



Uruguay XXI

INVESTMENT AND EXPORT
PROMOTION AGENCY

Business Guide 2009

Uruguay

Business Guide

Introduction

This guide has been developed to provide assistance to all those interested in doing business in Uruguay.

Even though it does not thoroughly cover all the factors considered, it intends to comprise the most relevant aspects and provide answers to the main queries that can arise.

It will surely be necessary to complete this guide's information by consulting the laws, regulations and resolutions adopted in the country and by obtaining specialized professional advice, in every real situation arising.

The material contained in this Guide was updated on August 2009 and is based on information and regulations valid on that date.

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Guide for the investor

		Chap.
Social, political and legal stability	Uruguay is a country with stable game rules and skilled human resources that make it attractive to the foreign investor.	1
Free exchange	The exchange market is totally free, with total freedom to buy and sell foreign currency.	2
Free transfer of capital and profits	The financial market is totally free, no previous authorization is required for foreign currency income or expenditure. There are no restrictions for capital income or outflow, transfer of profits, dividends, interests, etc.	2
International financial center	Uruguay has a nimble and competent banking system, with the presence of leading international banks, representing an important international financial center to channel the region's businesses. Banking secrecy is guaranteed by law.	2
Installation of foreign companies	There are no previous requirements. Persons and corporations may install companies in Uruguay without complying with previous requirements or obtaining special permits from the State.	3
Promotion of investments	It is possible to obtain an investment private project's promotion from the Government, with which important tax exemptions are granted in each case.	3
Tourism industry	There is a specific regime with tax exemptions for investments in resorts.	3
Forestry	Extensive tax exemptions are granted to investments in forestry.	3
Software	An income tax exemption is granted.	3
Shipbuilding industry	Income tax exemption under the condition of the creation of 150 direct skilled jobs.	3
Call Centers	Income tax exemption under the condition of the creation of 150 direct skilled jobs.	3
Other schemes	Other industries, such as hydrocarbons' exploitation, biofuels, vehicles or auto-parts, printing industry, electronics or communications industry, also enjoy various tax benefits.	3
Tax-free Zones	The Tax-free Zones scheme grants a series of benefits to companies installing in them. The total exemption of taxes and the exemption of tariffs for the entry and exit of goods especially stand out.	3

MERCOSUR	Uruguay constitutes a customs union with Argentina, Brazil and Paraguay ¹ . MERCOSUR has also signed free trade agreements with other countries.	3
Freedom to import	There is freedom to import all types of goods. Tariffs vary between 0% and 20% with the exception of some specific items.	3
Freedom to export	There is total freedom to export; there are no encumbrances or bans ² .	3
Exports' promotion	There are indirect tax refund schemes and temporary admission regimes that foster the exports sector.	3
Business forms	Companies may be organized as Corporations or branches of foreign companies. There also are personal type societies; the most common is the Limited Liability Company (SRL for its Spanish acronyms).	4
Capital	A corporation's shares may be bearer shares and a sole shareholder may possess 100% of the capital.	4
Shareholders, partners and directors	There are no citizenship or residency requirements for shareholders, partners or directors.	4
Accounting and auditing	Accounting and auditing principles are in line with international regulations.	5
Main taxes	The main taxes assessed to companies are the Corporate Income Tax (IRAE for its Spanish acronyms), the Wealth Tax (IP for its Spanish acronyms) and the Value Added Tax (IVA for its Spanish acronyms). As of 1 st . July 2007, the Income Tax for Natural Persons (IRPF for its Spanish acronyms) and the Income Tax for Non-residents (IRNR for its Spanish acronyms) are in force, assessing the income obtained by resident natural persons and non-resident natural or legal persons.	6
Territoriality	The tax system is based on the principle of the source, due to which income of foreign source or assets located abroad are not assessed.	6
Dividends and profits	Dividends earned by local companies are not assessed. Dividends and profits paid or credited to beneficiaries abroad are subject to withholding of IRNR at a rate of 7%. Dividends or profits paid to resident natural persons are assessed by IRPF at a rate of 7%.	6

¹ Although Venezuela applied to MERCOSUR in year 2006, its accession is subservient to the acceptance of all member countries.

² Except for a 5% detraction on dried and salted bovine and ovine leather, leather and removed flesh, leather picklings and wet-blue.

