Doing Business Guide

Uruguay

1st Edition

VD&A Veiga Dobrich y Asociados

www.vdya.com.uy

An independent member of
Morison International

About This Booklet

This booklet has been produced by VD&A Veiga Dobrich y Asociados for the benefit of its clients and any associate offices worldwide interested in doing business in Uruguay.

Its main purpose is to provide a broad overview of the various matters that should be considered by organisations when setting up a business in Uruguay.

The information provided is not exhaustive and – as underlying legislation and regulations are subject to frequent changes – we recommend that anyone considering doing business in Uruguay or exploring the area as an opportunity for expansion should seek professional advice before making any business or investment decision.

Contact us:

VD&A Veiga Dobrich y Asociados
Treinta y Tres 1329 Floor 2,
Montevideo, CP: 11000,
Uruguay

T: +598 2916 0747
F: +598 2916 0747
E: info@vdya.com.uy

www.vdya.com.uy

Contents

Introducing the Country

Geography

The Eastern Republic of Uruguay (Uruguay) is situated in South America and has a land area of 176,215 km, bordered to the north and northeast by Brazil, to the west by Argentina and, to the south and southeast, by the Río de la Plata and the Atlantic Ocean.

Its privileged position in the South Cone of the continent is strategic as it enables the implementation of a regional integration policy. Moreover, apart from being the departure gate of the Plata Basin (Uruguay has deep ports), it constitutes a bridge between two large countries: Argentina and Brazil. Its Atlantic coasts enable Uruguay to maintain fluent communication with the most developed countries in the world.

Uruguay is the only South American country located entirely in a warm region, with an annual average temperature of 17°C.

Population and language

Uruguay has a population of almost 3.5 million inhabitants, with a population density of 19 inhabitants/km^2. Although stock-farming is widespread, 80% of the population live in cities (43% in Montevideo).

Some 88% of Uruguay's population is of European origin, especially Spanish and Italian, due to an open-door immigration policy.

The birth rate is the lowest in South America; life expectancy is the highest (73 years for men, 79 for women), indicating a good standard of healthcare and nutrition.

Spanish is the local language, with English being the foreign language mostly used for business.

Political system and form of government

Uruguay is a democratic unitary state that has a presidential system.

The Economist Intelligence Unit (EIU; http://www.eiu.com) published a report that considered Uruguay the most fully democratic system in Latin America, ranked 18th at a world level.

The country has long maintained strong political and social stability (see Table 1), backed by a consolidated democracy and robust legal certainty. Its current political system has three majority parties that alternate in government, always demonstrating respect for the rules and essentials of economic activity – an attractive feature for those choosing to invest in Uruguay's stable and confident business environment.

Table 1. Ranking of Uruguay's political and economic stability compared with Latin America and the rest of the world.

Ranking	Uruguay in Latin America	Uruguay in the world	
Democracy Index	1	18	Economist Intelligence Unit, 2013
Global Peace Index	1	29	Institute for Economics & Peace, 2013
Low Corruption	1	21	Transparency International, 2013
Prosperity Index	1	30	Legatum Institute, 2013
Free Press	2		Reporters Without Borders, 2014
Economic Freedom	3	38	Heritage Foundation, 2014
Human Development Index	3	50	United Nations Development Program, 2014
Global Competitiveness Index	5	80	World Economic Forum, 2014–15
Global Innovation Index	5	72	Cornell University, 2014

Standard of living and education

98% of the population has access to drinking water and electricity.

According to the United Nations Development Program (UNDP), Uruguay is the third country in Latin America (after Chile and Argentina) with the highest Human Development Index (HDI).

The longstanding tradition of secular, free, compulsory schooling has provided the foundation for successive generations of Uruguayans to further their education.

The Country's Economy

Economic development

Uruguay's economy has achieved the longest growth season in history, accumulating 11 years of uninterrupted product increase with an annual average expansion of 5.7% between 2004 and 2013. This expansion was accompanied by a gross domestic product (GDP) growth per head from US$ 10,000 in 2005 to almost US$ 17,000 in 2013, enabling Uruguay to position itself as the economy with the highest GDP per head in Latin America (measured in current US$).

The annual average growth rate between 2008 and 2013 was 5.2%.

Reflecting confidence in the country's institutional framework and the orderly conduct of economic policies, Uruguay has been rated as an 'investment grade' country by S&P (April 2012), Moody's (July 2012) and Fitch Ratings (March 2013).

Booming external sector

The external sector has shown a considerable dynamism, with exports increasing 5-fold in the last 11 years. Uruguay is in a process of diversification, not only of its products but also of its markets: Uruguayan exports currently reach over 160 markets.

Uruguayan export applications of goods set a new historical record in 2014, reaching US$ 9.2 million. The main products exported were soybean, beef, cereals, dairy products, cellulose, rice, juice drink concentrates, and vehicles and auto parts; tourism, transport, business, IT and financial services were the key export services.

China was the main destination of Uruguayan sales during 2014, closely followed by Brazil. These two markets represent 40% of the Uruguayan exports of goods.

The value of goods imported in 2014, apart from oil and its derivatives, was US$ 9.6 million – 1.1% higher than the previous year. The main imported products were cars, mobile phones, goods vehicles, insecticides, rat poisons and fungicides.

Imports from China again grew strongly in 2013 (10%), establishing it as the main origin of foreign purchases, closely followed by Brazil and Argentina. The year 2014 saw a growth in imports from Spain, boosted principally by increasing investment in wind farms.

Foreign direct investment (FDI)

Balance of payments information supplied by the Central Bank of Uruguay (CBU) shows that 2013 saw the highest amount of FDI recorded in Uruguay, reaching US$ 2.8 million.

This variable trend has grown to represent 5% of the GDP in the last year. During 2013, foreign companies invested 63% of profits, reflecting widespread confidence in the Uruguayan economy.

Banking and Finance

Currency

The Uruguayan peso is the legal currency in Uruguay issued by the CBU In December 2014, US$ 1 was equal to just over 24 Uruguayan pesos.

Financial system

Uruguay has a stable, transparent, regulated and supervised financial system. There are no restrictions to capital inflow and outflow, nor exchange control on foreign currency transactions.

The CBU supervises and regulates the financial system through the Superintendency of Financial Services (SFS), taking the standards of the Basel Committee on Banking Supervision as reference for the definition of the legal framework.

The CBU, apart from acting as system regulator and currency authority, supervises the activities of the financial entities, implements the exchange policy and acts as financial entity of the state.

Different forms of institution constitute the Uruguayan financial system: banks, financial intermediation cooperatives, finance houses, external financial institutions (offshore banks), and management companies for saving societies funds, consumer loans companies and exchange offices.

Principal characteristics of the financial system:

- Deposits are dollarised, although the profitability for deposits in national currency frequently exceeds the foreign exchange deposits
- The US dollar is the principal foreign currency; nevertheless, deposits in any other currency can be made
- Generally, credits are granted in foreign currency; 90% of such credits are granted to residents
- The law expressly guarantees strict banking secrecy, which can only be lifted by a resolution signed by a competent judge
- As regards money laundering, Uruguay has a regulatory framework that fulfils the basic requirements of the 40 recommendations published by the Financial Action Task Force (FATF). In turn, Uruguay has signed the Vienna Convention and the Palermo Convention for the Suppression of the Financing of Terrorism, as well as 9 of 11 of the United Nation's (ONU: Organización de las Naciones Unidas) protocols regarding terrorism offences.

