

INVESTOR'S **GUIDE**

Tax system

April 2024



Uruguay

TAX SYSTEM

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1. URUGUAYAN TAX REGIME

1.1. Main characteristics

- » The Uruguayan tax system includes indirect and direct taxes, for which the general and guiding principle is that of the source. Indirect taxes are the main source of collection.
- » The main taxes levied on business activity are the Value Added Tax (VAT), the Wealth Tax (IP, for its acronym in Spanish), and the Tax on Income from Economic Activities (IRAE, for its acronym in Spanish).
- » Income is taxed by the IRAE, by the Personal Income Tax (IRPF, for its acronym in Spanish), or by the Income Tax for Non-Residents (IRNR, for its acronym in Spanish), depending on who is the holder of the income.
- » Free trade zone users are not subject to taxation (with some exceptions), and benefit from a wide tax exemption.

1.2. Legal Framework

LEGISLATION

According to the current Constitution, the approval of national tax laws is a faculty of the Legislative Power, and their regulation is the responsibility of the Executive Power.

During the first semester of each government period (five years), the Executive Branch submits the national budget for wages, expenses, and investments, and the corresponding resources needed to finance them, to the Legislative Branch for its approval.

The nineteen departments into which the national territory is divided may establish, collect, and control only certain departmental taxes through their Departmental Boards; basically taxes on urban or suburban real estate property and on vehicles, as well as control fees or public service taxes. In this sense, the most important taxes are the Real Estate Contribution Tax, the Vehicle License Tax, and the Bromatological Tax, but their incidence on companies is generally insignificant.

The Tax Administration does not have the power to modify the tax legislation. The Constitution does not expressly prohibit the passing of laws with retroactive effect. However, most of the doctrine and case law have understood that such prohibition derives from general principles contained in the Constitution itself. In practice, laws with retroactive effect are not passed.

CASE LAW

In Uruguay, tax regulations are interpreted in the same way as any other legal regulation, and all methods recognized by legal science may be used for such purposes. Even analogy is an admissible method to fill gaps, with the restriction that the fact generating the tax may not be extended by this means, nor may infringements or exemptions be created thereby.

In Uruguay, only legal or regulatory regulations constitute a source of law, case law does not. Notwithstanding the above, judicial precedents are usually invoked in support of the litigants' position. In relation to the interpretation of facts, the principle of reality dictates that in tax matters the use of inadequate legal forms should be ruled out, and in such cases, the substance should be preferred over the legal form.

TAX VIOLATIONS

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

BINDING CONSULTATIONS

When it is deemed convenient to know the criteria of the Administration regarding the application of law to an actual factual situation, the taxpayer may obtain a written opinion from the Tax Authorities on the matter in question. In this case, the Administration will be bound to maintain the criteria upheld with regard to the taxpayer. The change in criteria must be reported to the taxpayer and will only be valid for events occurring after the date of such notification. Although it is not binding for other taxpayers, publishing the consultation answer allows the Administrator's opinion of the situation to be known.

1.3. Main taxes

The Uruguayan tax system is based on the application of indirect taxes, with Value Added Tax (VAT) accounting for approximately 47.5% of revenues in 2023. The collection of direct taxes (mainly income and wealth taxes) is relatively less significant in relation to the total, representing approximately 41.2% in 2023.

TAX ON INCOME FROM ECONOMIC ACTIVITIES (IRAE)

The Tax on Income from Economic Activities (IRAE, for its initials in Spanish) is an annual tax levied at a rate of 25% on the net income from Uruguayan sources arising from economic activities of any kind. Income from Uruguayan sources is understood as income resulting from activities carried out, assets located in, or rights economically used in Uruguay. There are other types of income taxes by IRAE, described in chapter 1.3 "International Aspects" of this document.

Income derived from agricultural activities is also subject to IRAE, and in certain cases, the taxpayer may choose to pay this tax or the Tax on the Disposal of Agricultural Goods (IMEBA -for its acronym in Spanish-, a tax levied on the sale of certain goods produced in this sector of the economy).

It is important to mention that there are exemptions under the Investment Promotion Law No. 16,906, as well as different promotional regimes for investment in Uruguay. You will find more information on this subject in the chapter entitled "[Investment Promotion Regimes](#)".

INDIVIDUAL INCOME TAX

The Individual Income Tax (IRPF) is a personal and direct tax levied on income obtained by individuals residing in Uruguay. For the purposes of this tax, individuals are considered residents if they stay in Uruguay for more than 183 days during the calendar year, if they have their main nucleus or the base of their activities in Uruguay, or if they have the center of their vital or economic interests in Uruguay. The tax is applied under a dual system that differentiates between income derived from the capital productive factor (generally taxed at rates of 7% and 12%, lower rates apply in specific cases) and income derived from the labor productive factor (taxed at progressive rates of up to 36%).

The tax is paid annually and, as a general rule, as of December 31 of each year. However, the regulations provide for advance payments and withholdings for different types of income.

TAX ON NON-RESIDENT INCOME

The Non-Resident Income Tax (IRNR) is an annual tax levied on Uruguayan source income obtained by non-resident individuals and legal entities, as long as they do not have a permanent establishment in Uruguay. The tax is generally applied at rates of 7% and 12% depending on the type of income. When the beneficiary is an entity that resides, is domiciled, incorporated, or located in a country with low or no taxation (or if it benefits from a regime with such characteristics), the rate is increased to 25% (with the exception of dividends to which the 7% rate continues to apply). In general, the tax is applied by means of withholding through local companies that pay or credit taxable income to the non-resident. When there is no designated withholding agent, the taxpayer must appoint a representative in Uruguay and pay the tax directly.

WEALTH TAX

The Wealth Tax (IP, for its acronym in Spanish) is a tax basically levied on assets in the country - valued according to tax regulations, minus certain liabilities - at the end of the annual fiscal year, with rates of 2.8% for banks and financial institutions and 1.5% for the rest of the legal entities. This rate rises to 3% for entities residing, domiciled, incorporated, or located in countries or jurisdictions with low or no taxation or that benefit from a special regime of low or no taxation. Individuals are taxed on IP at progressive rates ranging from 0.1% to 0.7% or 0.3% to 1.5% (depending on whether the holder is a resident or non-resident). The regulations provide for the gradual and annual reduction of the referred rates - in certain cases - until they are unified at a rate of 0.10%. The non-taxable minimum for individuals (set annually by the Executive Power) amounts to approximately USD 148,000, a figure that doubles for families.

The IP paid by industrial and commercial companies, including financial entities, may be offset by up to 1% by the IRAE taxed in the same fiscal year (except in the case of non-resident legal entities, or resident entities with capital represented in bearer securities or whose owner is a legal entity). For companies in the agricultural sector, specific provisions for the settlement of this tax must be considered.

VALUE ADDED TAX

The Value Added Tax (VAT) is a tax levied on the internal circulation of goods and the rendering of services within Uruguayan territory, imports of goods, and the addition of value originating in the construction of real estate. Exports are taxed at a rate of zero (0%), so they are not subject to VAT.

The basic VAT rate is 22% and there is a minimum rate of 10% applicable to basic necessities and medications, as well as a series of goods and services that are exempt from VAT.

In accordance with the provisions of the financial inclusion and electronic means of payment legislation, (Law 19,210 and its regulatory decree No. 263/2015, enacted on 04/29/2014 and 09/28/2015 respectively) the VAT rate was reduced for sales of goods and services made to end consumers, provided that the payment is made through debit cards or electronic money instruments. The current reduced rate is 20%. Also, other VAT reductions have been implemented for specific cases where payments are made with debit cards or electronic means of payment.

SPECIFIC INTERNAL TAX

The Specific Internal Tax (IMESI, for its acronym in Spanish) is levied on the first sale by producers and importers of certain products (cigarettes, alcoholic beverages, soft drinks, cosmetics, etc.) in the local market. Exports are not taxed. The rate varies for each taxed item and is generally set by the Executive Power, within parameters established by law.

1.4. International aspects

ACTIVITIES CARRIED OUT ABROAD

IRAE is levied on income from Uruguayan sources, defined as income derived from activities carried out, assets located in, or rights economically used in Uruguayan territory. However, there are some exceptions to the territoriality principle, where certain services rendered from abroad (under certain conditions) are considered Uruguayan sources and are subject to this tax.