Salaries	Salaries are established by agreement between parties, subject to general regulations and, if applicable, to industry-wide agreements. They shall not be established below the minimum fixed by the Executive Power or below the amount set by Salary Councils (which in turn will determine the salaries' semiannual rate adjustment by category).	7
Taxation on Social Security	The social security system's payroll taxes are 12.625% while taxes paid by workers are between 18,.25% and 21.125% ³ . If the payment of the monthly salary exceeds certain amount ⁴ (periodically updated by the Executive Power) the payment of retirement contributions by the employee is optional.	7
Foreign personnel	There are no impediments to hire foreign personnel.	7

Chapter 1: An Outline of Uruguay

Main features
<ul style="list-style-type: none"> ➤ Uruguay has a democratic government with a presidential system. ➤ There is a high level of security and comfort to live in the country. ➤ Weather conditions are pleasant all year long and Summer is the peak season for tourism. ➤ While the country's official language is Spanish, English is usually used in business.

1. Geography and weather conditions

Uruguay is located in South America, on the Atlantic Coast, between Brazil on the North and Argentina on the West.

It has an area of approximately 176,000 km² (68,000 square miles) excluding territorial waters.

There are no remarkable topographical features. Most of the surface consists on rolling hills crossed by long rivers.

Weather conditions are enjoyable and healthy throughout the year. Summer temperatures average between 21 °C and 27 °C (70 °F and 80 °F), Winter temperatures vary between 10 °C and 16 °C (50

³ Depending on the amount of the income and the number of employees.

⁴ Currently equivalent to approximately USD 2500.

°F and 60 °F) and there are some cold days occasionally. Rainfall may occur on any season, but it is usually heavier during the months of Autumn.

The most densely populated city is Montevideo, the capital city, which has the most important port, followed by Paysandú and Salto (on the shore of the River Uruguay) and Las Piedras (near Montevideo).

Punta del Este, on the Atlantic coast and 130 kilometers from Montevideo, is one of the most popular bathing resorts in South America, highly active during the Summer season (January and February).

2. Population and language

Uruguay's population, according to the census carried out in 2004, is 3.3 million, of which near 1.3 million live in Montevideo and its surroundings. For the whole country, approximately 89% of the population is urban.

There are no indigenous people; a high percentage of Uruguayans are descendants of European immigrants, mainly Spanish and Italian.

The rate of population growth is one of the lowest in Latin America: 3 per thousand per year, similar to that of most first world countries.

Spanish is the official language and the one normally used. Teaching English and French has been a tradition in the country, and English is mostly used by the business community. Currently, the study of Portuguese is also consolidating as a consequence of the integration process in MERCOSUR.

3. Political system and Government

Uruguay is politically organized as a democratic republic with a presidential system. The State is organized in three independent Powers: Executive, Legislative and Judicial.

According to the valid Constitution, the members of Government are elected each 5 years by a universal suffrage system. The Executive Power is exercised by a President and a Cabinet of 13 Ministers. The Legislative Power is constituted by the General Assembly or Parliament, comprised of two Chambers: the Senate, integrated by 30 members, presided over by the Vice-President and nationally elected and a Chamber of Deputies of 99 members representing the 19 departments, elected based on proportional representation.

The Judicial Arm is exercised by the Supreme Court, the Bench and Judges nationwide. The members of the Supreme Court are elected by the General Assembly; the members of the Bench by the Supreme Court with the consent of the Senate, and the judges are directly assigned by the Supreme Court.

Uruguay is geographically divided into 19 departments whose local administrations replicate the division of the Executive and Legislative Powers. Each department elects its own authorities, also through a universal suffrage system.

The departmental executive authority resides in a Superintendent and the legislative authority in a Departmental Board. The departmental governments are essentially responsible for the administration of each department's affairs, excluding justice, education, health, security, foreign policy, defense and the main responsibilities in economic and financial matters, which are administered nationwide.

4. Legal system

The Uruguayan legal system is based on legal regulations approved by the Parliament and promulgated by the President of the Republic. The ultimate source of law is the Constitution.

The laws approved by the Parliament or departmental decrees (with legal force in the correspondent departments) approved by any of the Departmental Boards, may be declared unconstitutional by the Supreme Court if they are in conflict with the Constitution.

