

Applicable legal provisions: Law 16,906, Decree No. 011/013
2.3 Remote customer service centers

Activities developed by remote customer service centers (provision of services performed by phone operators who receive or make telephone calls, Internet messages and use other types of channels) were promoted under Law No. 16,906.

Access to said benefits is granted when the following requirements are simultaneously met:
- They generate a minimum of 100 positions of direct qualified work.
- Services are fully provided for the sole benefit of non-residents individuals located abroad. For the purposes hereof, this means that the service is exclusively related to activities developed, property located or rights economically used outside the country.

Income originated from such activities is IRAE exempt for a period of 10 years as of the year in which the promotional declaration is applied for (inclusive). Said exemption shall apply as follows:

a) 100% when it exceeds 150 positions of direct qualified work.

b) 70% when it exceeds 100 positions of direct qualified work.

To access this exemption, companies shall appear before the Commission for the Enforcement of the Investment Law (COMAP).

Applicable legal provisions: Law 16,906, Decree No. 207/008 and Decree No. 379/011

2.4 Shared Services Centers

According to Decree No. 251/014, a “Shared-Services Center” is an affiliate of a multinational group that provides advisory services to related companies, on an exclusive basis, as regards activities developed, property located or rights economically used outside the country, as well as data processing services, provided that said data are related to activities developed, property located or rights economically used outside the country.

According to section 2 of the aforementioned decree, activities developed by Shared-Services Centers may access diverse tax benefits under certain conditions:

- Corporate Income Tax (IRAE) for 90% of income from promoted activities, for a term of five (5) or ten (10) fiscal years, counted as of the fiscal year following that in which the application is filed with the Executive Branch to have the project included as a promoted activity.

- Wealth Tax (IP) for assets attached to such activities, as from the fiscal year in which the application is filed, until the end of the abovementioned IRAE-exemption period. Said assets shall be deemed taxable for the purposes of estimating the liabilities for IP settlement (actual exemption).

Applicable legal provisions: Law 16,906, Decree 251/014
2.5 Afforestation

Plantation and other activities linked to forestry activities are regulated under Law 15,939 of 1987 (“Forestry Law”), regulatory decrees and further amendments thereto. This law declares of national interest the protection, improvement, expansion, creation of forest resources, development of forest-based industries and, in general, of the forest economy. This law establishes that natural and artificial forests in forestry priority areas declared as “protective” and “yielding” included in quality wood projects determined by the Ministry of Livestock, Agriculture and Fishing (MGAP), enjoy the following tax benefits:

- Income deriving from their operations is not computed for IRAE purposes.
- Value or size of forestry priority areas will not be considered for the estimation of Wealth Tax (IP) taxable amount.
- Rural real estate tax (tax on land ownership) exemption.

To be eligible for the abovementioned tax benefits, the MGAP Forestry Bureau (DGF) must approve the management and organization plan for the operation and regeneration of forests. Any amendment to the management and organization plan must be previously approved by the DGF. It is worth highlighting that short cycle plantations (less than fifteen years) with no pruning and thinning are not entitled to tax exemptions.

Applicable legal provisions: Law 15,939, Law 18,245, Title 4 of the Consolidated Text, Law 18,083 and its regulatory decrees.

2.6 Energy Generation

There is a regulatory framework oriented towards renewable energy industry growth, increase in participation of private sector electricity generation and investment in the sector. Decree 354/009 grants specific tax incentives to the renewable energy sector under the Law on Investment Promotion and Protection. The aforementioned decree declares the following activities promoted:

a) Electricity generation from non-traditional renewable sources.
b) Electricity generation through co-generation.
c) Energy resources production from renewable sources.
d) Conversion of solar energy into thermal energy.
e) Conversion of equipment and/or integration of processes intended for efficient use of energy.
g) Services rendered by Energy Service Companies (ESCOs) registered with DNE and qualified as category A.
h) National manufacturing of machinery and equipment intended for use in the aforementioned activities.
In this framework, the decree includes IRAE exemption when electric energy is sold in the forward contract market, based on the following schedule:

- 90% of income until 31/Dec/2017.
- 60% of income, between 1/Jan/2018 and 31/Dec/2020.