Labor Force and Employment

Uruguay offers a wide range of personnel trained in various areas of economic activity including farm, commerce, industry and services. This is influenced by various factors, especially the high quality of primary, technical and university education and Uruguayan workers' flexibility in adapting to new production methods.

The Ministry of Labor and Social Security is the body responsible for the correct implementation of labour rules as well as the conduction and execution of policies related to specific work activities.

Principal aspects of labour rules

Wage councils

Although a national minimum wage exists, fixed every year by the government, wage councils are tripartite bodies (of worker representatives, employee delegates and the executive body) that set categories and minimum wages by sector of activity.

Working day

A working day of more than 8 hours, or a working week of more than 44 or 48 hours, is not allowed, depending on the sector of activity.

Overtime

Any working hours exceeding the working day should be paid double.

Salary bonus

Also known as the '13th salary', salary bonuses are calculated as 1/12th of the total salary collected by workers between December and November; it is paid in two annual instalments, in June and December.

Leave

Workers have the right to a minimum annual paid leave of 20 days, which increases by 1 day for every 4 years' service in the company.

Holiday pay

Holiday pay should be paid to the worker at the time of taking annual leave.

Special leaves

- ***Sick leave*** is paid by the state, with a duration of 1 year. This can be extended by up to 1 year. The limit of the amount to be paid is 70% of the salary; it cannot exceed approximately US$ 1,100/month
- ***Maternity leave*** has a 14-week duration and is paid by the state
- ***Newborn care leave*** is the reduction to 50% of the working day, to be taken by either the father or the mother until the newborn is 5 months old (extending to 6 months from 2016). The costs are borne by the state
- ***Paternity leave*** allows the father to take 7 consecutive days' leave from the birth of his child (extending to 10 days from 2016), paid by the state
- ***Other leaves*** apply to study, marriage, bereavement, gynaecological examinations and blood donation.

Dismissal indemnity

There are no restrictions to a worker's discharge. The worker has the right to collect an indemnity calculated based on seniority, based on their remuneration at the time of dismissal.

The amount of said indemnity ascends to 1 month's work per year or fraction of work. There is a maximum limit of 6 months for monthly workers and 150 wages for day labourers.

There are special dismissal indemnities for pregnant employees or employees who have been covered by health or occupational injury insurances.

Foreign personnel

Foreign personnel working in Uruguay must obtain an identity document through the National Migration Office with a permit for temporary or permanent residence. These workers have the same rights and obligations as national workers.

Certain activities – such as fishing, transport and activity in Free Zones (FZs) – specify limits to the proportion of foreign personnel that can be hired. In FZs, for example, a minimum of 75% local personnel is required unless special dispensation is obtained.

Social security system

The system comprises various public and private bodies, primarily the Ministry of Labor and Social Security, the Social Security Bank (SSB) and the Pension Savings Fund Administrators (PSFA). These institutions cover disability, old age and survival (OAS), family and maternity charges, disease burdens and unemployment. Except foreign workers working in Free Zones, affiliation and contribution to the social security system is compulsory (see Table 2).

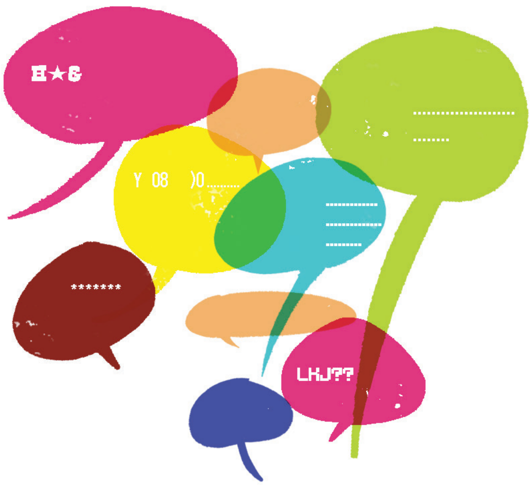
Numerous international social security conventions also exist by means of which, over a certain term, the worker can become eligible under the temporary transfer system and continue making contributions in their country of origin.

Risks derived from professional diseases and occupational accidents are borne by the State Insurance Bank (SIB); contribution rates depend on the area of activity.

Table 2. Contribution rates collected by the Social Security Bank (SSB).

Concept	Employer's contribution	Personal contributions
Pension contribution	7.5%*	15%*
Health insurance	5%	3%, 4.5%, 6%, 6.5% 8%†
Labour reconversion fund	0.125%	0.125%
Total	12.625%	18.125% up to 23.125%

*For workers born after 1 April 1996, these rates apply only to a cap (~ US$ 4,400 to 31 December 2014).
†The contribution rate depends on the amount of the wage and if the worker has wife and children.



Legal Structures of Organisations

This section supplies more detail on Uruguayan legislation relating to the most common company types (as per Act 16,060 of Business Companies, supplemented by other provisions that regulate the remaining structures).

Stock Companies (SCs)

A SC is mostly used for the development of business or industrial activities in general. Its capital is divided into shares that generally represent negotiable instruments, and shareholders' liability is limited to their portion of shares. Some SCs, which aim to develop certain activities, have slightly different incorporation and operation requirements. The principal characteristics of typical SC can be summarised as follows:

- ***Administration:*** A board of directors or an administrator manages the SC, as the bylaws or the meeting of shareholders may provide. The administrator or directors may be individuals or legal entities – national or foreign – and domiciled abroad. The board of directors can be made up of one sole person and meet abroad. The bylaws may establish the director's remuneration; if not, this is agreed annually at the meeting of shareholders. The directors shall be liable for their management against third parties and shareholders.
- ***Meeting of shareholders***: Is the maximum authority of SCs. Its meetings may be regular (meeting once a year to deal mainly with the general balance statement and appointment of the board of directors), extraordinary (considering the amendment of the bylaws; capital increases; mergers and corporate break-ups, corporate dissolution and other items defined in the law) and special (adopting resolutions that affect a class of shares). Meetings shall be held in the national territory, and a third party may represent shareholders through a simple letter-proxy.
- ***Kinds of SC:*** May be open or closed. Open SCs recourse to public saving or list their shares in the stock market. The rest are closed SCs.
- ***Incorporation:*** A minimum of two founding shareholders should sign the articles of incorporation. These shareholders must adopt the contracts (bylaws) before a notary public who appears before the National Internal Audit Office to obtain approval, which is then filed with the National Registry of Commerce and, finally, published in the Official Gazette and other newspapers.
- ***Bylaws:*** The basic characteristics of the company and its operations should be included therein (company purpose, term, management, etc.) with no prejudice to certain legal provisions of public order, which prevail over said bylaws.
- ***Capital:*** The SC shall have capital represented in national currency (there are no minimum/maximum amounts) accepting that, when the company bylaws provide that the main purpose is the investment in assets located abroad, the corporate capital may be denominated in foreign currency. The initial minimum capital payment shall be ≥25% of the corporate capital and, the rest to reach 50% of said capital, should be subscribed.