In November 2022, Law 20.095 was enacted, which introduced changes in the spatial aspect of the IRAE. Specifically, it established that the income from intellectual property (IP) rights obtained by an entity member of a multinational group related to patents or registered software, sold or economically used outside the national territory, will be subject to IRAE to the extent that it does **not** correspond to qualified income. Qualified income means the amount resulting from applying the following quotient to the income from the use of IP rights related to patents or registered software:

[DIRECT expenses and costs of the asset developer + services with non-related parties + services with resident-related parties]*1.30

TOTAL expenses and costs for asset developer + expenses and costs for use or acquisition of IP rights + services with non-resident affiliates
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On the other hand, the same law also provides that income from assets located or rights economically used outside the national territory, as long as they are obtained by an entity that is part of a multinational group considered non-qualified, will be taxed by IRAE. The income referred to in this regulation is the following:

- » income from real estate capital,
- » dividends,
- » interests,
- » royalties (not derived from IP rights related to patents or registered SW),
- » other income from movable capital,
- » capital gains, due to the transfer of assets capable of generating such income,
- » any other increase in equity derived from these assets.

In this case, it is established that a qualified entity is one that has an adequate economic substance during the tax year. The regulation also establishes the necessary requirements to comply with the economic substance.

TAX REGIME FOR THE PURCHASE AND SALE OF MERCHANDISE AND THE INTERMEDIATION OF SERVICES - ACCORDING TO RESOLUTION NO. 51/997 OF THE GENERAL TAX DIRECTORATE 51/997

Resident entities that carry out trading activities of goods without physically passing through Uruguay, or those that intermediate in the rendering of services that are not rendered or used within the Uruguayan territory, are subject to an (optional) tax regime, by means of which they may determine the IRAE by applying the rate of 25% to a fictitious 3% difference between the sale price and the purchase price of the aforementioned goods and services, resulting in an actual rate of 0.75% on the gross margin of the operation (refer to the comments in the section on Trading in Chapter 2.1 "Tax on Income from Economic Activities (IRAE)").

FREE TRADE ZONES

Operations carried out in Free Trade Zones enjoy broad tax exemptions (aside from specific exceptions), and are not subject to domestic or foreign trade taxes.

SERVICES PROVIDED THROUGH THE INTERNET, TECHNOLOGICAL PLATFORMS, COMPUTER APPLICATIONS, OR OTHER SIMILAR

Income derived from production, distribution, and intermediation services of cinematographic films and other audiovisual transmissions, including those carried out through the internet, technological platforms, computer applications, or other similar means, are taxed by IRAE or IRNR, if the taxpayer is located in Uruguayan territory. They are also subject to VAT when such services are destined for, consumed by, or economically used in the country.

Mediation or intermediation activities in the supply or demand of services rendered through the Internet, technological platforms, computer applications, or similar are considered to be those that: (i) are basically automated, require minimal human intervention, and are not viable outside information technology; and (ii) involve direct or indirect intervention in the supply or demand of the services rendered.

These activities are taxed by IRAE or IRNR, and VAT in the following percentages:

- i. 100% when the provider and the consumer of the service (main operation) are located in the country.
- ii. 50% when the provider or the consumer of the service (main operation) is located abroad.

HOLDING ACTIVITIES

Uruguayan companies may also carry out the sole activity of holding other companies, both local and foreign entities, commonly called Holding activities.

Income derived from **holding** capital shares in other companies is not subject to taxation in our country. However, income obtained from the **sale** of shares in the equity of companies is subject to IRAE, which must be calculated by applying the rate of 25% on the sale price minus the tax value of the shares sold. With respect to the **sale** of capital shares of foreign companies, as long as they are assets located abroad, the income of the sale of such assets is not subject to this tax. This is true as long as certain substance requirements are met, otherwise, such income will be deemed to be subject to IRAE, and the analogous tax paid abroad may be computed (refer to what is commented in the section “Activities carried out abroad” of this chapter).

In terms of the IP, the holding capital shares of entities subject to IRAE are exempt from IRAE. In relation to the assets from the participation in foreign companies, and considering the territoriality principle contained in our legislation, they are not subject to the payment of IP in Uruguay, to the extent that originate in assets located outside the country.

Neither is the holding activity taxed by VAT, for the sale of these securities, VAT will not be taxed for different reasons: a) the sale of shares in foreign companies is considered a circulation of goods abroad, not complying with the spatial aspect of the tax; and b) in the case of sale of shares in local companies, they are expressly exempted from VAT.

It should be noted that the fact that the holding activity is not subject to VAT taxation implies that the tax included in the acquisition of goods and services intended to generate income from such activities (such as administrative expenses, professional services hired, etc.) will constitute a cost for the company, although they are usually not very significant figures for the activity.

1.5. Tax Administration

TAX SYSTEM ADMINISTRATION

National taxes are administered and collected by the General Tax Directorate (DGI, for its acronym in Spanish). The collection of personal income tax is carried out jointly by the Social Welfare Bank (BPS, for its acronym in Spanish) and the DGI.

Municipal taxes are administered and collected by the departmental governments.

All information submitted by taxpayers to the tax authorities or obtained by the latter in the course of audits is secret and may not be disclosed, except in criminal or family cases (when such

information is considered essential), or in cases in which it is necessary to submit data pursuant to a request from a foreign tax authority (within the framework of an Agreement for the Exchange of Information).

AFFIDAVITS

The tax system operates on the basis of tax returns filed by the taxpayer, which may be audited by the tax authorities.

IRAE and IP taxpayers must file the affidavits for such taxes (on forms predefined by the DGI) within the fourth month following the closing of the fiscal year. On said date, the taxpayer must pay the balance of the tax assessed after deducting the monthly advances made during the fiscal year. Should IRPF and IRNR taxpayers have the total tax payable withheld, they will be exempted from the obligation to file tax returns if they choose to give a definitive nature to the advances made.

Sworn statements may be amended in the event of factual or legal errors, without prejudice to any liability for infringement incurred. Rectifications may not be presented during tax authority audits.

APPEALS

The taxpayer may appeal before the DGI against its decisions (appeal for repeal), simultaneously filing an appeal before the Executive Power (hierarchical appeal). Both appeals must be filed jointly within 10 days following the notification. If both appeals are rejected, the taxpayer may file an action before the Administrative Court to have the administrative act declared null and void.

PAYMENTS

Usually, direct taxes are assessed and paid on an annual basis. IRAE, IRPF, IRNR, and IP taxpayers must make payments on account of the tax (advances) on a monthly basis and pay the balance of the tax at the time of filing the annual tax return. IP withholdings on credit balances held with foreign individuals as of December 31 of each year must be paid to the tax authorities during the month of May of the following year.

TAX AUDIT

The DGI may audit sworn tax returns filed by taxpayers. Since audits are generally performed on the basis of random samples, it is not possible for the taxpayer to predict them.

As a result of the audit carried out, aspects may arise that must be explained by the taxpayer.

If the DGI does not agree with the explanations, it must formally notify the taxpayer of the issues observed. The taxpayer has a period of 10 days to make a formal statement on the observations made by the DGI. After this period has elapsed, the DGI makes an assessment of the issues observed, which may be appealed by the taxpayer.

The tax authority may make tax assessments when tax returns are not filed or when accounting records are missing or insufficient. The assessments made may be appealed by the taxpayer.

PENALTIES

Complete or partial failure to pay all or part of the taxes at the appropriate time is punishable by a fine of between 5% and 20% of the amount of the unpaid taxes (depending on the date on which the payment is made), and with a monthly surcharge that can be capitalized on a quarterly basis. Failure to report withholdings to the tax authorities is penalized with a 100% fine.

Failure to pay (a residual offense as defined by Article 97 of the Tax Code) is punishable by a fine of between one and five times the amount of the omitted tax and up to fifteen times in the case of tax fraud. Tax fraud may also be punishable as a criminal offense.

STATUTE OF LIMITATIONS PERIOD

The right to collect taxes prescribes five years from the end of the fiscal year in which the taxable event occurred. The statute of limitations period is extended to ten years when the taxpayer has incurred tax fraud or does not comply with the obligations to register or file tax returns.

2. CORPORATE TAXATION (DIRECT TAXES)

2.1. Main characteristics

- » Only income from Uruguayan sources is taxed (with the exception of passive income from abroad under certain conditions as discussed in Chapter 1.3 International Aspects, section "Activities carried out abroad").
- » IRAE is levied on real net income expressed in Uruguayan pesos, with partial adjustments to recognize the effect of inflation (under certain conditions).
- » Dividends received by a local entity derived from another local company are not taxed by IRAE.
- » Capital gains generated by local investments are taxed.
- » Interest on loans paid to non-residents is deductible with certain limitations and is generally taxed by IRNR withholding.
- » IP and IRAE are not deductible expenses.
- » Dividends/profits paid abroad are taxed by IRNR withholding basically when they come from income taxed by IRAE on behalf of the individual who obtained them (the application of Double Taxation Agreements -DTA- to avoid double taxation should be considered when distributing dividends or profits abroad).
- » The accumulated tax results taxed by IRAE (not reinvested in fixed assets, intangible assets, or participation in resident companies, nor destined to increase the gross working capital) that have a seniority of at least four fiscal years are considered taxed ("fictitious dividends"). These will be taxed under IRNR or IRPF, receiving the same tax treatment as dividends effectively distributed by the Uruguayan company.