On the other hand, Decree 002/012 provides for the assessment method applicable to renewable energy investment projects, used to establish the amount of the benefit under Law No. 16,906 on Investment Promotion. Acquisition of personal property, improvement of fixed assets, intangible assets (those defined by the Executive Branch), seedlings and planting costs of pluri-annual trees and bushes are all eligible as promoted investments. Furthermore, Decree 23/014 lays down that investments made by owners of wind energy generation projects destined for the National Interconnected System be deemed eligible, in compliance with the agreements executed with UTE. Assets thereunder are defined as intangible assets once the title thereto is transferred to UTE.

Finally, COMAP has established, through Annex IV - MIEM Sector Indexes, that companies which file projects intended for electricity generation from non-traditional renewable sources shall score the maximum rate possible according to this indicator. This assessment also includes companies whose main activity is not energy generation.

Applicable legal provisions: Law 16,906, Decree 354/009, Decree 002/012, Decree 23/014

2.7 Hydrocarbons

All hydrocarbon-related activities, including the exploration, exploitation, transportation and marketing stages are exempt from all existing and future taxes, except for IRAE.

As for IRAE and within the framework of Law No. 16,906, Decree 354/009 promotes the tax exemption of income deriving from the development and operation of certain energy generation-related activities. In particular, prospecting and exploration of Class I minerals (as defined by the Mining Code) are IRAE exempt according to the following schedule:

a) 75% of taxable income from fiscal years between July 1, 2009 and December 31, 2013.
b) 40% for fiscal years between January 1, 2014 and December 31, 2018.

It is worth mentioning that last Ronda Uruguay II declared exploratory activities promoted as eligible investments for the tax benefits provided for by Law 16,906, as regulated by Decree 68/013. Moreover, several additional benefits were provided, including VAT, IRNR rebates and customs duties exemptions for goods related to the eligible activities. Subcontractors were also benefitted in IRAE, IRNR, VAT and IP calculation.

These benefits may also be made available in subsequent rounds, if any.

Applicable legal provisions: Law 14,181, Law 16,213, Decree 354/009, Decree 68/013,
2.8 Communication industry

Journalism, broadcasting, television, theater and film distribution and exhibition companies are exempt from the taxes levied on their imports, capital, sales, tickets, acts and businesses, excluding income tax in relation to said line of business.

Applicable legal provisions: Law 13,320, Law 13,349, Law 13,695, Decree-Law 14,882

2.9 Electronic industry

Electronic industry (manufacturing of electronic and electric equipment and appliances, logic controllers, computers, telecommunication equipment, measuring instruments, equipment for medical purposes, household appliances) was promoted under Law No. 16,906, which involves IRAE exemption (in decreasing segments until 2018) under certain conditions:
- New undertakings: generating at least twenty (20) direct and qualified jobs on a dependency basis and implementation of a Development Program for Suppliers.
- Undertakings with up to forty (40) people in Payroll: direct and qualified jobs on a dependency basis should increase by fifteen percent (15%) and a Development Program for Suppliers should be implemented.
- Undertakings with over forty (40) people in Payroll: direct and qualified job positions on a dependency basis should increase by twenty percent (20%) and a Development Program for Suppliers should be implemented.

Applicable legal provisions: Law 16,906, Decree 58/009, Decree 532/009 and Decree 127/011

2.10 Graphic industry

Printing studios, publishing houses and bookshops as regards printing and sale of books, brochures and magazines of literary, scientific, artistic and teaching nature, as well as educational material are exempt from tax levied on their capital, sales, tickets, acts, services and businesses, excluding income tax.

At the same time, Law No. 15,913 on Books sets forth the following tax franchises aimed at benefiting book distribution: tax exemption on payments related to copyright and export and import of books, brochures and magazines of literary, scientific, artistic and teaching nature, as well as educational material exempt from proceeds, port prices and any other duty. It is also established that import of machinery, equipment, components, tools, accessories and spare parts intended for book manufacturing is exempt from any tax applicable to said import, except for surcharges.

Applicable legal provisions: Law 13,349 and Law 15,913
2.11 Shipping industry

Shipping industry (building, maintenance and repair of ships and water vehicles, production of sets and subsets for ships and water vehicles) was promoted under Law No. 16,906, which involves IRAE exemption (in decreasing segments until 2018) under certain conditions:

- New undertakings: generating at least 150 direct and qualified jobs (75% national), at least 50% of the total professionals who are part of Project, Engineering and Production departments should be Uruguayan and a Development Program for Suppliers should be implemented.
- Pre-established undertakings: direct and qualified jobs should be increased with national labor related to direct production tasks by at least 30% with respect to the average personnel hired by the company in the last 2 years, with at least 20 workers. Also, a Business Associativity Program should be submitted.

