

# Setting up your Business in URUGUAY

## Issues to consider



Uruguay is a country located between Argentina and Brazil, with a democratic tradition and social and political stability. It fully integrates Mercosur, (200 million inhabitants) and it has had continued growth and investment, since new laws have come into effect to make investment more attractive. In addition, it has amongst the highest internet, mobile and PC penetration in Latin America. For these reasons it is a safe, reliable and competitive location, providing an unbeatable logistics base in the heart of the wealthiest region of South America

However, there are a number of issues, which you must consider when you are looking to set up your business in Uruguay. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

### **What type of Business Structure should we use?**

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

#### **Establishment (a branch of your overseas business)**

- Not a separate legal entity but an extension of the overseas parent company
- No limited liability or ring-fencing of the Uruguay operations
- If have a permanent establishment in Uruguay then profits from this PE are liable to Uruguay Corporation tax
- Must have separate accounts, prepared under Uruguay Company Law.

#### **Limited Company (Sociedad Anónima):**

- Provides limited liability and ring-fencing to Uruguay operations
- Gives a perception of a local business, with longevity
- Corporation tax to be paid on company profits
- Accounts require auditing if the company has:
  - Financial Liabilities over USD 2.100.000 (Financial Statement Review over USD 700.000)

### **How much Corporation Tax will the business pay?**

Current Corporation Tax rates in Uruguay are:

**Tax rate (%)                      25%**

The income tax levied only on Uruguayan source income source at the rate of 25%.

The following are considered Uruguayan income sources: activities developed, goods or

# Setting up your Business in URUGUAY

## Issues to consider



rights located economically and used in the country regardless of the nationality, domicile or residency of the persons / entities involved in the transactions and the place of performance of the businesses

Is important to highlight foreign source income is not reached by the corporate income tax in Uruguay.

In Uruguay, there are a number of investment promotion regimes. Applied to various types of investment: wind power, hotels, software and any general industry. These provide interesting tax benefits, depending on the amount invested, as are the exoneration of income tax, VAT refunds and exemptions from taxes on import.

### **What if we use Uruguay to set up our holding company?**

Uruguay is a very attractive place to set up a holding company.

Neither the gains from holding shares (eg. capital gains) nor dividends received from other companies in Uruguay are reached by income tax in the country. In addition to this, as noted in the previous section, the results obtained from foreign sources are not taxed in Uruguay (eg. sale of shares), when these results are distributed (by paying dividends) to its shareholders are not taxed as long as they are non-residents.

All of which makes Uruguay a very advantageous location to set up a holding company.

### **What if we make cross-border transactions between group companies?**

Uruguay follows internationally recognized **Transfer Pricing** (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

Typical transactions between affiliated entities that are covered by TP regulations are:

- Sale and purchase of goods
- Provision of management services
- Property rental charges
- Transfer of intangible assets e.g. trademarks, patents
- Sharing of knowledge, expertise, business contacts etc.
- Provision of financial support e.g. inter-group loans and charging a "market" interest on loans

A business will need to prepare a Transfer Pricing Report proving the arm's length basis of transactions. The report will include a functional and risk analysis, analysis of the adopted pricing model and benchmarking of the arm's length basis.

# Setting up your Business in URUGUAY

## Issues to consider



SME's are generally exempt from Uruguay's transfer pricing regime, so only "large" entities need to undertake detailed TP analysis. A "large entity" for TP purposes is one with > USD 6,000,000 transactions with affiliated companies.

However even if an entity is exempt from the Uruguay's transfer pricing regime it may fall under the scrutiny of the other international tax jurisdictions where it transacts. There may also be other tax regulations, which ensure transactions are undertaken at a commercial value.

### What Employment Taxes and Social Security will need to be paid?

If an individual is resident in Uruguay, then they are subject to Uruguay tax laws.

To determine whether a person is or is not resident in Uruguay there are, basically, three criteria applied:

- a) Physical permanence: more than 183 days in the country.
- b) Economic interests: produce locally income greater in value than in any other country.
- c) Vital interests: the taxpayer has vital interests in national territory when residing in Uruguay usually his spouse and minor children.

We would advise any new entrant to Uruguay or person who spends time working in Uruguay to take professional advice to determine whether they are Uruguay tax resident.