On the other hand, any firm regulation or resolution approved by any state administrative authority, including state-owned companies, may be declared null and void by the Court of Administrative Litigation, a special independent appeals court of 5 members which is not part of the Judicial Arm, elected by the Parliament.

Judicial proceedings normally have two instances.

In some cases, actions could also be brought to the Supreme Court, but they could only be based on the existence of an infringement or a misapplication of the rules of law.

There are special judges for civil affairs, labor issues, business, criminal, family and customs matters and property claims against de State. Likewise, as from 2009, two new Courts of First Instance in criminal matters, specialized in organized crime were created.

Although the sentences of a Court or judge may be of use as guide for future trials, the same do not constitute a binding precedent, as it happens in the legal systems of the countries where jurisprudence is traditionally source of law.

5. Living in Uruguay

In Uruguay life can be safe, placid, healthy and pleasant.

The country offers the highest security level in South America in a broad sense. Crime rate is very low in comparison with the other countries of the region. There are no racial, religious or other type of conflicts and political meetings are held peacefully.

The movement of vehicles is smooth, even in city centers. Time spent on commuting is reduced; Montevideo may be crossed from one end to another by car in a little more than an hour, at any time of day.

Cities have large green spaces and thanks to the continuity of the winds and the absence of polluting industries, there is no environmental pollution. This positive statement is also valid for rivers and coastal sea, also facing Montevideo.

The benefits of the climate and the absence of environmental pollution, the range of the sanitary and drinking water networks and the scope of medical care, provide a high level of healthfulness to the people. Epidemics of any type are practically inexistent.

Due to its territorial extension, the distances to travel in order to access to recreational areas (for example the countryside, beaches and river shores) are reduced. The most popular beaches extend over a distance of almost 300 km between Montevideo and the border with Brazil. The national sport par excellence is football, which attracts the vast majority of the population of all social levels. There are several private clubs with sports fields, particularly excellent golf courses, as well as state sports

facilities, which can be acceded at very low costs or also for free. There also is an important cultural activity which is translated into a wide range of theatrical, musical and cinematographic shows.

The Uruguayan market offers vehicles, electrical appliances, beverages, food and other consumer goods of any origin and quality.

6. Data for businessmen

Visas

As a rule, businessmen visiting the country are only required to have a valid passport, except for those cases where a previous visa is required⁵. Citizens from Argentina, Brazil, Chile and Paraguay only require an identity card.

Currency

The local currency is the Uruguayan peso; \$ is its official symbol.

Working hours

Stores are usually open from 9 am to 7 pm from Monday to Friday and from 9 am to 1 pm on Saturday. There are several shopping centers opening from 10 am to 10 pm also Saturday and Sunday.

Other hours to consider are:

Government offices:	12 am to 6 pm (Winter); 9 am to 3 pm (Summer)
Banks:	1 pm to 5 pm (some open at 11 am)
Industries, offices:	9 am to 6 pm

Holidays

Non-working holidays:
1 st . January
1 st . May
18 th . July
25 th . August
25 th . December

⁵ Countries exempt from visa are: American countries (except for Haiti, Cuba and The Guianas), the majority of European countries, Australia, New Zealand, South Africa, South Korea, Malaysia and Japan.

Working holidays (only paid to the employee if he assists to work):

Carnival (two days in February)

Holy Week (two days usually in April)

6th. January

19th. April

18th. May

19th. June

12th. October

2nd. November

Weights and measures

Weights and measures are based on the metric system. There are no unusual measures or terminologies, except for certain archaic terms that can still be found in rural areas.

Information services

Those planning to visit Uruguay on business matters may obtain information on the nearest Uruguayan Consulate or Embassy.

Tips

Tips are not included in the price of services. It is usual to pay a tip equivalent to 10% of the service's price.

Taxis

The cost of a taxi from the international airport to downtown Montevideo is approximately USD 25.