Importing of materials, raw materials, capital goods and other items needed to build dockyards, dry docks and dams, as well as goods required for building, recovering, transforming or modifying ships are exempt from all taxes, even VAT.

Applicable legal provisions: Law 15,657, Law 16,906, Decree 58/009, Decree 532/009

2.12 Tourist industry

Decree 175/003 classifies tourist activities into two groups, applying different incentives for each one of them.

a) Tourist Projects: Accommodation, cultural, business, sport conventions, recreational, leisure or health service activities that are part of a complex unit designed to attract tourism demand, approved in accordance with Law 16,906 and with the aforementioned Decree.

b) Hotels, Apart-hotels, Inns, Motels, and Tourist Ranches already built or about to be built.

For Tourist Projects:
- For Civil works, VAT exemption on imports for the project, and VAT credit balance on local purchases, Wealth Tax exemption for 11 years, and 50% import tax exemption for these goods. For Corporate Income Tax (IRAE), civil works investment can be amortized over a 15-year period.
- For equipment: VAT exemption on imports for the project, VAT credit balance on local purchases, Wealth Tax exemption for 5 years, and 50% import tax exemption for these goods. As for Corporate Income Tax (IRAE), equipment can be amortized over a 5-year period.

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5 This credit balance will be returned with Credit Certificates that may be destined to the payment of liabilities to DGI, BPS, or even endorse them in favor of suppliers.
6 Same as above.
For Hotels, Apart-hotels, Inns, Motels, and Tourist Ranches already built or about to be built:
- For equipment: VAT exemption on imports for the project, VAT credit balance on local purchases, Wealth Tax exemption for 5 years, and 50% import tax exemption for these goods.

Decree No. 404/010 promotes the activity developed by Condo Hotels, with several benefits available for them, namely:

a. Credit for Value Added Tax included in the acquisition of goods and services used in the construction.
b. VAT exemption for imports of goods destined to construction made by the developer.
c. Exemption applicable to the developer in the import of materials and goods used in construction, who has to choose between one of the following regimes: i) 100% of taxes levied on the aforementioned goods declared not competitive with national industry, in which case the developer will have to pay the total taxes levied on goods competitive with the national industry; ii) 50% of the taxes levied on all aforementioned goods.

Applicable legal provisions: Law 16,906, Decree 175/003, Decree 404/010 and Decree 59/012

2.13 Offshore financial brokerage

Offshore banking in Uruguay is called “Offshore Financial Institution” (IFE, for its Spanish acronym). IFEs may operate exclusively with non-residents and can develop financial brokerage activities of any nature as well as related services thereof, including the taking of sight deposits and current account deposits in foreign currency, and authorize drafts against them through the use of checks.

Offshore financial brokerage firms will be exempt from any duty which may be levied on them, the operations of their line of business, their equity or income. Said exemption does not include their liabilities for contributions to social security entities. Taxes levied on the organization and capital increases of said financial entities are deemed included in this exemption.

Applicable legal provisions: Decree-Law 15,322, Decree 381/989

2.14 Agricultural machinery

Decree 346/009 and subsequent Decree 006/010 promote agricultural machinery and equipment manufacturing activities under Law 16,906. Income deriving from machinery and equipment manufacturing activities included in DGI resolution No. 305/979 and supplementary rules is IRAE exempt as follows: 90% for fiscal years between 2009 and 2014, and 50% for fiscal years between 2015 and 2019. Moreover, Decree 220/998 lays down that manufacturers of these goods will be entitled to a credit for VAT included in the acquisition of goods and services related to the cost thereof.

Applicable legal provisions: Law 16,906, Decree No. 220/998 and Decree 006/010

Same as above.
2.15 Maritime and air navigation

Maritime or air navigation companies are IRAE exempt. For foreign companies, the exemption will only apply when in their countries of origin Uruguayan companies with the same purpose enjoy the same exemption.

Applicable legal provisions: Law 18,083.

2.16 Industrial solid waste

Treatment and final disposal of industrial solid waste was promoted under Law 16,906. Said activity is IRAE and IP exempt.

Moreover, goods intended to become part of the investment cost in fixed assets, directly imported by the benefited company are exempt from any import duty, including Consular Fees and VAT, provided they have been declared not to be competitive with national industry. Purchases in the market are benefited from a credit for the VAT paid.

Applicable legal provisions: Law 16,906, Decree No. 411/011

2.17 Software

According to the provisions set forth in Decree No. 150/007, income from software production and related services is IRAE exempt, provided they are completely used abroad.