### Current Personal Income Tax rates in Uruguay are divided in two categories:

- Income derived from work, whether as an employee or as an independent worker (professionals, etc.) Progressive tax rates from 0% to 36%, with a non-taxable minimum amount

Band of Income (USD)		Tax Rate
-	10.459	0%
10.460	14.942	10%
14.943	22.413	15%
22.414	44.826	24%
44.827	74.710	25%
74.711	112.066	27%
112.067	171.834	31%
Over 171,835		36%

# Setting up your Business in URUGUAY

## Issues to consider



- Income derived from capital: Taxable at a flat rate of 12%, without minimum.
  - 7% for dividends

Employers and employees also have to pay Uruguay social security, which is called Social Security and Labor Contributions.

### Current Social Security rates are:

General Regime	by the employers (%)	by the employee (%)
Retirement pensions	7.50%*	15%*
Health insurance	5%	4.50%**
Labor restructuring fund	0.125%	0.125%
<b>TOTAL</b>	<b>12.625%</b>	<b>19.625%</b>

\* For the amount of monthly remuneration, exceeding approximately USD 4.100 no retirement contributions should be made.

\*\* In case the employee declares to have minors in charge it will be 6%, and if he has minors and spouse in charge it may vary up to 8%. Moreover, depending on the salary level it can be reduced to 3%.

NB: (rates are for the tax year to February 2017)

It is the employers' legal responsibility to pay over employee's tax and social security deductions to the Uruguay tax authorities.

Uruguay has a Reciprocal Agreement with Argentina, Austria, Belgium, Brazil, Chile, Canada, Colombia, Costa Rica, Ecuador, France, Germany, Spain, France, Holland, Italy, Israel, Luxembourg, Peru, Portugal, Switzerland, U.S and many others whereby when an overseas national of those countries is seconded to the Uruguay for a defined period of time and continues to pay social security in their home country, then the employer and employee are exempt from paying Uruguay's social security contributions.

### What is Value Added Tax (VAT)

VAT is applied on the following operations:

- Sale of goods
- Rendering of services
- Imports

The tax rates are:

- Standard rate: 22% - must charge VAT on supplies, can reclaim input VAT
- Reduced rate: 10% - must charge VAT on supplies, can reclaim input VAT
- Exemptions and outside of the scope - cannot charge VAT nor reclaim input VAT

# Setting up your Business in URUGUAY

## Issues to consider



- Exports: 0% rated and the VAT included in purchases is returned

The supply of most types of goods and services in Uruguay would be classed as Taxable supplies. However when these supplies are made to companies which are outside of Uruguay advice needs to be sought as to what rate of VAT, if any, to use.

### **Can we provide Share option plans to our staff?**

Many companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

Uruguay has a number of “approved” share option plans which give tax benefits to employees and employers alike and it is often possible to adapt an overseas stock option plan to fit into one of these “approved” plans.

However this is a very technically complex area and careful planning needs to be undertaken as soon as share option plans are being considered for implementation in Uruguay.

### **How else can we compensate our employees?**

Uruguay has a very comprehensive range of compensation and benefit options available for companies to offer their employees.

Pensions, private medical insurance, life and disability cover are now commonplace benefits provided by many Uruguayan businesses to their workforce.

Flexible benefit packages are also gaining in popularity, giving employees options on how they wish to “spend” their benefits allowance; which can range from “purchasing” additional holiday entitlement to obtaining full family medical cover.

**To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or [email](#) us directly.**

### **Kreston International**

Kreston International Limited is a global network of independent accounting firms with the reputation for providing trusted compliance and advisory services to entrepreneurial business in the SME and mid-market sectors.

Currently ranked as the 12th largest accounting network in the world, Kreston has a presence in over 100 countries, providing a resource of over 20,000 professional and support staff.

Our members are accustomed to working together to deliver cohesive international solutions to ensure clients receive the highest quality of expertise available in their respective countries. Beyond assurance, quality and experience, clients will enjoy the unique synergy



## Setting up your Business in URUGUAY Issues to consider



that stems from the trusted relationships that Kreston members have created globally and which support the consistent delivery of exceptional international service.

This information is provided for guidance only and is not a substitute for professional advice. Neither Kreston International Limited nor its member firms accept any liability for any loss arising as a result of actions taken or not taken based on the information contained in this document.

The information in this document was prepared as at 16 February 2017.