- ***Shares:*** Shall be of equal face value denominated in national currency; series of shares and securities representing one or more shares may be issued. Said shares may be to bearer (except for some financial, insurance and farming activities) or registered and, in the latter case, endorsable or not. They may also be book-entry shares, represented by book-entry forms. The transfer of shares is free. Shares to bearer are transferred by mere delivery, and registered shares should be endorsed and the transfer communicated to the company. The holders of shares to bearer shall submit the information for identification purposes by the CBU, which keeps a confidential record of shares.
- ***Rights of shareholders:*** These include participating and voting in meetings; profit sharing; receiving information on, and controlling the management of, the SC; and recess, in cases provided by law. Shareholders' syndicate conventions are permitted on the purchase and sale of shares, exercise of preferential rights and vote or any legal purpose.
- ***Corporate books:*** Apart from obligatory corporate books for every businessman, corporations must keep the following: registry of registered securities; registry of book-entry shares; registry of attendance of shareholders to meetings; minutes, board of directors' and controlling body's book.
- ***Control of SC:*** The supervision of SCs may be private through an internal controlling body that can be one or more trustees or a fiscal committee – as established by the bylaws and supervised by the state through the Internal Audit of the Nation (IAN) in the incorporation, amendment of its corporate agreement, early dissolution, transformation, merger and any variation of the corporate capital. Private supervision will be mandatory in the case of an open joint stock company apart from being controlled by IAN during their functioning and liquidation.

Stock Corporation in Free Zone (SCFZ)

SCFZ constitute a special type of SC whose exclusive purpose is to carry on business, industrial or service transactions in FZs. The corporate provisions mentioned above also apply, except:

- SCFZs are incorporated through a simplified scheme by which bylaws do not require the approval of the IAN, but are filed before the National Registry of Commerce, and the user's contract before the General Department of Commerce – FZs Dept
- Unlike common SCs, at least three founding shareholders are required in order to be incorporated.

Limited Liability Company (LLC)

The main characteristic of a LLC is that its capital divides in cumulative quotes of equal value and indivisible (which cannot be represented by negotiable instruments) and their partners are liable up to the amount of capital contributed. They can carry out any kind of activities, except those related to financial intermediation or insurances. Generally, this type of company is mostly used for the structuring of small and medium-sized companies.

- ***Partners:*** The minimum number of partners shall be two, but cannot exceed 50. There are no restrictions regarding nationality and domicile of said partners, who may be natural or legal persons. The partners' liability is limited to the amount of capital contributions, with two exceptions: in case of salary debts, and those arising from corporate income tax (in Spanish, IRAE – Impuesto a las Rentas de las Actividades Económicas).
- ***Corporate agreement:*** Among its provisions, the list and amount of shares corresponding to each partner, name, domicile, activity to be developed, administration system and company representation, shall be included. The purpose of the LLC shall not be financial intermediation or insurances.
- ***Incorporation:*** The founding partners shall enter into a corporate agreement filed before the National Registry of Commerce and said filing shall be published only once in the Official Gazette and in other newspapers. This takes about 1 month; activities may start once the corporate agreement is signed, and the founding partners are jointly and severally liable for the company's obligations until filing procedures end. The LLC must be filed before supervision, tax collection and social security public organisations.
- ***Capital:*** LLCs have no maximum or minimum capital. The shares that represent the capital of the company are nominative. Each partner shall integrate ≥50% of its contribution in cash at the time of signing the corporate agreement, binding to complete said capital in a term not exceeding 2 years. The capital divides in indivisible shares of equal value that cannot be represented by means of negotiable instruments. For transfer of shares purposes, the corporate agreement should be amended fulfilling the same procedures as those of incorporation. Generally, such transfer is free only among LLC partners and requires the approval of the remaining partners representing at least 75% of the corporate capital.
- ***Company administration:*** The administration and representation of the company shall correspond to one or more persons, partners or not, appointed in the partnership agreement.
- ***Supervision:*** The partnership agreement can establish a supervision body, corporate comptroller or fiscal commission that shall be obligatory when the company has ≥20 partners; it is not supervised by the National Internal Audit Office.
- ***Meetings and forms of partners' deliberation:*** The voting method can be stipulated in the partnership agreement. If not previously stipulated, decisions are adopted by majority vote and said votes are proportional to the contributed capital, except in cases that could involve a significant change of the corporate agreement (e.g. change of purpose, change in the legal status of the company, dissolution, etc.). Such cases should be solved by unanimous vote, except when there are >20 partners, in which case, the decision shall be adopted by means of a special meeting with special quorum provided by law.

Branch of foreign company

Act No. 16,060 of Business Companies provides acknowledgement by law of the legal capacity of foreign companies, requesting them only to provide evidence showing that they were duly incorporated abroad, with no need to carry out any other previous proceeding pursuant to the Uruguayan law. Such companies are ruled – as regards existence, capacity, functioning and dissolution – by the law of the place of incorporation, and can conduct isolated activities (e.g. submit to bids, carry out a collection proceeding, a certain business proceeding, etc.) and appear in court.

Branch: If the purpose of the foreign company is to develop a permanent activity, it should establish a branch for which the following formalities should be fulfilled:

- File before the National Registry of Commerce the bylaws of the foreign company and the establishment resolution in Uruguay
- Publish in the Official Gazette and in other newspapers a summary of the documents filed
- File before the supervisory, tax collection and social security public bodies.

The branch has no operational restrictions and maintains the line of business of its parent company, the parent company being liable for its obligations.

People liable and branch liabilities: The administrators or representatives of companies incorporated abroad, have the same liabilities as administrators of companies incorporated in the country.

Branch offices shall keep independent accountancy in Spanish language and submit to the corresponding administrative controls.

Other existing structures in Uruguay

Economic Interest Groups (EIG)

EIGs organise by an agreement entered into by and between two or more natural or legal persons, whose purpose is to ease or develop the economic activity of its members or improve or increase the results of that activity. The purpose of the EIG is not obtaining profits but the union of a group of companies with common business activities and interests that decide to group in order to optimise jointly the use of economic resources to potentiate their development in a coordinated manner. They have legal capacity; they organise by means of an agreement filed before the National Registry of Commerce. The parties may freely agree the purpose, administration system and other characteristics.

Consortia

A consortium organises by means of an agreement among two or more companies by which they will temporary link with a specific purpose: the execution of a work, the rendering of certain services or the provision of certain goods. The purpose is to regulate activities among members, not to obtain or distribute profits. A consortium has no legal capacity. Each member is liable for the fulfilment of the corresponding activity pursuant to the agreement.