Said exemption includes development, implementation at client’s site, version upgrading and correction, customization (GAPs), quality testing and certification, software maintenance, training and advising. Related services refer to hosting, call center, outsourcing, marketing and other services, whenever software is the main purpose, even when said software has not been developed by the service provider.

Moreover, the same Consolidated Text 1996, Title 4 (IRAE), Section 23, Paragraph I), allows to compute one and a half times expenditure incurred in by way of software services provided by those who actually pay this tax.

Applicable legal provisions: Decree No. 150/007, Law 18,083,

2.18 Vehicles or auto-parts

According to Decree 316/992, companies which export finished or semi-finished vehicles, assembled in the country, or national auto-parts are entitled to a 10% refund on the FOB value of exports, through credit certificates issued by the Government, which may be used for paying duties or to import motor vehicles for the domestic market with a Global Tariff preference of up to 13 points. Exporting companies can assign their benefits unto vehicle importing companies for the domestic market.
On the other hand, pursuant to Decree 340/996, assembling companies can import CKD\textsuperscript{9} kits for assembling vehicles intended for the domestic market with a tariff of 2%, provided they comply with a complete assembling process in the country. Regarding Decree 126/012, SKD\textsuperscript{10} kits intended for the production in the country of a new model, not previously manufactured in the country, are subject to 85% exemption of the tariff for the first year, 70% during the second year and 55% during the third and subsequent years.

On the other hand, there is a large number of benefits granted by agreements with Mercosur and Mexico. These are described in the International Agreements chapter of this Investor’s Handbook.

Applicable legal provisions: Decree 316/992, Decree 340/996 and Decree 126/012

2.19 Vehicles and Equipment for freight transportation

Manufacturing activity intended for professional land transportation of freight for third parties, trucks, road tractors, semitrailers, trailers, structures incorporated to these goods destined to contain or load cargo in a passive role and dump boxes is promoted under Law 16,906. The benefit granted consists of VAT exemption for sales in the market performed by manufacturers of automotive transportation, thus establishing a VAT refund regime included in purchases in the domestic market and imports of goods and services.

Applicable legal provisions: Law 16,906, Decree 210/010

2.20 Housing

Law 18,795 promotes private investment in social interest housing by granting tax exemptions. This law is aimed at making access to housing possible for middle and lower middle income sectors, fostering private investment in construction, remodeling or expansion of at least two to one hundred houses per plot, which can be sold or rented.

Benefits granted under this scheme include:
- IRAE, Wealth Tax, VAT and Equity Transfer Tax exemptions. In the case of IRAE, income deriving from the first sale is exempt or, in the case of housing intended for rental, the exemption applies to income for the year when works are completed and the following nine years, ranging from 40% to 100%, according to the undertaking area.
- Creation of a Security Fund to facilitate access to bank loans to small and medium sized investors.
- Facilities for the sale and rent of the house once finished, such as bank loans with grants on the installment; Mortgage Loan Security Fund, which decreases the final buyer’s prior mandatory savings and Rental Guarantee to make renting easier.

Applicable legal provisions: Law 18,795.

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\textsuperscript{9} CKD: Completely Knocked Down, colección de piezas completamente desmontadas.
\textsuperscript{10} SDK: Semi-Completely Knocked Down, colección de piezas con cierto desarme mínimo.
3. Industrial parks

An industrial park is a public or private zone area, urbanized and sub-divided in plots pursuant to a general plan, which has public and private services and common facilities, for the purpose of setting up and operating productive establishments and related services.

Apart from industrial operations, storage, packaging, selection, classification, fractioning, assembly, disassembly, handling or combination of goods or raw materials can be performed within these parks, provided they are exclusively associated to the industrial activities set up in the parks. As in the case of Free Zones, retailing within industrial parks is banned, and the park’s facilities cannot be destined for housing, except as otherwise essentially required for the operation of the park or the companies set up therein.

Currently in Uruguay there are seven approved industrial parks: Parque Agroindustrial Alto Uruguay, Parque Industrial de Juan Lacaze, Parque Industrial Paysandú, Parque Productivo Uruguay, Parque Industrial las Piedras, Parque Tecnológico Industrial del Cerro and Plaza Industrial S.A.

Law 17,547 and its Regulatory Decree 524/005 provide for the set up of Industrial Parks and sets the tax benefits applicable to companies that set up Industrial Parks and those in charge of their operation.