- » Liabilities for imports, loans, and deposits in foreign currency held with foreign persons are exempt from IP.

2.2. Tax on Income from Economic Activities (IRAE)

The IRAE is an annual tax levied at a rate of 25% on income from Uruguayan sources derived from economic activities of any nature.

TAXABLE PERSONS

Commercial companies and permanent establishments of foreign entities pay IRAE on all income from Uruguayan sources. The remaining entities are taxed IRAE on their business income, i.e., those originated from the combination of capital and work.

TERRITORIALITY

Income from Uruguayan sources is understood as that which is obtained from activities carried out, assets located in, or rights economically used in Uruguay. Income derived from agricultural activities is also subject to IRAE, and in certain cases, the taxpayer may choose to pay this tax or the IMEBA. As we have seen in previous chapters, there are exceptions to the territoriality principle, with some activities being subject to taxes in our country.

PERMANENT ESTABLISHMENT

When an individual, legal entity, or any other non-resident entity develops all or part of its activity in Uruguay by means of a fixed place of business, it will be understood that it has a permanent establishment in our country.

The law lists a series of situations that constitute permanent establishment scenarios, among which are head offices, branches, offices, factories, workshops; mines, oil or gas wells, quarries, or any other place of extraction of natural resources. Also included in the concept of permanent establishment are construction or installation works or projects with a duration exceeding three months, as well as the rendering of services (including consulting services) by a non-resident through employees or other personnel hired by the enterprise for such purpose, provided that such activities are carried out (in connection with the same or a related project) during a period or periods that in total exceed six months within any twelve-month period.

It also includes what is known as the non-exhaustive “negative list”, indicating that the term permanent establishment does not include (i) the use of facilities for the sole purpose of storing or exhibiting goods or merchandise belonging to the non-resident; (ii) the keeping of a warehouse of goods or merchandise belonging to the nonresident for the sole purpose of storing or displaying them or having them processed by another enterprise; and (iii) the keeping of a fixed place of business for the sole purpose of purchasing goods or merchandise or collecting information for the non-resident or carrying out any other activity of a preparatory or auxiliary nature.

When a person who is not an independent agent acting in the ordinary course of business acts in Uruguay on behalf of a non-resident and habitually exercises in the country powers to conclude contracts on behalf of the non-resident, the non-resident shall also be deemed to have a permanent establishment in connection with the activities carried out by such person.

Pursuant to the applicable legal provisions, permanent establishments of foreign entities must compute in their IRAE liquidation all income obtained in the country by the foreign entity (“attraction jurisdiction”), with certain exceptions (such as permanent establishments originating in the rendering of services), in which only the income obtained in the country by the foreign entity is computed.

Non-residents acting in the country through a permanent establishment must appoint a resident individual or legal entity to represent them before the Tax Administration, who will be jointly and severally liable for the tax obligations of the represented party (if no representative is appointed or if the authorities are not notified, it will be presumed that there is an intention to commit fraud).

INCOME AND EXPENSES RECOGNITION

The net taxable income (tax calculation basis) is determined considering the income and expenses accrued during the year.

ELIGIBLE INCOME

Gross income is calculated as the total net sales minus the acquisition or production cost.

Other items that are also considered gross income, include:

- » The result of the sale of fixed assets.
- » The profit resulting from comparing the tax value and the market sale price of the assets awarded or given in payment to partners or shareholders.
- » Exchange differences accrued during the year.
- » The result of the sale of commercial establishments or business premises.
- » Any other increase in equity occurring during the year, except for those resulting from revaluations of fixed assets or from integrations, reimbursements, or redemptions of capital stock.

INFLATION ADJUSTMENT

In a partial attempt to neutralize the distorting effects of inflation, a tax inflation adjustment is made, which is determined by applying the percentage variation of the Consumer Price Index (CPI) between the closing months of the previous fiscal year and that of the fiscal year being settled on the tax equity at the beginning of the fiscal year. This adjustment will be made only when the variation of the accumulated CPI in the thirty-six months prior to the closing of the fiscal year being settled exceeds 100%.

REVALUATION OF FIXED ASSETS

The value of fixed assets must be revalued as from the month in which they are added to the equity or as from the fiscal year following the one in which they are added due to the variation in the CPI during the fiscal year (the revaluation criteria from the accounting point of view may be different).

For the purpose of calculating the result of the sale of fixed assets, their value is revalued until the month or until the end of the year in which the sale is made. The increase in equity resulting from the revaluation of fixed assets does not constitute taxable income; likewise, the existing fixed assets at the beginning of the year are excluded from the adjustment basis due to tax inflation.

INVENTORY VALUATION

Merchandise inventories may be valued at their acquisition or production cost, or at their replacement value at year-end, depending on which of these the taxpayer decides upon. Whichever valuation criteria are adopted, the cost of goods sold is determined by applying the historical cost convention; therefore, when inventories are valued at market values, the difference between market value and historical costs is considered taxable income.

For the purpose of determining the cost of sales of livestock, beginning and ending inventories are valued at market values in effect at the closing date of the fiscal year, which are published annually by the DGI. Livestock is also excluded from the inflation adjustment basis.

For tax purposes, a different method of ordering outputs (FIFO, LIFO, or average) than the one used for accounting purposes may be chosen. Allowances for inventory obsolescence are allowed provided that they correspond to actually incurred losses. Allowances for possible future losses are not allowed.

VALUATION OF TRANSFERABLE SECURITIES

Transferable securities of any kind are valued at their market price as of the closing date of the fiscal year. If they are not quoted, they are valued at their cost value, revalued by the variation operated from the month or year-end when the asset entered the equity (at the taxpayer's choice), up to the date of liquidation of the CPI.

The equity participation of IRAE taxpayers will be valued at the amount resulting from the balance sheet of such companies adjusted in accordance with the Wealth Tax rules. If such participations are shares, it is possible to choose between this valuation system or the two previously mentioned.

CAPITAL GAINS

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

INTEREST

Interest is computed on an accrual basis. There are no rules regarding debt/equity ratios.

DIVIDENDS

Dividends paid or credited to IRAE taxpayers are considered non-taxable income for IRAE (exempt income), in order to avoid double taxation.

Dividends paid to residents and to non-resident individuals or legal entities are subject to IRPF or IRNR at the rate of 7%, respectively, to the extent that such dividends correspond to profits taxed by IRAE. The same treatment will apply to "fictitious" dividends and profits from income taxed by IRAE. Fictitious dividends or profits are understood to be net fiscal income taxed by IRAE that has

been in effect for at least four fiscal years, even if the competent corporate body has not resolved its distribution.

On the other hand, dividends distributed by IRAE taxpayers are considered income from movable capital and are taxed by the IRPF at the rate of 12%, provided that such dividends have originated from non-resident entities. Passive income obtained abroad and defined by law as income from movable capital from “non-resident entities” does not include income from the sale or transfer of assets abroad (equity increases), nor income derived from real estate investments outside Uruguay. When the entity is resident in a country or jurisdiction with low or no taxation, the income obtained from capital gains and equity increases will be allocated as dividends or distributed profits (taxed by IRPF at the rate of 12%).

EXCHANGE DIFFERENCES

The results of the year that arise from exchange differences are computable for IRAE. They are determined by the revaluation of the balances of local assets and liabilities in foreign currency existing during the fiscal year.

EXEMPT INCOME

Among others, the following income is exempt from IRAE:

- » The income corresponding to maritime navigation or aviation companies. In the case of foreign companies, the exoneration shall only apply if Uruguayan companies of the same purpose enjoy the same exemption in the respective country of nationality. The government may exempt foreign land transportation companies on the condition of reciprocity.
- » Freights for the sea or air transport of goods abroad are not included in the exoneration of the previous section.
- » Those derived from the execution of agricultural activities included in the IMEBA, as long as they are obtained by the person who has opted to pay this tax.
- » Those included in the IRPF.
- » Those included in the IRNR.
- » Those derived from research and development in the areas of biotechnology and bioinformatics, and those obtained from software production activity and the services related to these (under certain conditions).
- » Those arising from activities carried out abroad, and in customs enclosures, port customs enclosures, customs warehouses, and free trade zones, with goods of foreign origin declared in transit or deposited in such locations when such goods do not originate in the national customs territory and are not destined to it. This exoneration will also be applicable when said merchandise is destined for the national customs territory, as long as such operations do not exceed 5% of the total amount of disposals of merchandise in transit or deposited in the locations that are made during that fiscal year.
- » Dividends or profits and changes in equity derived from the holding of capital participations. This exemption does not include the income originated in the sale of such participations.