Trusts

A trust is a legal business by means of which a fiduciary property is constituted of a set of assets that are transferred from the trustor to the trustee for the purpose that, pursuant to the instructions contained in the trust, administers for the beneficiaries' benefit and give a final purpose. There are various types of trust, in particular the financial trust (whereby the beneficiaries' rights are represented by certificates of participation in the fiduciary estate or debt securities secured by the property transferred to the trust); real estate trust (administers resources originated from the public or private sector assigned to perform real estate developments); administration trust (trustor transfers assets to trustee for the purpose of administering them for a certain purpose); and security trusts (property is transferred to the trustee for the purpose of securing debtor's/trustor's fulfilment of a financial obligation or other type of obligation).

Cooperatives

A cooperative is an independent association of people who join to satisfy their economic, social and cultural common needs by means of a joint property company managed by its partners. The main characteristic is that profits are not distributed among partners proportionally to their contributions, but according to the work each partner contributes, or the amount of transactions made. There are different types of cooperative: labour, consumer, farmer, housing, savings and loan, insurance, reciprocal guarantee social, and artist/related trades. Their filing, merger, absorption, break-up or dissolution and liquidation are subject to the control of the National Internal Audit Office.

Other structures

Various other Uruguayan business structures enable activities to be carried out for profit or non-profit purposes, including:

- Civil associations
- Farming associations and companies
- General partnership
- Limited partnership
- Partnership limited by shares
- 'Capital and industry' companies[1]
- De facto business association
- Single-owner business.

[1]In Spanish, 'Sociedad de Capital e Industria': Type of limited partnership, a registered association of two or more partners with management powers in which at least one partner invests money and is personally liable for partnership debts, and at least one partner invests services and labour but is personally liable only to the extent of the undistributed profits of the company.

Taxation Regime in Uruguay

Introduction

Source principle

Subject to certain exceptions to the general principle, in Uruguay taxes are only levied on income from Uruguayan sources, obtained from those activities conducted, property located or rights used within the country with an economic purpose, regardless of the nationality, domicile or residence of those people involved in the operations and the location where the transactions take place.

Tax residence

Those considered tax residents are:

- Business companies, and other entities organised pursuant to the national laws, that have their domicile established in Uruguay
- Foreign entities that establish domicile in Uruguay and follow the proceedings provided by the legal rules
- Natural persons fulfilling any of the following cases:
  - Stay in the country >183 days during a calendar year, including sporadic absences
  - Establish in Uruguay their principal core, or the basis of their economic activities
  - Have dependent spouse and minors who habitually reside in Uruguay.

International treaties

Uruguay has signed treaties to avoid double taxation and tax information exchange with several countries (see Table 3), as well as treaties of tax information exchange with Australia, Canada, Denmark, France, Greenland, Ireland and Norway.

Table 3. Uruguay's treaties to avoid double taxation and tax information exchange.

Country	Validity
Argentina	7 Feb 2013
Equator	15 Nov 2012
Finland	6 Feb 2013
Germany	28 Dec 2011
Hungary	1 Jan 1994
India	21 Jun 2013
Liechtenstein	12 Sep 2012

Malta	13 Dec 2012
Mexico	29 Dec 2010
Portugal	13 Sep 2012
Romania	22 Oct 2014
South Korea	22 Jan 2013
Spain	24 Apr 2011
Switzerland	28 Dec 2011

Treaties have their source in the Organisation for Economic Cooperation and Development (OECD) model.

Principal taxes

In Uruguay, taxing powers are divided among the national government and district governments.

The principal taxes on business activities are corporate income tax (IRAE - Impuesto a las Rentas de las Actividades Económicas), personal income tax (IRPF - Impuesto a las Rentas de las Personas Físicas), non-resident income tax (IRNR - Impuesto a las Rentas de los No Residentes), net wealth tax (IP – Impuesto al Patrimonio), value added tax (IVA – Impuesto al Valor Agregado) and the internal specific tax (IMESI – Impuesto Específico Interno).

Among district government taxes, those with most economic significance are real estate contribution and vehicle license tax.

Income tax

Corporate income tax (IRAE)

IRAE is an annual tax levied at the rate of 25% Uruguayan source income derived from business activities of any nature.

Taxable persons

Commercial companies and permanent business establishments of foreign entities pay IRAE on all their Uruguayan-sourced income. The rest of the entities pay IRAE on any business profits arising from the combination of capital and labour.

Permanent business establishment

In Uruguay, a business establishment is considered permanent when a non-resident individual or legal entity or any other non-resident entity develops their whole activity or part thereof in Uruguay by means of a permanent business location.

By way of example, the legislation details a series of situations that are deemed a permanent business establishment, including head offices, branches, offices, factory plants or workshops or any other locations of natural resources extraction and all construction or installation works, or projects whose duration exceeds a period of 3 months.

Provision of services – including consultancy – is also included when provided by a non-resident individual through an employee or person hired for such purpose, as long as such activities are carried out (regarding the same project or other related project) during a term or terms that do not exceed 6 months altogether in any 12 month period.

The net profit of Uruguayan origin of permanent business establishments of non-resident entities shall be calculated basing on the separate accountancy of said entities and making the necessary corrections in order to establish the actual benefits of said establishments.

Taxable amount

'Taxable amount' shall be established as the difference between gross income and the expenditures needed to obtain it. Profits and expenditures are determined on an accrual basis, as opposed to a cash basis; i.e. transactions are recognised when they are executed, regardless of when they are collected or paid.

Computable profits

Taxable profits are assessed by considering income and expenditures accrued during the tax year. Gross income is given by the total of net sales minus the acquisition or production expenses.

Equity's profits are considered as taxed profits, except from the reappraisal of fixed assets and profits derived from stocks ownership or holding of equity shares of other IRAE taxpayers.

Interests are calculated on a basis of accrued items; the concept of 'thin capitalisation' (according to which the indebtedness may be treated as wealth and levied as such) is not applicable in this case.

To avoid double taxation, all dividends paid or credited to IRAE taxpayers domiciled in Uruguay are considered as IRAE non-taxed income.

All dividends paid to resident individuals and to non-resident individuals or legal persons are subject to IRPF and IRNR, respectively, to the extent that they correspond to IRAE levied income (as outlined below), with a few exceptions.

Assets appraisal

Briefly, the criteria for the main assets appraisal are as follows:

- Fixed assets properties appraisal at their costs, reappraised as from the tax year following the year of incorporation and applying the domestic products price index
- Inventories appraisal: they may be appraised by their acquisition or production costs, or by their replacement value at the tax year's end, as the taxpayer prefers.

Deductible expenses

Deduction of expenses is admitted to the extent that the following conditions are fulfilled:

- They must be necessary to obtain and keep a levied income
- They must have been accrued during the tax year
- They must be duly documented, with the counterpart constituting income levied by IRAE, IRPF or IRNR or effective taxation to income. When the tax rate is <25%, the expenses may be deducted proportionally to income.

Some expenses are deducted without such restrictions, for example:

- Special losses not covered by insurance
- Donations to public organisations
- Certain entities
- Remunerations paid to personnel (as long as social contributions have been paid)
- Assets depreciation, an intangible property
- Certain expenses and contributions made to personnel for healthcare, school and cultural assistance and similar
- Fiscal losses of previous tax years, for up to 5 years from the tax year concerned
- Freights made by shipping and airline companies.