As for State Industrial Parks, the National Development Corporation is the authority empowered to set these up. Furthermore, at municipal level, this task falls to departmental governments.

Decree No. 524/005 grants incentives to natural and legal persons that set up industrial parks, and users thereof may be included in the benefits and obligations set forth in the Investment Law, with specific additional benefits.

Companies willing to set up in Industrial Parks as users thereof shall be entitled to the following benefits:

- The score attained for deduction of IRAE under Decree 002/012 of Law 16,906 is increased by 15%.
- Tax credit for employer contributions related to positions, increased according to the promoted project during a 5-year period.

On the other hand, individuals willing to operate an Industrial Park shall be entitled to the following benefits:
Industrial parks are expected to create synergies among companies, as they share utilities such as electricity, water, Internet and security, among other services. There are industrial parks that join together various links in the production chain, and this further develops the parks’ operational features.

Applicable legal provisions: Law 17,547, Decree 524/005, Decree 002/012
4. Free-trade zones

Free-trade Zones are areas appointed by the Executive Branch where all kinds of industrial, commercial, and services activities can be conducted, without limitation whatsoever, and with full exemption of any domestic, current or future taxes. Furthermore, the introduction of goods into Free-trade Zone areas is tax exempt. This exemption is not applicable to social security contributions from Uruguayan staff. The State became by law the guarantor of the rights granted by law to Free-trade Zone users, and it is therefore accountable for any damages caused to Free-trade Zone users’ rights.

The promotion and development of Free Zones is part of the set of policies being developed in Uruguay for the purposes of promoting investments, exports, job generation and international economic integration. Therefore, Free-trade Zones have been declared of national interest by law.

Duty Free-trade Zones may be public or private and in both cases they are authorized and monitored by the National Direction of Free-trade Zones. At present there are twelve Free Zones in the cities of Canelones, Colonia, Colonia Suiza, Florida, Fray Bentos, Libertad, Montevideo, Nueva Helvecia, Nueva Palmira, Punta Pereira, and Rivera.

The current regime is governed by Law 15,921, as amended by Section 65 of Law 17,292, Section 23 of Law 17,781, and indirectly governed by Law 18,083.

Companies may adopt one of the following three types as regards Free-trade Zones:

4.1 Free-trade Zone Users

Direct users are those contracting with the Operator in exchange of a price freely agreed to with the Operator, and for which users are granted the right to operate in a Free-trade Zone.

Indirect users are those contracting with the direct user (in lieu of the operator), in exchange of a price agreed to by the direct user, and for which they are granted the right to operate in the free zone, using its facilities (e.g. free-zone warehouses).

Free-trade Zones are designed for companies willing to use the benefits deriving from being users to develop any kind of export-related activities, such as:

1. Commercialization, storage, packaging, classification, fractioning, mixing, assembling, disassembling and other operations which do not involve industrialization of goods and raw materials.
2. Installation and operation of manufacturing establishments.
3. Provision of any kind of services, including professional, financial, IT, repair and maintenance services.
This wide range of activities is subject to some limitations, such as:

- The impossibility to develop upstream activities (agricultural activities, extraction, etc.), retail sales or free entrance into non-free trade territory of bonded goods or goods industrialized in free zones. There is also a restriction on goods to be introduced into a free zone, e.g. war goods.

- Sales from the national customs territory to the Free Zone are deemed exports from the country and sales from the Free Zone to the national customs territory are deemed imports. Therefore, they are subject to the applicable customs and national duties. In other words, goods manufactured in free zones may be sold in the Uruguayan customs territory with no restrictions, prior payment of all customs duties.

- Sales from the Free Zone to MERCOSUR are subject to the block Common External Tariff (AEC) applicable to goods coming from third countries. This is because goods from Free Zones have no preferential access, according to Common Market Board Resolution No. 8/994.

- Finally, services which can be provided by free zones outside free zone territory include: international call centers (number of calls, inbound and outbound calls of telephone services provided by the International Call Centers destined to the national territory should be less than 50% of total calls of the telephone services provided); mailboxes; remote education; issue of e-signature certificates, software production services, IT consultancy and IT training; management, administration and accounting services and similar services provided to related entities engaged with the provision of logistics services, both shipping and port services, provided said provision does not exceed 20% of the total turnover for the fiscal year; and film and photo development.