Chapter 2: Business background

1. Economic and institutional framework

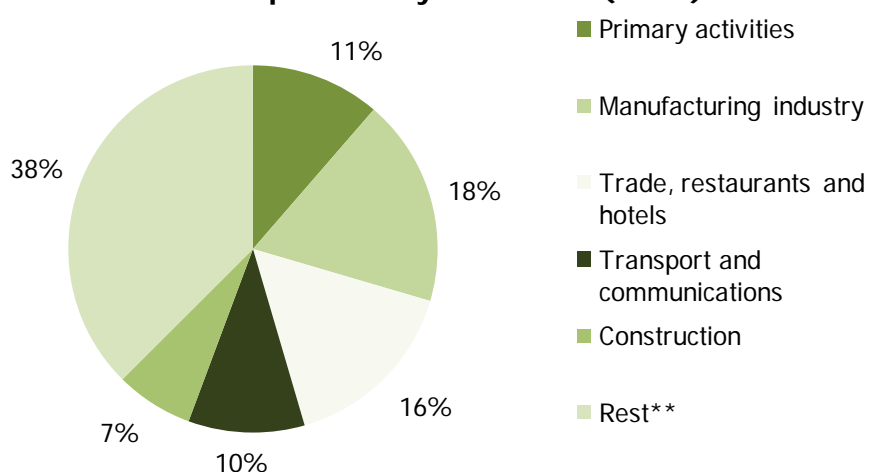
Main features
<ul style="list-style-type: none">➤ Economic, political and social stability.➤ Free exchange.➤ Free transfer of capital and profits➤ Foreign trade openness.➤ Integration to MERCOSUR and trade agreements with other countries.

1.1 Performance and economic structure

The Uruguayan economy is small and open, with a growing projection towards the regional and international external markets, where exports play a vital role in the local productive development.

The sector with greater share in the GDP is the services sector, within which trade, transport and communications, financial services, insurance, real estate and other services to companies stand out.

GDP composition by industries (2008)*



Source

(*) It does not include taxes, except subvention on products.

(**) It includes financial intermediation; real estate, business and rental activities; public administration and defense, compulsory affiliation social security plans; education; social and health services; other community, social and personal services activities and private households with domestic service.

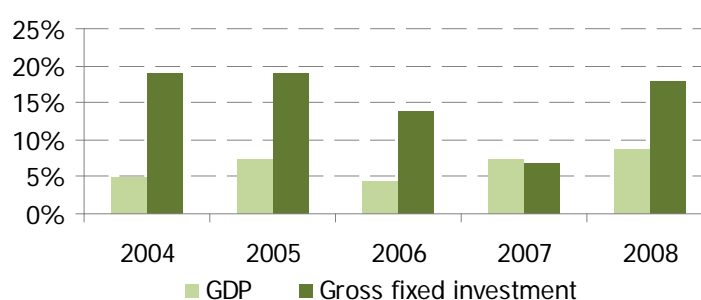
Agricultural production has a share of 10% in the GDP. However, its importance for the economy is vastly superior to such percentage since it provides most of the raw material for the manufacturing

industry, one of the sectors with greater export presence. The manufacturing industry represents 16% of the GDP and the sub-sectors of food, leather, textile and forest products are those that especially stand out for their importance and contribution to exports.

By virtue of the favorable external conjuncture and of the application of a prudent economic policy at domestic level, Uruguay has achieved a sustained economic growth with an annual cumulative rate of 6.7% in the period 2004-2008. The GDP measured in current dollars in year 2008 totals USD 32,200 million, with a per capital GDP of USD 9,644.

The macroeconomic stability and the establishment of a stable institutional framework with clear rules for the investor and respect to the contracts, added to an attractive promotional scheme, constituted an important factor to boost the productive investment in the last few years.

Real GDP and investment growth

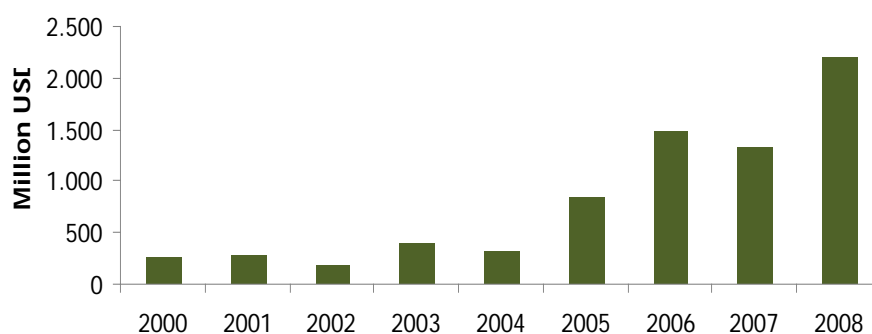


Source: Central Bank of Uruguay

The gross fixed investment has grown at a very good pace with double-digit rates, together with an expansion of the consumption of significant expansion. Therefore, the investment's behavior indicates that the expansion of the product has a solid foundation. The gross capital formation rose to a figure well above the GDP increase, which brought a sustained growth of the investment rate in economy.