Depreciations

Intangible assets such as trademarks and patents are depreciated straight-line over a period of 5 years. Depreciation of goodwill is not admitted.

Movable property of fixed assets is depreciated straight-line according to the number of years of probable useful life of said property – except new vehicles,which amortise in 10 years.

Fiscal losses

All losses generated during a tax year may be deducted, inflation-adjusted, from income to be generated during the following 5 tax years.

Transfer prices (transaction between related companies)

Transactions between related companies that do not follow market practices among independent entities shall be adjusted according to certain methods stated under the legal regulations.

Said relationship shall be set when transactions are executed with a non-resident, and both parties are subject to the control of the same individuals or legal persons. This includes all transactions executed by taxable persons with their subsidiaries abroad, branches, permanent business establishments or other kind of non-resident entities related to them, as well as when carrying out transactions with entities located in countries and systems with low or no taxation.

Tax rate and liquidation

The tax rate to be applied is 25%.

Taxable income, subject to taxation on which the rate is to be applied, shall be assessed by deducting all expenses needed to obtain it from the taxed revenues, as well as any loss from previous tax years and tax benefits that may correspond.

Income tax for natural persons (IRPF)

General characteristics

Income tax is an annual levy of income obtained by resident individuals. Its assessment is defined through a dual system, where income divides into two categories that are taxed separately:

- Category I: Capital income and capital increase
- Category II: Labour income.

Exception to the source principle

There are exceptions to the source principle based on territoriality; therefore, the following income is levied:

- Returns on capital in movable property, originated in deposits, loans and, in general, in any capital investment or placement of credit of any nature ('passive income'), from non-resident entity sources
- Remunerations for personal services provided from abroad as employee, to IRAE or IRPF taxpayers
- Remunerations for personal technical services provided from abroad, not as employee, to IRAE taxpayers, insofar as they are related to the obtainment of income related to this tax.

Capital income and capital gain

Income included

The returns originating from the cyclical factor classify in:

- ***Returns on capital in movable property:*** returns of every capital investment or placement of credit of any nature. Lease or assignment for use of tangible or intangible property such as goodwill, trademarks, patents, industrial models, copyrights, royalties, etc.
- ***Returns on capital in real property:*** returns from the lease or assignment for use of real property, as long as it does not imply property transfer.

The profits for capital increase included are, among others, those originated from the sale and assignment of rights of tangible and intangible property. The result from comparing the market value with the tax value of property donated or sold free of charge, is also included as profit.

Taxable amount

The taxable amount of the returns on capital in real property is constituted by the amount of the profit obtained. In the case of returns on capital in real property, unrecoverable debts and certain expenses may be deducted.

For the sale of real property, the taxable amount arises from the difference between the sales price and the updated fiscal cost plus the estate tax (ITP). For other property, shares from stock corporations for example, the taxable amount is assessed by applying 20% to the sales price.

Rates

The general rate for profits of this category is 12%, but there are lower rates in certain kinds of profit, notably 3–5% on interests from local entities and 7% on dividends distributed by IRAE taxpayers.

Withholdings and advance payments scheme

Most income in this category is subject to monthly withholding by the paying entities or intervening agents. Generally, taxpayers can opt not to file the income tax settlement for that income subject to withholding.

Exemptions

The following exemptions are worth highlighting:

- Dividends and earnings distributed by IRAE taxpayers that do not obtain income levied by said tax (exempted income or from foreign source)
- Earnings distributed by IRAE taxpayers when made by partnerships whose income has not exceeded 4 million indexed units (IU; around US$ 500,000)
- Earnings distributed by individuals providing personal services who are not employees and who pay IRAE
- Interests and sale of public debt securities
- Donations received.

Labour income

Income included

The most important are:

- ***Dependent work:*** mainly established by the income, regular or special, in money or in kind
- ***Non-dependent work:*** includes personal services out from the dependent relationship as long as they are not included in IRAE.

Taxable amount and rates

In order to determine the tax base, the annual amounts of the income mentioned hereinabove should be added and various rates applied to each segment (Table 4).

Table 4. Tax rates for each income segment.

In CBB*		Equivalent in US$		Rate
From	**To**	**From**	**To**	**%**
0	84	0	10,682	0
84	120	10,682	15,260	10%
120	180	15,260	22,890	15%
180	600	22,890	76,300	20%
600	900	76,300	114,450	22%
900	1,380	114,450	175,490	25%
1.380		175,490		30%

*Contributions and Benefits Basis (1 CBB = U$ 3,052 and US$ 1 = U$ 24)

To the amount established in this manner, some deductions can be made – in particular, contributions made to social security and to the Solidarity Fund.

Deductions are not made directly, but (as with income) the amount to be calculated arises from the application of progressive scales and rates.

Withholdings and advance payments scheme

Companies are monthly withholding agents of the tax accrued by their employees; most are therefore exempted from filing the annual tax declaration.

Non-resident income tax (IRNR)

General characteristics

IRNR levies the Uruguayan source income of any nature, obtained by non-resident individuals or legal entities.

Non-residents are all those foreign entities with/without legal capacity that do not operate in Uruguay by means of permanent establishment, and those individuals who do not fulfil any of the fiscal residence conditions outlined earlier.

Profits included and rates

Profits shall be those profits of Uruguayan source of any nature obtained by payers of this tax.

Computable profits are classified in the following categories:

- Business income and those assimilated by habitual disposal of real property
- Labour returns
- Returns on capital
- Capital increase.

Rates are differential, but the following have a higher incidence:

- General rate: 12%
- Dividends or earnings paid or credited by IRAE taxpayers: 7%.

Taxability of dividends by IRNR

Dividends distributed by those who pay IRAE to individuals, or to legal entities from abroad, shall be levied by IRNR. The burden shall be applied up to the amount of the tax net profit levied by IRAE.

The rate to be applied is 7%. As IRAE is 25%, if the levied earnings by this tax are distributed, the cumulated rate shall be 30.25% (7% of 75% = 5.25% + 25%).

Technical services received from abroad

Technical services provided from abroad (in the management, technical, administration or advice of every kind of ambit) to IRAE taxpayers are considered to be of Uruguayan source as long as they are related to the procurement of profits included in this tax. In this case, they will be levied by IRNR at a 12% rate.

In some cases, it is considered that the profit from Uruguayan source is 5% of the total income or even full income of foreign source.

Exempted income

Some examples of income exempted from IRNR are detailed below:

- Sales and interests of public debt securities
- Interests of loans to IRAE taxpayers whose assets generate non-levied profits by said tax

- Dividends and earnings distributed by IRAE taxpayers to non-levied profits by said tax
- Those from foreign activities source and customs areas, ports customs areas, customs warehouses and FZs by non-resident entities, with foreign goods in transit or deposited in said places when such goods do not originate from/are not destined for national customs territory.

Net wealth tax (IP)

General concept and rate

The IP is a tax that levies the assets in the country deducting certain debts from individuals and industrial, commercial and agricultural businesses.