Uruguay is a party to agreements with Argentina and Brazil for certain products from the Colonia and Nueva Palmira FZ (including goods produced by PepsiCo, wheat, barley, barely malt and soy)\(^1\). Sales from FZs are also included in trade agreements with Chile, Israel, Mexico, India, Ecuador, Venezuela and Colombia.

Activities conducted by FZ users are exempt from domestic, current or future taxes. Specifically, they enjoy the following benefits:
- Corporate Income Tax (IRAE), Wealth Tax (IP) and any other domestic tax exemption.
- Tax exemption on dividends distributed among shareholders domiciled abroad.
- Foreign staff (up to 25% of payroll)\(^2\) may choose not to make social security contributions in Uruguay.
- Foreign sales and purchases of goods and services, and sales and services rendered within the FZ are all VAT exempt.
- Goods traded by Free Zones with the rest of the world are exempt from customs duties.

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\(^1\) The Agreement with Argentina is only applicable to Colonia FZ.  
\(^2\) In some justified cases said percentage can be extended with prior government authorization.
According to Section 25 of Law 15,921: “The State guarantees the user the tax exemptions, benefits and rights provided for by law during the term of the agreement, subject to liability for damages.”

Moreover, note that Uruguay has executed 31 Agreements for the Promotion and Reciprocal Protection of Investments with third countries. Therefore, many of the Free Zones’ foreign operators and users are covered under said agreements.

The requirements to qualify as Free Zone users are the following:

### Free Zone Users

- Legal entities which set up as free zone users must have the sole purpose of performing these activities within national territory.
- Personal property, raw materials and other goods going in and out the free zone are exempt from all current or future, national taxes, customs duties and fees. In particular, they are exempt from Income Tax, VAT, Wealth Tax, Excise Tax and Corporation Control Tax. Assets going in and out the duty free zone are tax-exempt.
- Exception:
  - Social security contributions, except for foreign personnel who may choose to contribute in their country of origin.
- Remuneration for personal services of natural persons. Non Uruguayan citizens providing personal services in a free zone who are excluded from contributing to the Social Security Administration (BPS) may pay IRPF or IRNR.
- Dividends or profits paid to individuals residing abroad, when levied in the country of their owner and there is tax credit in said country for tax thus paid.
- In Free Zones, State monopolies regarding industrial and commercial service do not apply.
- Except in exceptional cases, 75% of the staff members must be Uruguayans.

### 4.2 Free Zone Operators

A Free Zone operator is the natural or legal person who provides the required and sufficient infrastructure for the set up and operation of a Free Zone. Free Zones can be operated by the State or by duly authorized private entities. Private free zones are managed by individuals and authorized by the Ministry of Economy and Finances, which oversees and controls the free zones through the General Business Administration Free Zone Area. Setting up a FZ in Uruguay requires a government resolution with information on: operating license period, area occupied by the FZ, the minimum investment the operators are able to undertake and the rate of rental payable by them.

Those willing to operate a new Free Zone shall:

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13 Web page: www.zfrancas.gub.uy
4.3 Free Zone Clients

Free Zone operations also include a client or depository which contracts both with direct users and indirect users the right to deposit certain goods within their warehouses.

Applicable legal provisions: Law No. 15,921, Law No. 16,906, Law No. 17,547, Decree No. 524/005
5. Free ports and airports

The Free Port regime represents one of the mainstays for Uruguay to be positioned as a logistic platform in Mercosur and as a distribution center for goods in transit.

In view of Port Law No. 16,246 of May 1992 - as regulated from time to time, Montevideo is the first terminal of the Atlantic coast in South America to operate under a “Free Port” system. In 2015, the New Customs Code (CAROU) was enacted, whereby new improvements were introduced into the regime.

This regime is also applicable to the commercial ports of Colonia, Fray Bentos, La Paloma, Nueva Palmira, Paysandú and Puerto Sauce, as well as Carrasco International Airport.

When operating in a free port, goods circulate freely without the need for permits or formal procedures, other than those strictly required by the National Ports Administration (A.N.P.). During their stay at the port customs area, goods are exempt from all import taxes or import-related taxes. The following activities can be carried out:

- Merchandise-related operations. Operations which add value, change the presentation or implement the free disposition of goods without changing their nature. By way of example, storing, repacking, remarking, sorting, grouping and degrouping, consolidating and deconsolidating, handling and fractioning activities.
- Operations related to services rendered to goods: loading, unloading, stowage and mobilization of bulk items, transportation, transshipment, reshipment, transit, removal, deposit, storage, disposition, ship supply, ship repairs and other services related to port activities and the free port system.