- » Income from cultural, educational, and sports institutions.
- » Income from official organizations of foreign countries on condition of reciprocity, and from international organizations of which Uruguay is a member.
- » Income of small businesses. Companies whose income does not exceed the amount established annually by the Executive Power are exempted from the tax.

DEDUCTIBLE EXPENSES

The general principle for determining net income is to deduct from gross income the expenses necessary to obtain and keep it, accrued during the year and duly documented, without prejudice to certain limitations or exceptions that may apply.

In addition, the only deductible expenses are those that constitute the counterpart:

1. Income taxed by IRAE,
2. Income taxed by IRPF or IRNR,
3. Income taxed by effective income taxation abroad.

The regulations have included a long list of exceptions to this general rule.

For expenses incurred for personal services rendered in a working relationship of dependency that generates income taxed by the IRPF, the deduction is also conditioned to the payment of pension contributions, if applicable.

When the expenses constitute, for the counterpart, income taxed by the IRPF in category I of such tax (Capital Return and Equity Increases), or income taxed by the IRNR, the deduction will be limited to the amount that results from applying to the expense the quotient between the maximum applicable rate to the income of said category in the corresponding tax bracket (12% or 25% in certain cases) and the rate of the IRAE (25%).

For expenses that represent the counterpart income taxed by income taxation abroad, the deduction will be 100% if the effective rate abroad is equal to or higher than 25%. If the effective rate is lower, the corresponding proportion must be made, without detriment to the limit referred to above.

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

For purposes of deductibility of expenses incurred abroad with entities that are incorporated, domiciled, settled, resident, or located in countries with low or no taxation or that benefit from

a special regime of low or no taxation (according to the list issued by the Administration), their tax treatment in the country of the counterpart must be justified by providing the DGI with a certificate issued by the tax authorities of such country or by an external auditors' agency. In any other case of expenses incurred abroad, the aforementioned certificate must be provided only at the request of the DGI.

DEPRECIATIONS

Intangible assets (such as trademarks and patents) are linearly depreciated over a period of five years, provided that they represent a real investment and that the entity or individual that transfers it is identified. Those acquired on or after 07/1/2015 will be depreciated at a fixed installment over the number of years of the likely lifespan of such assets. When it is not possible to determine the likely lifespan of such assets, they will be depreciated over a period of ten years. The goodwill will in no case be depreciated. The expenses for the recording of intangible assets of limited life may - at the taxpayer's discretion - be deducted in the year in which the expense was incurred, or depreciated at a fixed rate over the period of the asset's lifespan.

Movable fixed assets are linearly depreciated based on the number of years of the likely lifespan of such assets. New automobiles are depreciated over a period of ten years.

Depreciation will start to be computed in the following year or the month after the month in which the asset was assigned and the linear depreciation system must be used. However, the DGI may authorize another system if it considers it technically appropriate.

The results from the sale of fixed assets are determined by the difference between the sale price and the cost value of the depreciated and revalued asset up to the closing date of the fiscal year.

LEASING AGREEMENTS

Tax regulations differentiate between financial leasing and operative leasing. Financial leasing is that which grants a purchase option at a price lower than 75% of the tax value of the asset involved (revalued and depreciated historical cost), on the date of exercise of the option. In all other cases, it is an operating lease. If the lease is a financial lease, the transaction is treated for tax purposes as a forward sale. Consequently, in economic terms, the ownership of the asset passes to the borrower, who will compute it in their fixed assets and will recognize an annual depreciation on such asset.

OTHER DEDUCTIONS

Without detriment to the general rule regarding the deduction of expenses, the regulations expressly admit the following as deductible:

- » Losses caused by fortuitous events or force majeure, in what is not covered by indemnity or insurance.
- » Write-offs for bad debts (uncollectible).
- » Expenses incurred to train personnel in areas considered priority areas and expenses incurred to finance research and development projects, which may be computed at one and a half times their actual amount.

NON DEDUCTIBLE EXPENSES

The following expenses are not deductible:

- » Losses derived from illicit operations.
- » Penalties for tax violations.
- » Expenses corresponding to the obtainment of non-taxed income.
- » Personal remunerations for which no pension contributions are made.
- » Income and wealth taxes.
- » Costs and expenses incurred with small businesses not subject to IRAE payment, under certain conditions.

FISCAL LOSSES

Losses generated in a fiscal year may be deducted, adjusted for inflation (according to the CPI variation), from the profits generated in the next five fiscal years. Losses generated in a fiscal year may not be deducted from profits generated in previous years.

LIQUIDATION

- » **NET INCOME:** For purposes of determining the net income subject to tax, the following procedure must be followed:
 4. The total net income is determined by deducting from the gross income all the expenses necessary to obtain and keep it, making the pertinent tax adjustments, and computing the adjustment for tax inflation when applicable. Likewise, the portion of untaxed income (exempt and foreign source income) is deducted and the portion of expenses associated with such untaxed income is added, thus determining the net income.
 5. If using the benefit of the investment exemption, such an amount is deducted.
 6. Tax losses from previous years are then deducted in order to arrive at the taxable amount, on which the 25% rate is applied.

FISCAL CREDIT

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

Although this tax is generally levied only on income from Uruguayan sources, credits paid abroad may be computed (under certain conditions) when the provisions of agreements for avoiding double taxation to which Uruguay is a party apply and in other specific cases. For tax purposes, consolidation between affiliated companies is not allowed. Consequently, it is not possible to offset the losses of one company against the profits of another.

TRANSFER PRICING

Law No. 18,083 introduced transfer pricing rules to the Uruguayan tax system, which include, among others, the following aspects:

1. TRANSACTIONS CARRIED OUT BETWEEN RELATED PARTIES

The regulation establishes that when transactions carried out by IRAE taxpayers with affiliated companies do not conform to market practices between independent entities (which must be reliably proven by the DGI), such transactions must be adjusted according to certain methods provided by the tax regulations.

2. ESTABLISHMENT OF THE RELATIONSHIP

The relationship will be established when an IRAE taxpayer carries out operations with a non-resident or with entities that operate in customs locations and enjoy a null or low taxation regime (for example free trade zones) and both parties are subject - directly or indirectly - to the management or control of the same individuals or legal entities or these have power of decision to guide or define the activities of the aforementioned taxpayers, whether by virtue of their equity participation, the level of their credit rights, their functional influence or by virtue of their contractual or non-contractual influence.

3. COUNTRIES WITH LOW OR NO TAXATION

Transactions carried out with non-residents located in countries with low or no taxation, as determined by the regulations, will be considered transactions carried out between related parties and therefore, they are included within the transfer pricing regime. The same presumption applies to transactions carried out with entities operating in customs locations (including local ones) and benefiting from a zero or low taxation regime.

4. ADJUSTMENT METHODS

In order to determine whether the prices of transactions subject to the transfer pricing regime are reasonably adjusted to market prices, the most appropriate methods will be used according to the type of transaction carried out. The methods provided for by the tax regulations, which are in line with those established by the Organization for Economic Cooperation and Development (OECD) Guidelines, are as follows: comparable prices between independent parties, resale prices set between independent parties, cost plus profit, profit splitting, and net transaction margin.

5. SPECIAL AFFIDAVITS - TRANSFER PRICING

The legal regulation establishes that the DGI, in order to carry out a periodic control of the operations subject to the transfer pricing regime, may require the filing of special affidavits containing the data it deems necessary in order to analyze, select, and proceed to the verification of the agreed prices.

On the other hand, the regulation establishes that IRAE taxpayers will be obliged to file annual information when they fulfill any of the following conditions:

- a) they carry out operations included in the transfer pricing regime for an amount exceeding UI 50,000,000 (approx. USD 7,450,000, except for free trade zone users) or
- b) they have been notified by the DGI.

The annual information must contain:

- a) an informative affidavit containing the details and amounts of the operations for the period included in the transfer pricing regime (Form 3001);
- b) a copy of the financial statements for the corresponding fiscal year, when they were not required to submit them by other provisions;
- c) the transfer pricing study with the minimum content established. Those who are not obliged to submit the annual information detailed above must keep the receipts and supporting documents of the transfer prices and of the comparison criteria used, for the purposes of demonstrating and justifying the correct determination of such prices, the amounts of the considerations or the profit margins declared, for the period of limitation of the taxes.

6. ADVANCE PRICING AGREEMENTS

The regulations provide taxpayers the possibility of entering into Advance Pricing Agreements (APAs) with the purpose of providing certainty to taxpayers in regard to the taxation of intercompany transactions in multinational groups.