At the same time, the country has been characterized by receiving an abundant flow of Foreign Direct Investment in the last few years, which lies in diverse industries. A long tradition of legal certainty and compliance with contracts, as well as the tax benefits for new investments and its strategic geographical location, found the choice of many international investors.

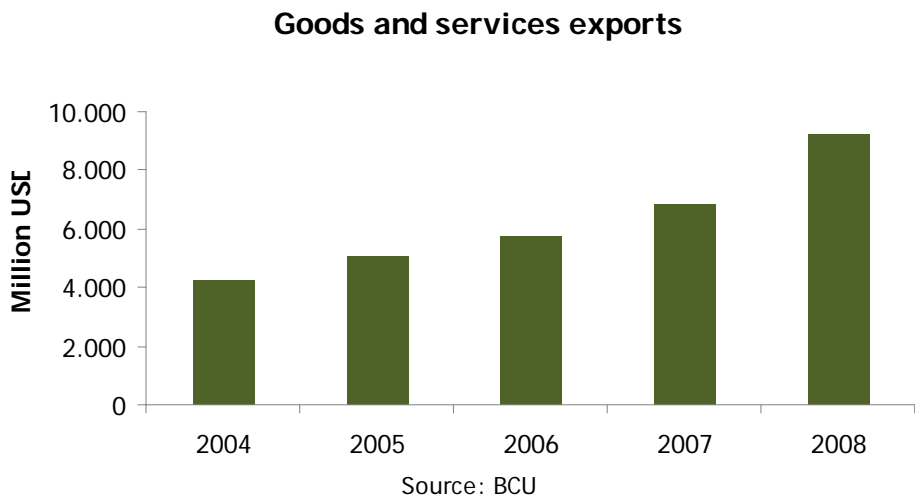
Foreign direct investment



Source: BCU

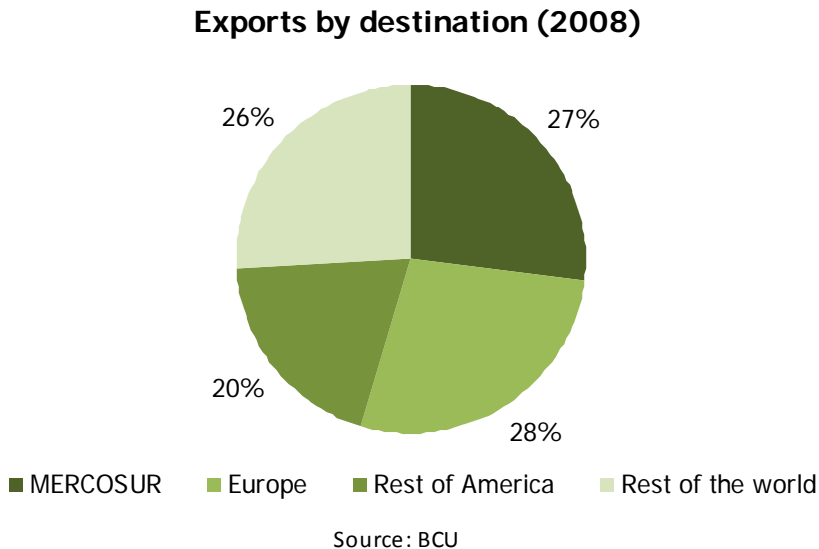
Furthermore, prices evince a stable behavior, with single digit inflation rates. The descending inflation trend is expected to continue as a consequence of a control policy of inflation targeting adopted by the Central Bank of Uruguay as from 2004.

The deepening of the economic liberalization process led to an increase of the relative importance of foreign trade in the GDP, with exports in goods and services growing steadily, with a greater diversification of destinations and reaching record levels year after year. Within exports the largest entries are meat, leather, textile, cereals, dairy products and other agro-based products; in exports of services, tourism and logistics stand out by virtue of Uruguay’s strategic geographical location in the region.