With the new CAROU, the maximum term during which goods may remain at a free port is five years, and this term may be extended.

Apart from the aforementioned customs benefits, the circulation of goods and provision of services within port customs facilities are VAT exempt (as they are deemed service exports) and are not included in the tax base for Wealth Tax or Income Tax purposes.

Unlike what happens with the Free Zone system, goods under the Free Port system do not forfeit their origin, both if they are re-exported in identical condition as imported and if they were subject to operations which did not alter the nature of the product or its origin. Thus, several agreements executed by Uruguay, including Mercosur and Israel, include a system of certificates of origin which facilitate the type of operation provided for in the Free Port system.

Applicable legal provisions: Law No. 16,246.
6- Public-private partnership

In 2011, the Public-Private Partnership Law, which provides for the regulatory framework for public-private partnership (PPP) agreements was enacted. This Law was regulated by Decree No. 17/012, and Decree No. 280/012, and further regulated by Decree No. 251/015. PPP agreements are those in which a Public Administrative Body entrusts, for a given period, the design, construction and operation of infrastructure or any such services to a private party, in addition to financing. Said agreements can be entered into for the development of infrastructure in the following activity sectors:
- Road works (including rural roads), railway, port and airport works;
- Energy infrastructure works;
- Waste disposal and treatment works;
- Social infrastructure works, including prisons, medical centers, educational establishments, social housing, sports complexes and improvement works, urban supply and development.

Public initiative
Contracting Public Administration

Private initiative

Beginning of the process. A Public-Private Partnership Contract may begin by means of a public or private initiative that must be submitted to the National Development Corporation (CND, for its Spanish acronym).

Preliminary assessment. Prior to contracting, an evaluation of the project should be undertaken in terms of feasibility and convenience, including technical, legal, economic and financial analysis.

Approval of preliminary assessment studies. The preliminary assessment studies and the contracting terms and conditions should be submitted to the Planning and Budget Office and the Ministry of Economy and Finance.
Public call for bids. The Public Administrative Body may employ any competitive method (including invitation to tender and bids) to carry out the public call for bids. It will be able to apply a competitive dialogue procedure in the case of more complex projects.

Submission of bids. Bids will include all the required and necessary elements to undertake the project.

Assessment of bids. Evaluation criteria (for example quality, price, deadline, bonds, etc.) for the bids should be defined in the bidding specifications.

Bid awarding. The Technical Committee shall classify in decreasing order the submitted bids in accordance with the different valuation criteria. The contracting Public Administrative Body will stipulate the preliminary award by a well-founded resolution, which will be notified to all bidders and will establish the definitive terms of the contract. The State Accounting Oversight Board (Tribunal de Cuentas) will have 30 calendar days to take a decision, effective as of the receipt of the notification file. After this period, if the State Accounting Oversight Board has not issued a decision, it will be deemed approved. The contracting Public Administrative Body will decree the final award.

Applicable legal provisions: Law No. 18,786, Decree No. 17/012, Decree No. 280/012, Decree No. 251/015.
7- Foreign trade related systems

Uruguay has an export promotion policy in place that is applied through varied instruments in terms of nature and scope, all of which satisfactorily comply with the regulations set forth in WTO’s Subsidies Code.

The main principle is freedom to export, there being neither encumbrances nor prohibitions whatsoever. As an exception, the export of some products coming from the agricultural industry is subject to the payment of taxes and non-tax allowances destined to oversight organizations, such as the Uruguayan Wool Secretariat and the National Meat Institute, which have very low incidence.

7.1 Tax Refund

In terms of Value Added Tax, there is a special regime by virtue of which exports are VAT exempt and whereby there is a mechanism that allows exporters to have VAT included in their purchase invoices refunded, thus avoiding the incidence of said tax on the exportable product.

Furthermore, there is an indirect tax refund system, by virtue of which exporters can recover domestic taxes which make up the cost of the exported product. If appropriate, refunds may range from 3% to 6% of the customs export value, according to the indirect tax burden of domestic materials introduced into the product. In some particular sectors, e.g. automotive, refunds can reach 10% of the customs export value.

Applicable legal provisions: Law 16,492, Law 19,149, Decree 322/015

7.2 Temporary admission

The Temporary Admission regime is regulated by Law 18,184 and its regulatory Decree No. 505/009.