For individuals, the tax is assessed on 31 December every year; for companies, at the closing of the annual fiscal year.

In the case of individuals, there is a non-taxable minimum of approximately US$ 130,000 which doubles for a family circle, with rates applied on different segments, which go from 0.7% to 1.5%.

For companies, a 1.5% rate is applied and there is non-taxable income. It is important to point out that, with some exceptions, in case of livestock farms, the wealth may be exempted or its rate reduced to 0.75% when values of the affected assets to said activities are not high. Otherwise, apart from the 1.5% rate, the payment of surcharges from 1% to 1.5% corresponds.

Deductible liabilities

Commercial and industrial companies and agribusiness can only compute as liabilities under certain conditions: those with debts for loans granted by local banks, with local suppliers, with foreign suppliers for services, for taxes and bonds issued by public subscription that quote in the stock exchange.

Tax-exempt assets and their impact on the calculation of liabilities

When there are assets non-accountable for the tax (located abroad, exempt, etc.), in order to establish the taxable amount, the amount of computable debts exceeding the value of said non-accountable assets may only be deducted from the levied amount ('liabilities absorption').

Some companies' debts, which for creditors may constitute taxed assets and, consequently, have an impact on their interests, constitute tax-exempt assets for those creditors. These include import price balances, loans and deposits, the holders of which are domiciled abroad.

Value added tax (VAT; IVA)

General concept

VAT levies on internal circulation of properties, services provided within the national territory, imports of goods into the country and the adding of value arising from the construction made to real estate properties.

Rates

The basic rate is 22%, applied to most goods sold and services provided within the national territory.

There is a minimum rate of 10%, applied to a defined basket of goods and services, food, medicines, hotel services and the first sale of real estate carried out by IRAE taxpayers.

VAT liquidation

The company pays taxes on the difference between VAT billed by said company (sales VAT) and VAT paid to suppliers of goods and services while importing goods into the country (purchases VAT).

Exports (0% rate regime)

Exports of goods have a special regime and are not assessed for VAT; neither are exports of certain services. Among others, all export services provided within customs locations, supply of ships, and services provided from Uruguay to persons domiciled abroad/for exclusive use abroad, are included.

Throughout credit certificates issued by the Tax Authority, the exporter recovers VAT included in the acquisition of goods and services that are applied, directly or indirectly, to the goods/ services exported.

Exemption

Certain transactions are established as VAT-exempt, such as circulation of foreign currency and values, credit cessions; transactions related to fuels, books/educational materials, water supply; and passenger transportation services, real estate and interests of public securities leasing. Purchased VAT applied to the cost of sales of said transactions is not deductible, since it is allotted to non-levied transactions.

VAT withholding

Companies paying/crediting reimbursements due to levied services to persons domiciled abroad are VAT withholding agents.

Services subject to withholding are those that are effectively provided in Uruguayan territory. Services partially provided in Uruguay and abroad are VAT levied only on the part of the service provided within Uruguayan territory.

The tax withheld may be considered as purchase VAT for the purposes of tax liquidation, if the expense is allotted directly or indirectly to VAT-assessed transactions.

Internal specific tax (IMESI)

General concept

This tax assesses the first local sale and the importation of certain products, such as vehicles, beverages, tobacco and cigarettes, fuels and lubricants. Exports are not taxed.

Rates

Rates vary depending on the product. Higher rates correspond to cigarettes and alcohol.

Municipal taxes

These are paid in each of Uruguay's 19 administrative districts.

Real estate tax

There are two types of contribution: rural (created by the national law allocated to district governments), or urban/suburban (a direct and real tax collected by district governments that levies the property or possession of real property located in urban/suburban areas of that district).

The tax calculation varies according to the district government where the real property is located, but, basically, a proportional or progressive aliquot is calculated over a fictitious appraisal value of the property, as established by the General Directorate of Cadastre.

Vehicle license tax

The vehicle license tax is fixed and unique for the whole country. It varies according to the type of vehicle and year of manufacture, generally reflecting a percentage of its market value.

Government Incentives for Investments

Uruguay's political and social stability help to shape a very attractive market for investment, which is also encouraged by a diverse set of rules based on the following principles: the declaration of national interest of investments made in the country, equal treatment for both national and foreign investors, and the free transfer of capital and earnings abroad. Key incentives for investment are outlined below.

Promotion and Protection of Investments Act (No. 16,906)

This Act promotes and protects investment in Uruguay, by ensuring equal treatment for both national and foreign investors and guaranteeing the free transfer of capitals and earnings abroad.

The Act sets general incentives that will operate automatically for the investment made by certain taxpayers, and other stimuli regarding specific investments that shall be declared as expressly promoted by the Executive Power. In the latter case, the declaration may be on a particular project or a specific sectorial activity.

General investment incentives

Taxpayers who pay corporate income tax (IRAE) and the tax on the transfer of agricultural and livestock assets (IMEBA - Impuesto a la Enajenación de Bienes Agropecuarios), who carry out industrial or agricultural activities, benefit from these tax incentives.

The tax benefits that the investor obtains automatically – by the acquisition of goods, which shall be part of the fixed assets, or intangible assets detailed – are:

- Exemption from net wealth tax (IP) of the movable property directly destined to production, and of equipment for the electronic processing of data. Likewise, said goods do not absorb deductible liabilities
- Exemption from VAT (IVA) and IMESI corresponding to import of those same goods; and VAT refund, including when the purchase is made in the country.

Moreover, the law grants the Executive Power the ability to exempt from IP the following goods:

- Fixed improvements used for industrial and agricultural activities
- Intangible goods such as trademarks, patents, industrial models, copyrights, goodwill, commercial names and concessions granted for prospecting, cultivations, extraction or exploitation of natural resources
- Other goods, procedures, inventions or creations incorporating technological innovation and involving the transfer of technology.

Incentives regarding specific investments

The Executive Power may declare as promoted those investment projects proposed by companies of any field of activity that are IRAE taxpayers, as well as declaring a specific sectorial activity (including the set of undertaking leading to produce and market certain goods, or render certain services).

For the purposes of establishing the benefits to be granted, investments that aim to fulfil goals related to the generation of productive employment, improvement in the decentralisation process, increasing exports, national added value increase, use of clean technologies and investment in research, development and innovation, shall be considered.

The tax benefits obtained by the projects or activities declared promoted shall be the following:

- Net wealth tax (IP):
  - Exemption during useful lifetime of the movable property for fixed assets, which cannot be exempted under other benefits
  - Exemption of civil works up to 8 years if the project is located in Montevideo, and 10 years if established in the interior of the country
- Import rates or taxes:
  - Exemption for those movable property for fixed assets that cannot be exempted under the benefits of the preceding schemes, considered uncompetitive of national industry
- VAT (IVA):
  - VAT refund in exporters' scheme for the purchase in the market (duly documented) of materials and services destined to civil works
- Corporate income tax (IRAE):
  - The tax exempted may not exceed 100% of the amount actually invested, or 60% of the tax to be paid during the fiscal years included in the promotional declaration. The term during which the benefits may be used shall be established (not less than 3 years).