7. MASTER REPORT AND COUNTRY-BY-COUNTRY REPORT

Pursuant to the provisions of Law 19,484 -known as the Tax Transparency Law- and its regulations, IRAE taxpayers that are part of a multinational group (GMN, for its acronym in Spanish) of large economic dimension (those whose consolidated income is equal to or greater than 750 million euros or its equivalent converted into the currency of presentation of the consolidated financial statements) and meet the conditions of relationship, will be obliged to file the Country-by-Country Report (hereinafter "CbCR"). The aforementioned law is effective for fiscal years beginning on or after January 1, 2017.

The CbCR must be submitted to the DGI within a period of 12 months from the closing of the group's fiscal year unless the same is submitted by the GMN in a country with which Uruguay has signed an agreement for the exchange of such reports.

On the other hand, those who comply with the above-mentioned conditions must submit a notification with the identification of the entity that will file the CbCR, the final controlling entity of the GMN, and all the Uruguayan entities that make up the GM

On the other hand, the aforementioned law provides for the obligation to file a Master Report containing information about the GMN to which the IRAE taxpayer belongs regarding the organizational structure, the activities carried out, the functions undertaken, the assets used, and the risks assumed by each of the entities comprising the group, the intangibles, the financing structure, and the financial and tax situation of said group. It should be noted that, so far, there are no provisions establishing the conditions for filing such a report.

INCOME FROM INTERNATIONAL ACTIVITIES

In general, income from activities carried out partially within the country is determined, applying the territoriality principle, according to the location of the productive factors. Notwithstanding this, the net income from certain international activities is specifically determined by the regulations, as indicated below.

1. TRANSPORTATION COMPANIES

The net Uruguayan source income of transportation companies (maritime, air, or land) is set at 10% of the gross amount of fares and freight charges corresponding to transportation from the country to foreign countries.

2. MOVIES AND TELEVISION INDUSTRY

The net income from Uruguayan sources of production, distribution, or intermediary companies of cinematographic films and tapes, as well as those who make direct television transmissions or other similar media, is set at 100% of the remuneration received for their exploitation in the country.

Likewise, when the rendering of such services is made through the internet, technological platforms, computer applications, or similar, the income will be considered to be entirely of Uruguayan source when the client of the service is located in Uruguay.

3. INTERNATIONAL NEWS AGENCIES

The net income from Uruguayan sources obtained by international news agencies is set at 10% of the gross remuneration.

4. TRANSFER OF USE OF CONTAINERS FOR INTERNATIONAL TRADE OPERATIONS

The net income from the Uruguayan source is set at 15% of the agreed price.

5. MEDIATION AND INTERMEDIATION ACTIVITIES IN THE SUPPLY AND DEMAND OF SERVICES

When these services are rendered through the internet, technological platforms, computer applications, or similar, the Uruguayan source income is set at 100% when the supplier and the customer of the service are located in Uruguay, and at 50% when only one of them is located in Uruguay.

In all these cases the taxpayer may also choose to determine the net income of Uruguayan sources on an actual basis, in accordance with the general rules. Once a procedure has been adopted, it may not be changed for a period of five years and it is necessary to obtain the authorization of the DGI in order to change the adopted procedure.

6. TRADING

For IRAE liquidation purposes, the DGI established a fictitious regime for the determination of the net income from Uruguayan sources in trading operations carried out in Uruguayan territory. According to this regime, the net income from Uruguayan sources is determined as 3% of the difference between the sale price and the purchase price of the good or service in the following cases:

- » Execution of purchase and sale transactions of goods located abroad, which have neither origin nor destination in Uruguayan territory.

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

This fictitious mechanism of determination of the net income of Uruguayan sources is optional, and the taxpayer may determine the income on an actual basis in accordance with the general regulations.

2.3. Wealth Tax (IP)

The IP is a tax levied on assets located in the country of industrial and commercial companies and agricultural and livestock farms at the end of the annual fiscal year. For purposes of its determination, certain debts are deducted from the assets valued according to tax regulations, applying a rate of 1.5% to the difference. For companies in the agricultural sector, it is necessary to consider specific provisions for the payment of this tax. The tax rate for banks and finance companies is 2.8%. Entities residing, domiciled, incorporated, or located in jurisdictions with low or no taxation that own assets in the country will be taxed at a rate of 3%.

Companies will abate the IP in the amount generated during the same fiscal year for IRAE or IMEBA, except in the case of non-resident legal entities or resident entities with capital represented by bearer securities or whose owner is a legal entity (in which case the referred abatement is not applicable). The maximum limit of the tax credit is 1% of the IP generated in the year.

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

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

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

Likewise, assets assigned to agricultural and livestock farms are exempt from IP under certain conditions (among them, that their value does not exceed approximately USD 1,800,000). In the event of exceeding this figure, the equity will be subject to the IP at 0.75% or 1.5% (depending on whether the equity affected to agricultural operations exceeds UI 30,000,000), and a surtax will be levied on the total equity assigned to the farm. The single rate of this surtax, applicable on the total equity, ranges between 0.7% and 1.5% (depending on the value of the assets assigned to the preferred activity).

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

Loans and deposits from foreign individuals and legal entities and import price balances are exempt from IP and, therefore, are not subject to the withholding referred to above. It should be noted that the regulations include debts for the acquisition of goods outside the country or in customs precincts, customs warehouses, port customs precincts, and free trade zones within the concept of import price balances for the purposes of the aforementioned exoneration.

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

3. TAXATION OF INDIVIDUALS (DIRECT TAXES)

3.1. Main characteristics

Individuals residing in Uruguay are subject to Personal Income Tax.

In addition, individuals are subject to Wealth Tax when their assets located in the country exceed the non-taxable minimum, fixed annually by the Executive Power. The non-taxable minimum for individuals amounts to approximately USD 148,000, which is doubled for families.

3.2. Personal Income Tax (IRPF)

IRPF is a personal and direct tax levied on income obtained by individuals residing in Uruguay¹. Tax residents are those individuals who stay in Uruguay for over 183 days during the calendar year, who establish in the country the main nucleus or the base of their activities, or who have in the country the center of their vital or economic interests.

Unless tax residence in another country is proven, tax residence by center of economic interest will be considered established when the individual:

- (i) has an investment in national territory in real estate for a value of more than UI 15,000,000 (approx. USD 2,234,000),
- (ii) has direct or indirect participation in a company for a value exceeding UI 45,000,000 (approx. USD 6,702,000) and that entity carries out activities or projects that have been declared of national interest according to Law No. 16,906 on Investment Promotion,

¹ Family units made up of resident individuals are also taxpayers, provided that they choose to be taxed jointly, although this option may only be made for earned income.

- (iii) has an investment in real estate for a value exceeding UI 3.500.000 (approx. USD 520,000), provided that such investment is made as of July 1, 2020, and remains in Uruguay for at least 60 days during the calendar year, or
- (iv) participates directly or indirectly in a company in excess of UI 15,000,000 (approx. USD 2,234,000), provided that it is carried out as of July 1, 2020, and generates at least 15 new full-time dependent jobs during the calendar year, and does not result from a reduction of jobs in related entities.

The tax is annual and is generally paid as of December 31 of each year, without affecting the payment of advances and withholdings for different types of income.

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

CATEGORY I includes income derived from capital gains, equity, and capital yields, both movable and real estate. These incomes are subject to personal income tax (as a general rule at rates of 7% and 12%, lower rates apply in specific cases) if they are of Uruguayan source, except for income from movable capital which is taxed both if it is of local or foreign source. Likewise, when an individual participates in the capital of entities residing, domiciled, incorporated, or located in countries or jurisdictions with low or no taxation, the income obtained by such entities as capital yields and equity increases will be allocated as dividends or distributed profits (taxed by IRPF as foreign capital yields at the rate of 12%). The transfer of shares and other participations - and the incorporation and transfer of their usufruct - in entities with no or low taxation (or benefiting from a special regime of low or no taxation), whose assets (valued in accordance with IRAE rules) are composed (directly or indirectly) of over 50% by assets located in Uruguay, will also be taxed by IRPF since they are considered to be of Uruguayan source.

Taxpayers who have been subject to taxation abroad for such income from movable capital may credit (under the conditions established in the regulations) the tax paid abroad against the income tax generated with respect to the same income. The credit to be set off may not exceed the amount of the deferred tax calculated prior to such deduction.

With respect to income from movable capital from non-resident entities, there is a so-called "window period" which refers to the possibility that individuals who become tax residents in Uruguay may choose to pay IRNR with respect to such income. To the extent that IRNR is not levied on foreign source income from movable capital, the option for this tax will imply not being taxed on that income during a given period. Individuals acquiring the status of tax residents in Uruguay could opt to pay IRNR for the tax year in which the change of tax residence to Uruguay took place, and during the following five tax years, in relation to foreign income from movable capital. However, changes in the legislation established that individuals who become tax residents as of 2020 may choose to pay IRNR tax on said income for the year in which they become tax residents and during the following ten fiscal years. Thus, individuals who have already made use of the first option for the five fiscal years may choose to extend the window period for up to ten fiscal years, provided that they can prove to have acquired as of 01/24/2021 a real estate property for a value of more than UI 3,500,000 (approx. USD 520,000) and they register an effective physical presence in the country for at least 60 days in the calendar year.