Imported products are mainly oil, capital goods and intermediate goods. Consumer goods represent approximately 20% of merchandise imports.

Merchandise exports have registered a healthy diversification in the last few years. That is due largely to the search for new markets policy for the extra-zone placement of goods, carried out successively by the governments.



1.2 Economic policy

Liberalization and openness policies maintained stably for more than 20 years, as well as the strict compliance with its international duties, have enabled Uruguay to preserve a favorable position in international markets and develop a widespread reputation as a regional financial center with a long tradition of freedom and security.

Uruguay has a completely free regime in movement of capitals, foreign currency and gold inwards and outwards, and a freely convertible exchange rate system for the local currency.

Maintaining an open financial system, the liberalization of international financial transactions and the banking secrecy guaranteed by law, have turned Uruguay into the largest financial center of the region. Approximately 80% of the deposits in the financial system are kept in dollars, of which 23% corresponds to non-residents.

The economic policy's stability has been decisive in the economic performance and in achieving the current international positioning, despite changes in the Administration, inherent to the democratic regime. In this sense, the maintenance of a prudent macroeconomic policy stands out, which combines a fiscal policy based on the achievement of primary surplus coherent with public debt sustainability, with a monetary policy designed to ensure prices' stability, contributing with the growth and employment generation objectives.

Revenues are mainly generated from tax collection, carried out by the General Tax Directorate (DGI for its Spanish acronyms) although state-owned companies' surplus also contributes. Public expenditure decisions are made according to the Budget Law approved during the first year of Government and the subsequent annual accountability. Tax discipline is reflected in the existence of a top annual variation of net indebtedness law which indirectly sets a restriction to fiscal imbalances in which the Government could incur.

In order to ensure the prices' stability, the Central Bank of Uruguay carries out an inflation targeting policy. As an instrument for the achievement of such goal, the Monetary Policy Committee relies on the establishment of a reference interest rate for short term interbank loans.

1.3 Trade policy

Uruguay was one of the first economies in Latin America to develop into an open and unrestricted international trade. The openness ratio, measured as the addition of goods and services exports and imports, in relation with the GDP was 58% between years 2005 and 2008, higher than that of its neighboring countries Argentina and Brazil.

In 1991, Uruguay signed a treaty with Argentina, Brazil and Paraguay which established the Southern Common Market (MERCOSUR), which accelerated the openness of the Uruguayan economy, setting up a progressive integration process from the current stage of Customs Union until constituting a Common Market.

The MERCOSUR treaty foresees the free movement of goods, services and productive factors within the signatory countries through the progressive elimination of tariff barriers and non/tariff barriers. Likewise, there is a Common External Tariff (AEC) agreed upon by the four signatory countries for almost all goods entered to the region. The AEC varies between 0% for capital goods and 20% for some consumer goods (clothes, electric appliances, etc.). There are some exceptions for some specific goods like shoes, sugar and automobiles, where the AEC is higher than 20%.

Besides the aspects referring to the Common External Tariff, its exceptions and adequacy per country, MERCOSUR has adopted decisions in matters of origin regime, treatment of unfair practices

of the expanded market's domestic trade, bases for antitrust, public policies that condition competitiveness, elimination or harmonization of non-tariff restrictions to trade and customs policy rules. Likewise, certain bases to coordinate and harmonize macroeconomic policies relative to foreign trade, agriculture, industry, taxation, changes, transport and other matters, have been agreed upon.

It is important to highlight that MERCOSUR offers access to a market of 234 million people with a GDP of USD 1.95 trillion, which represents 68% of South America's GDP, to the installed companies and those starting up in Uruguay.

Uruguay has a privileged location within MERCOSUR since it is in the middle of the region with more population and income level. Within a radius of 1500 km from Uruguay, 90 million inhabitants are concentrated in areas of great industrial and agricultural development.

1.4 Trade Agreements

Currently, Uruguay has undersigned the following free trade agreements as a member country of MERCOSUR.

MERCOSUR – Chile

In June 1996, MERCOSUR undersigned a free trade agreement (in the nomenclature of the Latin American Integration Association – LAIA, Economic Complementation Agreement N° 35) with Chile.