Computable investments shall be those made 6 months prior to the date of filing the request for promotion and include movable property directly intended to the business activity; fix improvements; intangible assets established by the Executive Power; etc.

In order to procure the promotional declaration, the companies shall appear before the corresponding body and the Executive Power shall decide whether to grant benefits.

The following activities have been promoted within the framework of promotional declaration of specific sectorial activities: call centres, shipbuilding and electronics industry, manufacture of vehicles and equipment for the transport of loads, agricultural machine manufacture, tourist projects, renewable energies, product generation, biotechnological services and processes, hydrocarbon exploration, joint service centres, etc.

Industry benefits not included in the Investment Law

Apart from tax benefits granted by Act No. 16,906, there are industry benefits regarding the different taxes rates and contributions, including:

- Film and TV production services provided to foreign companies and to co-productions destined to export
- Companies producing biodiesel and fuel alcohol
- Natural and artificial forests in forest priority areas declared 'protected' and forest 'yield' included in projects involving quality wood
- Activities related to hydrocarbons, including their exploration, exploitation, transport and marketing
- Media, broadcasting, TV, theatre and film exhibitors and distributor companies
- Graphics workshops, editorial companies and book stores, regarding the business of printing and sale of books, brochures and magazines of literary, scientific, artistic, teaching and educational materials
- Construction and preservation of yards, boathouses and docks, buoys, floating cranes, platforms, rafts, dredges, barges and any other construction for exclusive nautical use
- Tourist activities destined to offer the following services: lodging, cultural, commercial, congresses, sports, recreational, entertainment or health
- Manufacture of machinery and agricultural equipment
- Shipping or airline companies
- Software production and the services related to said software, as long as they are fully exploited abroad
- Export companies of finished or semi-finished vehicles, assembled in the country or using spare parts of Uruguayan origin
- Private investments in building, remodelling and enlarging low-cost housing.

Free Zones (FZs)

Uruguay's FZs, run privately or by the state, are isolated areas where economic activity is stimulated by means of special rules that establish customs and tax exemptions. Private companies authorised to exploit a private FZ are not under the protection of exemptions and benefits provided by this law to users; however, they may apply to the benefits granted by the Investment Law.

Benefits derived from the establishment in a FZ are granted to those companies who obtain the 'user' capacity by means of contracts filed before the corresponding supervisory body, for which they pay an annual royalty.

Such companies shall employ 75% minimum of Uruguayan citizens as personnel, natural or artificial, for the development of their activities. That percentage includes dependent personnel as well as directors carrying out a paid activity in the company. Some exceptions may exist by express authorisation granted by the Executive Power.

FZ users are exempt from every national tax, created or to be created in the future, regarding the activities developed in said zone, except:

- Special social contributions: foreign personnel can opt to pay their contributions in their country of origin
- Taxes to individuals (IRPF or IRNR) on remunerations for personal services (foreign personnel can opt to pay between both taxes).

In these zones, any kind of activity – business, industrial and services – may be developed. Retail trade is forbidden.

Activities developed in a FZ are considered developed out of the national territory. Goods and services introduced to FZs, regardless of origin, are exempted from any import tax. Those originating from the 'non-free' national territory shall be introduced pursuant to the exports regime. The introduction of goods produced in FZs to the 'non-free' national territory is considered an import, and are therefore liable for the corresponding fees, duties and taxes.

The following services may be provided from a FZ to the non-free national territory, observing monopolies, state exclusivity or public concessions:

- International call centres, except those having the national territory as sole or principal destiny
- E-mail boxes
- E-learning
- Issuance of digital signature certificates.

These services shall have the same tax treatment as those provided from abroad, in relation to either the renderer as well as the deductibility of said tax by the borrower.

The Executive Power may authorise the provision of other services from a FZ towards the non-free national territory; such services do not enjoy the same exemptions, but are within the scope of the general tax regime. The Executive Power, making use of this authority, has included the following services:

- Software production, consulting and computer science training
- Management, administration, accountancy and similar services provided to related entities, devoted to the provision of shipping logistical or port services, as long as they do not exceed 20% of the total income of the fiscal year
- Developing of film material and digitalisation/colour correction.

Industrial parks

Industrial park is a fraction of land publicly or privately owned, subdivided in plots according to a general plan, endowed with public and private services and common premises over an important infrastructure for the purpose of establishment and exploitation of a production plant and related service (e.g. storage, conditioning, selection, classification, fractioning, assembling, disassembling, handling, mixture of goods or raw materials).

The following benefits are granted to installers of industrial parks:

- 7-year exemption from net wealth tax (IP) of installed fixed assets
- For IRAE liquidation purposes, investments in civil works and equipment may be depreciated for terms of 9–15 and 2–5 years, respectively
- Total exemption of import taxes of machinery and equipment that do not compete with national industry, as well as fixed assets destined to civil work
- Credit for VAT included in the purchase of materials and services applied to civil works, machinery and equipment destined to the installation of the initial project and equipment for the electronic processing of data.

Users of industrial parks enjoy additional benefits, such as tax credit for employers' contributions associated to the incremental labour force for projects promoted over a 5 year term.

Free Port

The Ports Act established a system of Free Ports – port customs areas with special tax and customs provisions where, under certain physical and organisational conditions, the movement of goods is free with no requirement for authorisations or formal proceedings.

Montevideo is the first terminal on the South American Atlantic coast to operate under the 'Free Port' scheme, which also applies to other Uruguayan ports as well as to Carrasco International Airport. This scheme establishes Uruguay as a logistic platform in the 'Mercosur' (Southern Common Market; comprising Argentina, Brazil, Paraguay, Uruguay and Venezuela) and distribution centre for goods in transit.

Operations that may be carried out in the port customs areas are the following:

- ***Regarding materials:*** operations that add value, modify its presentation or implement free disposal or destiny of said materials, as long as it does not alter its nature (storage, re-packaging, re-labelling, classification, consolidation, handling, fractioning, etc.)
- ***Regarding services provided to goods:*** loading, downloading, stowage, unloading and movement of packages, transport, transshipment, reshipment, passage, removal, warehouse, storage, layout, supply of vessels, ship repair and other services related to port activities and those of free port.

Tax and customs benefits are as follows:

- Goods and property entering the port customs areas from outside the national territory are exempt from customs taxes, rates and charges applicable to imports or on occasion of said imports

- Goods and property introduced from port customs areas to the national customs territory are considered imports, and only in those cases they are subject to the corresponding customs duties, rates and charges
- The circulation of goods and provision of services within the area are VAT (IVA)-exempt
- Goods stored within the free port scheme are not included in the taxable base of net wealth tax (IP)
- Profits originating from profit-making activities developed by foreign individuals or legal entities, with goods of foreign origin moved in transit within the national customs territory, as well as in port warehouses, and which destiny is not such territory, are IRAE-exempt
- Goods and property introduced to the port customs areas from the national customs territory used for consumption, building, building maintenance, facilities, equipment and material for port operations and services, or the administrative organisation of said services, are considered exports.