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

With regards to income derived from the labor productive factor, the following aspects should be highlighted:

1. Income is determined by applying the accrual principle.
2. Income arising from exchange differences and price adjustments is computed at the time of collection.
3. Income from employment as an employee consists of regular or extraordinary income, in cash or in kind, generated by taxpayers as remuneration for their personal activity as employees. Severance payments are included in the above, as long as they exceed the corresponding legal minimum, and for the amount exceeding such minimum.
4. The tax corresponding to labor income is determined through the application of progressive rates linked to an income scale. For such purposes, the sum of the eligible income is entered into the scale, applying the corresponding rate to the portion of income included in each scale bracket.
5. Thus, the following scale of income brackets and the corresponding rates are established (the values in USD are approximate):

ANNUAL INCOME	RATE
Up to the non-taxable minimum of 84 Benefit and Contribution Bases (BPC, for its acronym in Spanish) (USD 9,500)	Exempt
More than 84 BPC and up to 120 BPC (USD 12,000 - USD 17,200)	10%
More than 120 BPC and up to 180 BPC (USD 17,200 - USD 25,800)	15%
More than 180 BPC and up to 360 BPC (USD 25,800 - USD 51,600)	24%
More than 360 BPC and up to 600 BPC (USD 51,600 - USD 86,100)	25%
More than 600 BPC and up to 900 BPC (USD 86,100 - USD 129,100)	27%
Over 900 BPC and up to 1,380 BPC (USD 129,100 - USD 198,000)	31%
More than 1,380 BPC (USD 198,000)	36%

The value of the Benefit and Contribution Base (BPC) for the year 2024 is \$ 6,177 (approx. USD 158)².

² Exchange rate, December 2023= \$ 39.022.

6. Taxpayers are allowed to deduct the following items:

- » Pension contributions to the different social security entities, as applicable (exclusively those made by the taxpayer in their own individual savings account).
- » Contributions to public health insurance and to the Labor Reconversion Fund.
- » The benefit destined to the Solidarity Fund and its supplementary³.
- » For expenses for education, food, housing, and health of minor children under the taxpayer's care: 20 BPC per child per year. This deduction will be doubled in the case of adult or minor children declared legally unfit, as well as those suffering from serious disabilities, in accordance with the provisions of the regulations. Identical deductions will apply to persons under guardianship and curatorship regimes.
- » Amounts paid during the year for mortgage loan installments for the acquisition of the taxpayer's sole and permanent home, provided that the cost of the home does not exceed approximately USD 118,300 (the deduction ceiling is 36 BPC).

Effective 12/31/2023, for the purpose of determining the amount of the deduction, a proportional rate of 8% or 14% will be applied to the aforementioned deductions, which will be determined based on nominal income (without considering the Christmas bonus or vacation salary):

NOMINAL INCOME	RATE
Annual Nominal Income <= 180 BPC (USD 25.800)	14%
Annual Nominal Income > 180 BPC (USD 25.800)	8%

- 7. Additionally, taxpayers who were tenants of real estate intended for permanent housing may impute as a tax credit up to 6% of the rental price to the payment of Personal Income Tax, provided that the landlord is identified (among other conditions).
- 8. A 30% tax credit for expenses will be deducted from the work income originating outside the relationship of dependency.

³ Non-state public entity that manages a scholarship system for students of the University of the Republic and the Council of Professional Technical Education, financed by mandatory contributions from the graduates of said institutions.

LIABLE TAXPAYERS

By virtue of the powers granted by Law No. 18,083, the Executive Power designated a number of taxpayers liable for third-party obligations.

Except when there are express provisions to the contrary, the responsible parties must:

- » Issue receipts to taxpayers for the amounts withheld or collected from them on each occasion.
- » To pay such amounts, within the terms and conditions established by the DGI.
- » Submit a sworn statement of the withholdings made, within the terms and conditions established by the DGI.

Personal income tax withholdings include:

1. RENTAL WITHHOLDING TAX

The IRPF regulations designate a number of parties as withholding agents for leases and other income from real estate capital paid to taxpayers of such tax.

The parties designated as withholding agents include IRAE taxpayers included in the Large Taxpayers Division and in the CEDE Group of the DGI (large and medium-sized taxpayers, respectively).

The withholding will be made at the time of payment or credit, applying the following rates to the sum of the amount received or credited to the holder of the income plus the corresponding withholding:

- » 10.5% in the case of real estate leases.
- » 12% in the remaining cases of income from real estate capital.

2. LIABILITY FOR PAYMENT FOR INCOME FROM DEPENDENT WORK

For income derived from work, the IRPF regulations designated the employers of active members of the BPS and other social security institutions as substitute taxpayers. For such purposes, an active member is defined as any dependent or non-dependent worker who performs activities covered by such social security institutions.

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

The amount of the Benefits and Contributions Base to be considered for the referred determination will be the one established by the Executive Power, bearing in mind the increase foreseen in the fiscal year.

In principle, the withholding shall be constituted by the difference between the amounts arising from applying the following rates to income and deductions of the period:

To the total income of the month:

COMPUTABLE MONTHLY INCOME	RATE
Up to the non-taxable minimum of 7 BPCs (USD 800)	Exempt
More than 7 BPC and up to 10 BPC (USD 1,000 - USD 1,400)	10%
More than 10 BPC and up to 15 BPC (USD 1,400 - USD 2,100)	15%
More than 15 BPC and up to 30 BPC (USD 2,100 - USD 4,300)	24%
More than 30 BPC and up to 50 BPC (USD 4,300 - USD 7,100)	25%
More than 50 BPC and up to 75 BPC (USD 7,100 - USD 10,700)	27%
More than 75 BPC and up to 115 BPC (USD 10,700 - USD 16,500)	31%
More than 115 BPC (USD 16,500)	36%

Note: The value of the BPC for 2024 amounts to \$ 6,177 (approximately USD 158).

To the allowable deductions:

NOMINAL INCOME	RATE
Nominal monthly income ≤ 15 BPC (USD 2,100)	14%
Nominal Monthly Income > 15 BPC (USD 2,100)	8%

For the purpose of monthly withholdings, deductions will be computed according to the following procedure:

- » Non-proportional deductions (e.g., deductions referred to above for education, food, housing, and health expenses of minor or disabled children, mortgage loan installments, pension contributions to the Professional and Notary Fund, and Solidarity Fund benefit): one-twelfth of the annual amount.
- » Proportional deductions (basically pension contributions to the BPS or Banking Fund, to the National Health Fund, and to the Labor Reconversion Fund): applying the percentage applicable to the deduction according to the income amount to be computed.

For applying deductions, the information available at the time of such determination will be considered.

To this effect, the employee must submit, by means of an informative affidavit to the substitute responsible party, the information regarding all personal circumstances related to the deductions (for example, the number of children or dependents). This information will be included in the declaration that the substitute responsible party will make before the BPS. The aforementioned declaration will establish the deductions to be made by the employer or entity.

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

Dependent workers must file such an informative affidavit at the beginning of the employment relationship, as well as in any subsequent modification.

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

Should a balance in favor of the taxpayer be found, it will be refunded by the DGI under the conditions determined by said agency. If the taxpayer obtains the income from work exclusively from a substitute party in the fiscal year, the tax withheld will be definitive, and the taxpayer will be released from filing the corresponding sworn return (with the possibility to file a return in specific cases, for example, to make use of the credit for the lease of permanent housing or deduction for a mortgage loan). If the taxpayer obtains other income from work taxed by the IRPF, the tax withheld will be considered as an advance payment.

3. LIABILITY FOR THE PAYMENT OF INCOME FROM NON-DEPENDENT WORK

The IRPF regulation designated, among others, the IRAE taxpayers included in the Large Taxpayers Directorate and in the CEDE Unit of the DGI (large and medium taxpayers, respectively) as responsible for the IRPF corresponding to the income originated in services outside the relationship of dependency rendered by the taxpayers of such tax.

The withholding will be made on a monthly basis and will only proceed in the event that the monthly total invoiced by the taxpayer to the responsible party exceeds USD 1,500 in the month, excluding Value Added Tax⁴.

The withholding amount will be the result of applying the 7% rate to the sum of the amount paid or credited to the holder of the income plus the corresponding withholding. The amount withheld will be considered a payment on account by the taxpayer and will be deducted from the amount of the advances for the same period. If the taxpayer has a credit for this concept in the year-end liquidation, it may be used to pay obligations before the DGI or the BPS.