Temporary Admission allows you to enter into the market (customs territory), free of taxes, foreign goods from outside the national customs territory, for a particular purpose other than consumption, to be re-dispatched within a specified timeframe, whether on an “as-is” basis or after having undergone processing, manufacturing, repair or aggregation of certain value, with effective labor employment. The prior authorization of the Ministry of Industry, Energy and Mining shall be required to authorize the re-export or nationalization of goods, on an “as-is” basis.

Manufacturing companies may enter duty-free raw materials, parts, spares, engines, packages and packaging materials, matrices, molds and models, products and inputs for the production process - not included in the final product but directly involved in the manufacturing of and in contact with the product to be exported, and elements, equipment or materials necessary for software support. Machinery and equipment of any origin, which enter into the country to undergo repairs, maintenance, update or to be used, on a temporary basis, are also protected by this system.
For this, a prior authorization must be obtained and the final product must be exported no later than in 18 months (upon duly justified request by the company, said term may be extended by the Executive Branch to 18 additional months). Temporary Admission is widely used by the exporting industry.

Applicable legal provisions: Law 18,184, Decree 505/009

7.3 Draw-back

The draw-back regime is regulated in Chapter III of Decree No. 505/009. This regime allows for claiming the refund of taxes and levies paid for the import under the general scheme following the export of goods. Said imports cannot exceed five (5) years since they were customs cleared and will be checked by the Uruguayan Technological Laboratory (LATU, for its Spanish acronym), prior authorization of the applications to operate under this system.

Exports under the drawback system should be made within eighteen (18) months, counted as from the date the operation is cleared by LATU upon request of the interested party; in some exceptional, duly justified cases, this term can be extended 18 additional months, prior approval of the Executive Branch.

Applicable legal provisions: Law 18,184, Decree 505/009

7.4 Customs Warehousing

Customs warehousing regime is a way of importing, whereby goods can enter some enabled areas (customs warehouses). These areas are enclosed facilities, open or closed, which can also be launches, pontoons or tanks, where foreign goods can be deposited for storage and/or transformation purposes. Goods enter customs warehouses for a particular period of time, according to the operation that will be executed on goods. Upon expiry of said term, goods have to be included into another customs regime, reshipped or re-exported.

There are six types of customs warehouses which qualify for several activities:

- Warehousing: Through this regime, goods may only undergo operations aimed at ensuring their recognition, preservation, fractioning in batches or volumes, and any other operation which does not alter the goods’ value or changes their nature or state.

- Bonded warehousing: Goods may undergo operations aimed at facilitating their commercialization or increasing their value, without changing their nature or state.

- Industrial warehousing: Goods may undergo operations aimed at changing their nature or state, including industrialization of raw materials and semi-finished products, assembly, adjustment and any other similar operation.
- Repair and maintenance warehousing: Goods may undergo repair and maintenance services, without changing their nature.

- Transient warehousing for exhibition or any other similar activity: Foreign goods deposited may be bound for exhibition, shows, fairs or other similar activities, prior authorization by the National Customs Authority.

- Logistic warehousing: Goods may undergo operations which change their nature or state, provided their origin is not altered. These operations consist of: assembly or adjustments; mixture; placement or replacement of parts, spares or accessories; hardware setup; software installation; manufacturing of packages, labels or other products, provided these are used for the marketing of goods that will leave the warehouse; and other similar operations appointed by the Executive Branch.

Warehouses can be government or state-owned, privately-owned or rented by the State.

Goods may be kept at customs warehouses for not more than 5 years. This term may be extended.

Applicable legal provisions: Law No. 19,276
About us

Uruguay XXI is the Uruguayan investment and export promotion agency. Uruguay XXI provides free support to foreign investors, both to those who are in the process of assessing where to make their investments and those who have been operating in Uruguay for a long time.

Our Investor Services

• Macro and sector-based information. Uruguay XXI regularly prepares research on Uruguay and several sectors of economy.

• Tailor-made information. We prepare personalized information to answer your specific inquiries, such as macroeconomic data, labor market, taxes and legal aspects, investment-promotion programs, location and costs.

• Contact with main players. We generate contacts with governmental entities, industrial stakeholders, financial institutions, research & development centers and prospective partners, amongst others.

• Promotion. We provide investment opportunities in strategic events, missions and business networking meetings.

• Arrangement of visits to the country by foreign investors, including the setting of meeting agendas with, for instance, public authorities, suppliers, potential partners and chambers of commerce.

• Support in setting-up operations and expansion. We assist you in the process of setting-up your business in the country and provide support for you to consolidate business growth in Uruguay.