International Tax

Uruguay Highlights 2017

Investment basics:

Currency – Uruguayan Peso (UYU)

Foreign exchange control – No

Accounting principles/financial statements – IAS and IFRS. Financial statements must be prepared annually.

Principal business entities – These are the corporation, limited liability company, sole proprietorship and branch of a foreign entity.

Corporate taxation:

Residence – A company is considered resident if it is established according to Uruguayan law.

Basis – Uruguay operates a territorial system, under which Uruguay businesses and foreign entities carrying out business activities in Uruguay through a permanent establishment (PE) are taxed only on income sourced in Uruguay. Foreign-source income is exempt. Nonresidents without a branch or PE in Uruguay that receive certain types of Uruguay-source income are taxed via withholding.

Taxable income – Taxable income comprises all income derived from activities carried out in Uruguay. Expenses that are necessary to produce taxable income may be deducted as long as certain requirements are met.

Taxation of dividends – Dividends received by a resident corporation are exempt from corporation tax. A deemed dividend tax may apply to deemed distributions (see “Other taxes on corporations,” below.)

Capital gains – Capital gains derived by a company, including a PE of a foreign company, are taxed as ordinary income at the standard corporate income tax rate (i.e. 25%).

Losses – Tax losses may be carried forward for five years. This deduction is limited to 50% of the net taxable income of the year to which the loss is carried. The carryback of losses is not permitted.

Rate – 25%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Uruguay does not grant a credit for foreign tax paid, unless required under an applicable tax treaty.

Participation exemption – No, but see under “Taxation of dividends,” above.

Holding company regime – No

Incentives – Exemptions or other benefits are available to companies engaged in certain types of activities and any other activities promoted by the government. Companies located in free trade zones also are entitled to beneficial measures.

Withholding tax:

Dividends – Dividends paid to a nonresident are subject to a 7% withholding tax, unless the rate is reduced under a tax treaty.

Interest – The withholding tax on interest paid to a nonresident is 7% or 12%, depending on the term and currency of the loan/deposit/investment. The rate may be reduced under a tax treaty.

Royalties – The withholding tax on royalties paid to a nonresident is 12%, unless the rate is reduced under a tax treaty.

Technical service fees – Services provided in Uruguay by nonresidents and technical services (including advertising services) provided from abroad to corporate income taxpayers in Uruguay are subject to a 12% withholding tax.

Branch remittance tax – Profits remitted by a branch to its head office are subject to the same regime as dividends.

Other – Income (except dividends) paid to entities located in tax haven jurisdictions is subject to a 25% withholding tax.

Other taxes on corporations:

Capital duty – Capital duty is levied at 1.5% on the net worth of the entity.

Payroll tax – No

Real property tax – The municipal authorities levy tax on real estate. The tax is deductible in calculating corporation tax liability.

Social security – An employer must withhold social security contributions on behalf of its employees (18.125% to 23.125%, depending on the salary and whether the employee has minor children and/or a nonworking spouse) and contribute a percentage of the monthly payroll to the social security fund (12.625%).

Stamp duty – No

Transfer tax – Tax is levied on the transfer of real estate and is payable by both the buyer (2%) and the seller (2%).

Other – The amount of net taxable income that remains undistributed after three fiscal years is treated as a deemed distribution and is subject to a 7% deemed dividend tax. Some limitations and deductions apply.

Anti-avoidance rules:

Transfer pricing – Transfer pricing rules are based on the OECD guidelines. The following transfer pricing methodologies are permitted: comparable uncontrolled price, resale price, cost plus, profit split and transactional net margin methods. Documentation requirements apply.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The taxpayer's fiscal year or the calendar year applies.

Consolidated returns – Consolidated returns are not permitted; each entity must file a separate return.

Filing requirements – An entity must make monthly advance payments of tax based on the tax liability of the previous year or on estimates of the current year's liability. A self-assessment tax return must be submitted within four months of the end of the accounting period, and final tax is payable by that date.

Penalties – A penalty of 5%, 10% or 20% of tax due is imposed for late payment. Surcharges apply at a monthly rate of 1.4%.

Rulings – A taxpayer may request a ruling on the tax consequences of a proposed transaction.

Personal taxation:

Basis – Both resident and nonresident individuals are taxed on their Uruguay-source income. Tax residents also are taxed on certain foreign-source income, i.e. income from movable assets, such as loans, deposits and any kind of capital investment in a nonresident entity (but not capital gains derived from assets located abroad).

Residence – An individual is considered resident if he/she is in Uruguay for more than 183 days in the calendar year or if the individual's economic or center of vital interests is in Uruguay.

Filing status – Joint assessment for married couples is permitted. A different rate scale applies to individuals opting for this regime.

Taxable income – Personal income tax is imposed on income from employment, income from capital and capital gains. Uruguay resident individuals also are taxed on income from movable property located abroad.

Capital gains – Capital gains are considered taxable income.

Deductions and allowances – Deductions are allowed for contributions to social security, a small fixed amount per minor child and certain payments on mortgage loans. Six percent of the annual rent (corresponding to permanent housing) paid during the fiscal period may be credited against the annual tax burden.

Rates – Income from employment is taxed at progressive rates ranging from 0% to 36%.

A 7% rate applies to dividends and certain interest. Capital gains derived from the sale of an asset are taxed at a rate of 12%. Holding income," i.e. income from the holding of an asset located abroad, also is subject to the 12% tax, but a tax credit is available for tax paid abroad.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – The municipal authorities levy a tax on real estate. The "real value" (determined by the municipal government) of the property is subject to tax at the time of transfer at a rate of 4% (2% each for the buyer and the seller).

Inheritance/estate tax – No

Net wealth/net worth tax – A net worth tax is imposed on residents and nonresidents on the difference between assets and certain liabilities as of 31 December each year.

Social security – Employed and self-employed individuals are required to make social security contributions based on their salary.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – If an individual has only one employment, the employer files the annual tax return; otherwise, the employee must file a return. Independent workers are required to make advance payments and file a tax return in May of the year following the tax year end.

Penalties – A penalty of 5%, 10% or 20% of tax due is imposed for late payment. Surcharges also apply at a monthly rate of 1.4%.

Value added tax:

Taxable transactions – VAT is imposed on the sale of goods, the provision of services and imports.

Rates – The standard rate is 22%. A reduced rate of 10% also applies in certain cases, and some transactions are exempt.

Registration – Registration is compulsory for businesses. Services rendered by nonresidents in Uruguay are subject to VAT and the tax is withheld by the contractor.

Filing and payment – Corporate VAT taxpayers must file monthly VAT returns. Independent workers file on a bimonthly basis.

Source of tax law: Tax Consolidation Act 1996, as modified by Law 18.083, Law 18.718 and 18.719 among others.

Tax treaties: Uruguay has 17 tax treaties in force.

Tax authorities: *Dirección General Impositiva (DGI).*

Contact:

Enrique Ermoglio (eermoglio@deloitte.com)

Javier Bugna (jbugna@deloitte.com)