EMPLOYEES OF THE INFORMATION TECHNOLOGY SECTOR

Technicians and professionals of the information technology sector who move to Uruguay for the purpose of executing employment contracts with companies with regular and permanent activity in the country will have the following temporary benefits:

- » Option to pay IRNR tax for their work income at a fixed rate of 12% (instead of IRPF) for the calendar year in which the employment relationship is verified and during the following four years.

⁴ For insurance brokers and producers, the withholding will operate in all cases, regardless of the monthly amount invoiced.

- » If the above option is exercised, they may choose not to benefit from the social security system in force in Uruguay, and therefore not to make the corresponding contributions.

This regime is subject to simultaneously complying with the following:

1. Being a foreigner or national and not having verified tax residence in the country in the last five fiscal years prior to the transfer to the national territory;
2. To develop the activity full-time in the national territory;
3. To obtain the total income from work in the national territory, exclusively in a dependent relationship for the rendering of services related to the technology sector.

EMPLOYEES WORKING IN FREE TRADE ZONES

Our legislation provides a special regime for foreigners working in free trade zones. In effect, foreign employees working for users of such zones may exercise the option of not paying the Special Social Security Contributions (CESS) and, in such cases, choose to be subject to IRNR at the rate of 12% (instead of IRPF at the progressive rates mentioned above). If such options are exercised, the IRNR will be applicable to the income derived from the labor activity in relation of dependency for the free trade zone user entity. The referred option must be communicated by means of a sworn statement to their employers at the time of starting the labor relationship. Once exercised, the worker will not be able to change it for at least three fiscal years.

The exercise of this option determines that the foreigner does not benefit from the Uruguayan social security system, not counting -therefore- the corresponding coverage in this matter.

3.3. Personal Wealth Tax (IPPF)

The wealth tax of individuals, family units, and undivided inheritances is levied on assets in the country, minus certain debts. Only assets located, placed, or economically used in Uruguay are taxed.

Individuals pay IP at progressive rates ranging from 0.1% to 0.7% or 0.3% to 1.5% (depending on whether the holder is a resident or non-resident), with an individual non-taxable minimum of approximately USD 148,000, which is doubled for family units.

Individuals domiciled abroad, as well as foreign legal entities, are not subject to the payment of this tax in connection with the balances of exports, loans, and deposits made to Uruguayan residents.

The assets of individuals, family units, and undivided estates are valued at market value, with certain exceptions, mainly in the case of real estate whose values are periodically determined by the government.

The following assets are exempt:

- » Participations (e.g., shares) in entities subject to the payment of this tax and of financial entities exclusively engaged in the performance of securities intermediation operations and securities based abroad.
- » Public debt.
- » Bank deposits of individuals (although computable for household goods and furnishings).

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

4. INCOME TAXES FOR NON-RESIDENTS

4.1. Main characteristics

- » Income from Uruguayan sources obtained by non-resident individuals or legal entities without a permanent establishment in the country is subject to the Non-Resident Income Tax (IRNR).
- » The IRNR is applied at proportional rates as a general rule of 7% and 12% depending on the type of income (lower rates apply in specific cases), or 25% if the country of residence, domicile, location, or in which the entity was incorporated is a low or zero taxation country, or if it benefits from a low or zero taxation regime (except for dividends, which will always be 7%).

IRNR is a tax levied on Uruguayan source income obtained by individuals and other entities not residing in Uruguay that do not have a permanent establishment in the country. Income of any nature obtained by contributors of this tax, including business income, income from capital, income from work, and increases in net worth are taxed.

Income derived from activities carried out, assets located in, and rights economically used in the country are considered to be of Uruguayan source. Income obtained from technical services and advertising and publicity services rendered from abroad to IRAE taxpayers (under certain conditions), as well as income derived from the lease, use, transfer of use, or disposal of federative, image, and similar rights of athletes registered in resident sports entities, as well as income originated in mediation activities deriving therefrom, are also considered as Uruguayan source income.

It also taxes the rendering of services through the Internet, technological platforms, computer applications, or similar, under certain conditions (see [Chapter 1.3](#)).

For individuals, it will be understood that the taxpayer has a tax residence in Uruguay when any of the following circumstances are verified:

- » Staying in the country for more than 183 days during the calendar year; or
- » The main nucleus or base of activities or economic or vital interests is located in Uruguay.

In the case of legal entities, they will be considered residents when they have been incorporated in accordance with national laws. Foreign legal entities and other entities not constituted in accordance with the national laws that establish their domicile in the country shall be considered residents in the national territory from the completion of the formal procedures provided for in the legal and regulatory rules in force.

IRAE taxpayers who pay or credit business, capital, or labor income to IRNR taxpayers have been designated as withholding agents for this tax. If there are no designated withholding agents, the IRNR taxpayer must designate an individual or legal entity resident in the national territory to represent it before the Tax Administration in relation to their tax obligations (this representative will be jointly and severally liable with the taxpayer for the aforementioned obligations).

The rates of this tax are as follows:

- » Interest on deposits with local financial intermediation institutions; and interest on debentures and other debt securities issued by resident entities and income from certificates of participation issued by financial trusts, through public subscription and stock exchange quotation in national entities, according to the following detail:

CONCEPT	DEADLINE	RATE
In local currency with a nominal fixed rate	One year or less	5.5%
	More than one and up to three years	2.5%
	Over three years	0.5%
In local currency with a readjustment clause	One year or less	10%
	More than one and up to three years	7%
	Over three years	5%
In foreign currency	One year or less	12%
	More than one and up to three years	12%
	Over three years	7%

- » Dividends or profits paid or credited by IRAE taxpayers, and fictitious dividends and profits: 7%.
- » Income obtained by resident entities domiciled, established, incorporated, or located in countries or jurisdictions with low or no taxation or benefiting from a special regime of low or no taxation, from real estate located in national territory, except in the case of individuals: 30.25%
- » Remaining income obtained by the entities referred to in the previous section, except dividends or profits paid or credited by IRAE taxpayers: 25%
- » Remaining income: 12%.

Regarding dividends distributed by IRAE taxpayers, it should be noted that those that relate to income effectively subject to IRNR and accrued in fiscal years beginning on or after July 1, 2007, are taxed by said tax.

The same treatment will apply to fictitious dividends and profits derived from income taxed by IRAE. The accumulated taxable income subject to IRAE (not reinvested in fixed assets, intangible assets, or participation in resident companies, nor destined to increase the gross working capital) that has been accrued for at least four fiscal years will be considered as fictitious dividends.

The law has also established other exemptions, among which we highlight the following:

- » Interest on Public Debt, as well as any other return on capital or increase in equity, derived from the holding or transfer of such instruments.
- » Interest on loans granted to IRAE taxpayers whose assets assigned to obtain income not subject to this tax exceeds 90% of their assets valued according to tax regulations.
- » The increases in equity derived from the transfer of assets when the price thereof considered individually does not exceed approximately USD 4,400 and provided that the sum of the transactions not exceeding such amount does not exceed approximately USD 13,400 in the course of the year.
- » Income corresponding to maritime navigation or aviation companies, subject to reciprocity. Income corresponding to freight for maritime navigation or aviation transport of goods abroad is exempted in all cases.
- » Income from activities developed abroad, and in customs precincts, port customs precincts, customs warehouses, and free trade zones, by non-resident entities, with goods of foreign origin declared in transit or deposited in such locations, when such goods do not originate in the national customs territory nor are destined to it. This exoneration will also be applicable when such goods are destined for the national customs territory, provided that such operations do not exceed 5% of the total amount of the sales of goods in transit or deposited in locations during that period. In such a case, the transfer pricing regime will be applicable to the importer.

The liquidation and payment of the IRNR will be made annually, but when the totality of the tax has been subject to withholding, the taxpayer may choose not to make the corresponding affidavit.

If foreign personnel working in the Free Trade Zone choose not to contribute -and consequently not to benefit from the Uruguayan social security system-, they may choose between paying IRNR (whose proportional rate is 12%) or IRPF (whose rates are progressive and range from 10% to 36%). It should be noted that this option will be applicable to the labor income obtained from the free trade zone user employer.

Finally, it should be mentioned that through Law No. 20,191, incentives have been approved for dependent workers of the technology sector who settle in Uruguay (refer to the section “Employees of the Information Technology sector”), where the option of paying IRNR (instead of IRPF) and not contributing to the Uruguayan social security system is foreseen.

5. VALUE ADDED TAX

5.1. Main characteristics

- » The basic VAT rate is 22%, with a minimum rate of 10% applicable only to certain products and services.
- » Exports and the circulation of most agricultural products are subject to the zero-rate regime, under which the tax credit associated with such transactions is refunded.