Public–Private Partnership

Act No. 18,786 rules Public–Private Partnership (PPP) Agreements – i.e. agreements whereby the public administration commissions to an individual – for a certain term – the infrastructure design, construction and operation or some provisions apart from financing. They can be entered into for the execution of works in the following sectors of economic activity: road, rail, port and airport; energy infrastructure; waste disposal and treatment; social infrastructure (prisons, health centres, education centres, low-cost housing, sports complexes, etc.).

Such can be started *ex officio* by public or private initiative. Private initiatives appear before the National Corporation for Development with a pre-feasibility study showing viability and a maintenance guarantee of the initiative, equivalent to 0.5% of the investment amount for 180 day minimum term.

The proposer of a private initiative has the following benefits: an advantage up to 10% in the appraisal of their offer regarding the best offer; no need to pay for bidding conditions or descriptive documents; and, once the contract is finally awarded, the proposer (if not the awardee) can reclaim the cost of the feasibility study.

Foreign trade-related regimes

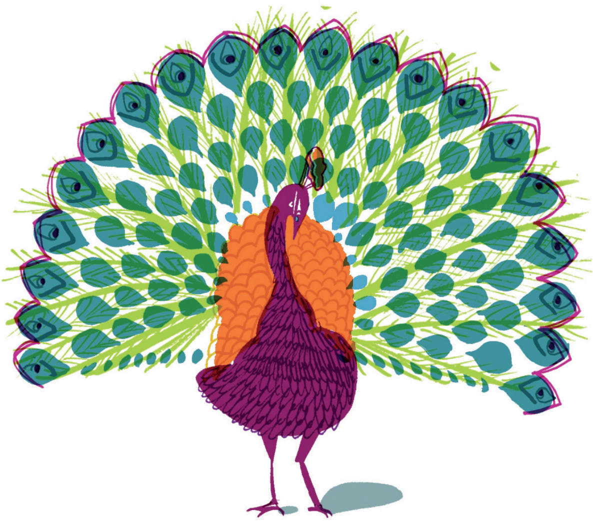
Uruguay’s export promotion policy is based on instruments of different nature and scope, two of which directly influence competiveness of exports: the Indirect Taxes Refund and the Temporary Admission Regime.

The Indirect Taxes Refund enables the exporter to recover internal taxes that constitute the cost of exported industrialised finished or semi-finished goods, nationally produced. The refunds may vary between 3% and 6% of the value at the customs office of export, depending on the burden of indirect taxes of national inputs incorporated to the product.

The Temporary Admission Regime enables the introduction into the market, tax-free, of foreign goods coming from outside the national customs territory with a specific purpose, unrelated to consumption, on condition that they are re-exported in the same state or after having been transformed, elaborated, repaired or with certain values added, with real employment and for a term not exceeding 18 months. Moreover, and having procured a previous authorisation, products may be nationalised.

From the VAT (IVA) point of view, there is also a special regime for exports, which provides for two aspects:

- On the one hand, the exports sales are levied at zero rate, which means that a tax payable at the time of sale is not generated
- On the other hand, the exporter is authorised to recover the tax included in their purchase invoice, thus ensuring that the tax has no impact on the cost of the exported product.



Accounting and Legal Disclosure Requirements In Uruguay

Accounting principles (Proper Accounting Standards)

Considering the integration process, globalisation of economies and the high level of international acceptance of the international accounting rules issued by the International Accounting Standard Board (IASB), Uruguay has supported the implementation of an improvement plan for informative transparency of markets and has carried out an effective sustained process for adopting the International Financial Reporting Standards (IFRS).

Uruguay implements Proper Accounting Standards for which, in 1991, the Executive Power established the Permanent Commission of Proper Accounting Standards aiming to provide advice to said Executive Power for adapting the country's legal framework, regarding accountancy, aligning it to international standards

Since then, various standards have been issued until the issuance of Decree 291/014, which since 1 January 2015 provides the framework introducing the implementation of IFRS for small and medium-sized enterprises (SME) published in July 2009 by IASB, to the group of Proper Accounting Standards enforceable in Uruguay and covering every entity defined as a SME.

The issuers of accounting statements of Less Relative Importance (ILRI) are also defined, giving them the possibility of a differential simplified framework (they can opt to apply only some sections of IFRS for SMEs).

In this new framework, some standards remain in force and rule Uruguay's trading companies from the accounting point of view, e.g. criteria for the presentation and exposition of financial statements.

The issuing entities of public offering securities shall apply complete IFRS, with some local amendments (e.g. the obligation to present a consolidated balance sheet as well as corresponding accounting statements).

All those entities that do not fall within the IFRS definition of SMEs shall also apply complete IFRS.

In short, since 1 January 2015, three basic groups for the application of the Proper Accounting Standards in Uruguay are defined as follows:

a. Those entities that issue public offering securities and those that in general, do not fall within the SMEs definition detailed above, shall apply the complete IFRS

b. Those companies falling within the definition of SME, which shall apply the IFRS for SMEs (with some special provisions in certain specific cases detailed in the decree)

c. Those fulfilling the ILRI definition that shall have, as compulsory legal framework, only some sections of IFRS for SMEs.

Notwithstanding the requirements outlined above, Uruguay's rules stipulate the possibility that the different entities apply a legal framework with a larger scope to the one corresponding to them. In such a way, any entity may choose to apply full IFRS and the issuers of less relative importance may choose to apply every section of IFRS for SMEs.

Requirements for accounting reporting in Uruguay

Pursuant to the Uruguayan rules, there are different reporting requirements for accounting. The CBU requires companies from the commercial sector to submit, according to the level of indebtedness with the financial system, the following financial statements:

Approximate level of indebtedness:

- US$ 0–790,000: Compilation Reports
- US$ 791,000–2,372,000: Limited Review Report
- More than US$ 2,372,000: Audit Report.

For tax purposes, Uruguay's Internal Revenue Service (DGI - Dirección Nacional Impositiva) requires companies to submit a Limited Review Report or an Audit Report, according to the category or taxpayer-size.

Among other filing requirements for Financial Statements, the National Internal Audit Office requires the submission of said statements together with a Compilation Report for every trading company, which, at the closing of its fiscal year, fulfils the following conditions:

- Total assets exceeding 30,000 Index-Linked Units of Account (around US$ 940,000) and/or
- Net operating income exceeding 100,000 Index-Linked Units of Account (around US$ 3,120,000).

Company users of FZs are also obligated to submit their balance sheets to the Internal Revenue Service and have an Audit Report if the following conditions apply:

- Total assets exceeding 30,000 Index-Linked Units of Account (around US$ 940,000) and/or
- Net operating income exceeding 100,000 Index-Linked Units of Account (around US$ 3,120,000).

The remaining cases must supply a Limited Review Report.

The Next Step

Contact Contact VD&A Veiga Dobrich y Asociados to discuss your needs.

VD&A Veiga Dobrich y Asociados
Treinta y Tres 1329 Floor 2,
Montevideo, CP: 11000,
Uruguay

T: +598 2916 0747
F: +598 2916 0747
E: info@vdya.com.uy

www.vdya.com.uy

An independent member of
Morison International