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

INDIVIDUALS AND COMPANIES SUBJECT TO VAT

All companies that are taxable persons subject to IRAE are taxable persons subject to VAT. VAT also applies to individuals and personal service providers.

TAXABLE TRANSACTION

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

It is also levied on the provision of services through the Internet, technological platforms, computer applications, or similar, under certain conditions (see [Chapter 1.3](#)).

EXEMPTIONS

Among others, the following are exempt from VAT: the sale of natural fruits and vegetables, foreign currency, precious metals, credit assignments, real estate (with certain exceptions), agricultural machinery and its accessories, fuel derived from petroleum (except fuel oil and diesel oil), milk, agricultural inputs, books, newspapers, magazines, educational material and the supply of water for basic family consumption under certain conditions.

In addition, there is an exemption for the rendering of certain services, including interest on public and private securities and deposits, real estate leases, and banking operations except for interest on consumer loans, personal remuneration for services related to cultural activities, etc.

VAT CALCULATION

VAT is calculated on the net amounts invoiced for sales and services, and must be discriminated in the respective invoice. VAT included in the purchases of goods and services that directly or indirectly comprise part of the cost of the goods and services taxed, sold, or rendered by the

taxpayer (provided that it is specified in the purchase invoice), may be deducted from the VAT invoiced for the sale of goods or rendering of services.

Invoices must comply with minimum formalities established by the relevant regulations, such as consecutive numbering, identification of the seller or service provider and the purchaser, the registration number of the seller or service provider before the DGI, and the amount of the tax discriminated from the value of the good or service.

RATES

The basic rate is 22%, with a minimum rate of 10% applicable to certain goods such as basic food products and medications, as well as to services rendered by hotels related to lodging.

There is no special rate applicable to sumptuary products, notwithstanding the fact that some of them are subject to the Internal Specific Tax (IMESI, for its acronym in Spanish).

As of 10/2015, in the application of the provisions of the financial inclusion and electronic means of payment regulations (Law 19,210 and its regulation), the VAT rate was reduced by two percent for goods and services sold to end consumers provided that the payment is made through debit cards or electronic money instruments. Also, other VAT reductions have been implemented for specific cases when payments are made with debit cards or electronic means of payment.

ZERO RATE

Exports and sales of agricultural products in their natural state -with the exception of fruits, flowers, and vegetables- made by IRAE taxpayers are subject to VAT at zero rate. This means that, although the tax is not included in the invoice, the VAT corresponding to the goods and services that directly or indirectly make up the cost of the products may be recovered.

Agricultural products in their natural state are those primary goods, animals, and vegetables, as they are obtained in the producing establishments -that is, without having undergone manipulations or transformations that imply an industrial process, except when they are necessary for their preservation-. In turn, the regulations establish that, for VAT settlement purposes, debarked logs are included in the definition of agricultural products in their natural state.

EXEMPT GOODS AND SERVICES SERVICIOS Y BIENES EXENTOS

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

VAT COLLECTION

VAT is collected by the DGI, and taxpayers must pay the tax monthly, in the month following the one in which the taxable event occurred. Taxpayers included in the Cede Group or Large Taxpayers of the DGI (medium or large taxpayers, respectively) must file the VAT return on a monthly basis, while those belonging to the Non-Cede Group must file it on an annual basis. If a credit in favor of the taxpayer arises from the return, it is carried forward to the following month or year (without adjustment for inflation) until it can be absorbed by the sales VAT (with a limitation of four years).

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

6. OTHER TAXES

6.1. Internal Specific Tax (IMESI for its acronym in Spanish)

The IMESI currently represents approximately 9% of tax revenues and is levied on a wide range of products at differential rates.

The tax is levied on the first sale by producers or importers of certain products in the local market. Exports are not taxed.

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

The goods that are subject to higher rates are alcoholic beverages, tobacco, fuel, lubricants, and other petroleum products. For alcoholic beverages the maximum rate is 85%, and for tobacco 70%. Petroleum products are taxed on their sales price at differential rates depending on the product, and such rate may reach a maximum of 133%, as in the case of Refined gasoline. Other taxed goods such as alcohol, soft drinks, cosmetics, and non-diesel motor vehicles are taxed at rates that in general terms vary between 10% and 40%.

6.2. Tax on the Control of Corporations (ICOSA, for its acronym in Spanish)

Corporations are subject to this control tax (ICOSA), applicable at the time of incorporation and at the end of each fiscal year. This includes those corporations that, having been incorporated abroad, have relocated to Uruguay.

The applicable rates are as follows:

1. 1.50% for the incorporation of the company.
2. 0.75% for each year-end.

The taxable amount on which to apply the referred rates is constituted by an amount fixed in Indexed Units (578,428 UI, approximately USD 86,000), taking the price given by the government as of December 31 of the year prior to the occurrence of the generating events.

The tax corresponding to the end of the fiscal year may be charged to the IP of such period. If there is a surplus for such a concept, it shall not be refundable (acting in fact as a minimum IP).

This tax does not apply to branches of foreign companies.

6.3. Tax on Insurance Entities Income (IIEA)

Insurance companies are subject to paying a tax on their gross income received. These rates vary according to the risk covered or type of insurance/reinsurance, varying as a general rule between 0% and 7%.

When the insurance company is not authorized or qualified to carry out insurance activities in the country, the applicable rates may be increased by up to 40%.

6.4. Tax on the Sale of Agricultural and Livestock Goods (IMEBA)

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

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

The rates vary between 0.1% and 2.5%, depending on the type of good.

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

In turn, the sale of wool, hides, live cattle, cereals, and oilseeds is subject to an additional tax of 0.2%.

Agricultural companies will have to pay IRAE instead of IMEBA when any of the following conditions are verified:

- » When they are, among others, Corporations, Limited Joint Stock Companies, permanent establishments of non-resident entities in the country, or Trusts.
- » When they obtain income exceeding approximately USD 370,000 (the income obtained during the immediately preceding fiscal year is considered for such purposes).
- » When they carry out their exploitation in lands that at the beginning of the fiscal year exceed 1.250 ha CONEAT⁵.

6.5. Equity Transfer Tax (ITP, for its acronym in Spanish)

This tax is levied on the transfer of real estate. Both parties involved in the transaction (transferor and purchaser) are subject to the payment of this tax at the rate of 2% on the real value of the property (which is generally lower than the market value).

When the property is transferred without any payment, the beneficiary must pay the tax at the rate of 4%. Heirs in ascending or descending straight line will pay the tax at the rate of 3%.

⁵ The CONEAT is an index that measures the productive capacity of the soil, where 100 is the average value of the productive capacity of the country.

7. INTERNATIONAL TREATIES

Uruguay has signed treaties to avoid double taxation (DTA) with:

Country	Year
Germany	1987 and renegotiated in 2011
Hungary	1993
Mexico	2010
Spain	2011
Switzerland	2011
Liechtenstein	2012
Portugal	2012
Ecuador	2012
Malta	2012
South Korea	2013
Finland	2013
India	2013

Country	Year
Romania	2014
United Arab Emirates	2016
Vietnam	2016
United Kingdom	2016
Luxembourg	2017
Singapore	2017
Belgium	2017
Chile	2018
Paraguay	2019
Italy	2020
Japan	2021
Brazil	2023

The DTA between Uruguay and Colombia is under parliamentary approval in both countries.

These treaties regulate tax matters and generally follow the OECD model, adopting some of the guidelines of the United Nations (UN) model.

In addition, Uruguay has signed information exchange agreements (All, for its acronym in Spanish) with:

Country	Year
France	2011
Iceland	2012
Denmark	2013
Greenland	2013
Argentina*	2013
Norway	2014
Canada	2014
Australia	2014

Country	Year
Faroe Islands	2015
Sweden	2015
Netherlands	2016
Chile	2016
United Kingdom	2016
Guernsey	2017
South Africa	2017

*Includes clause to avoid double taxation.

Agreements are also under negotiation with the United States, Malaysia, the Netherlands, Ireland, and Russia.



WHO WE ARE

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

Together with other institutions, we work to promote the productive and innovative economic development of the country, with sustainability, social equity, and environmental and territorial balance.



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OUR SERVICES FOR INVESTORS

Macro and sectorial information. Periodically, Uruguay XXI prepares reports on Uruguay and the various sectors of the economy.

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

Contact with the main actors. We generate contacts with government entities, industrial actors, financial institutions, R&D centers, and potential partners, among others.

Promotion. We promote investment opportunities in strategic events, missions, and business rounds.

Facilitation of visits to the country of foreign investors, including organization of agenda of meetings with, for example, public authorities, suppliers, potential partners, and business chambers.

Support in establishment and expansion. We facilitate your establishment in the country and support you to achieve the growth of your business in Uruguay.

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