The constitution of a Free Trade Zone was carried out through a trade liberalization program with progressive tax relief until year 2004 (with the exception of some sensitive products whose liberalization can not exceed year 2014).

MERCOSUR – Bolivia

In December 1996, MERCOSUR undersigned a free trade agreement (in the nomenclature of the LAIA, Economic Complementation Agreement N° 36) with Bolivia.

The constitution of a Free Trade Zone was carried out through a trade liberalization program with progressive tax relief until year 2006 (with the exception of some sensitive products whose liberalization can not exceed year 2014).

Uruguay – México

In November 2003, Uruguay undersigned a bilateral free trade agreement (in the nomenclature of the LAIA, Economic Complementation Agreement N° 60) with Mexico, which was put into effect in July 2004.

MERCOSUR – Colombia/Ecuador/Venezuela

In October 2004, MERCOSUR undersigned a free trade agreement (in the nomenclature of the LAIA, Economic Complementation Agreement N° 59) with Colombia, Ecuador and Venezuela.

The constitution of a Free Trade Zone was carried out through a trade liberalization program with progressive tax relief, which was put into effect as from year 2005. In the case of the bilateral exchange between Uruguay and the three signatory countries tax relief will be progressive until year 2018.

MERCOSUR – Peru

In November 2005, MERCOSUR undersigned a free trade agreement (in the nomenclature of the LAIA, Economic Complementation Agreement N° 58) with Peru.

The constitution of a Free Trade Zone was carried out through a trade liberalization program with progressive tax relief. In the case of the bilateral exchange between Peru and Uruguay, tax relief will be progressive until year 2017.

MERCOSUR – Israel

In December 2007, MERCOSUR undersigned a free trade agreement with Israel. The specific objectives of the agreement are:

- To eliminate trade barriers and facilitate the movement of goods between the territories of the Parties.
- To promote the conditions for a fair competition in the Free Trade Zone.
- To substantially increase the investment opportunities in the territories of the Parties and foster the cooperation in areas of mutual interest of the Parties.

The Uruguayan Parliament ratified the agreement by Law in August 2008, and the agreement will come into force for trade transactions between Uruguay and Israel shortly, as the Israeli Parliament granted its own parliamentary ratification in November 2009.

1.5 Relationship between the State and businesses

In Uruguay there are some services that are provided by state-owned companies under a monopoly regime. Such is the case of the import of oil and its by-products for fuels refining (not distribution) carried out by ANCAP, the transmission and distribution of electric power (not generation) performed by UTE, the delivery of fixed telephony (not mobile telephony, data or broad band) by ANTEL and the provision of drinking water and sewage facilities services (OSE).

Moreover, Uruguay has carried out a deregulation process of economy and elimination or partial privatization of other public companies aiming at promoting competence and increasing general welfare. In this sense, some features can be highlighted:

- The application of the concession regime to perform public works.
- The demonopolization of alcohols' production.
- The demonopolization of the insurance industry.
- Port reform.
- The social security system's reform (with the creation of Pension Savings Funds Managers or AFAPs).
- The promotion of the use of financial resources through the Investment Funds Act, the Securities Market Act and the Trust Act.
- Promotion of antitrust

Through the public works concession regime to the private sector, it builds and then deploys public works such as roads, ports and airports, under a regime regulated by special laws and regulations and by virtue of a contract with the State.

Some sectors traditionally managed by the State and closed to private competition have been deregulated in the last few years: the production of alcohols and distilled beverages, the insurance market, the social security system, the generation of electric power. A factor that significantly contributed to economy's growth was the competitive development in the mobile telephony market.

The Ports Law was approved in 1992 allowing the free movement and tax exemptions to goods in transit (see section 2.2 of Chapter 3).

The Uruguayan Stock Market's performance was regulated in 1996, incorporating modern rules and principles already proven in the main financial markets, which has led to an important growth of the corporate debt market, particularly long-term corporate bonds, and the Investment Funds' operation was also regulated.

The Antitrust Promotion Law was approved in 2007. This Law's objective is to foster consumers' welfare through the promotion of antitrust, the enhancement of economic efficiency and freedom and equality of conditions for companies and products to access the markets. The Law acts counteracting the anticompetitive practices and promoting competence by fixing transparency rules and a suitable penalty system.

1.6 Clear rules

The Uruguayan political system has the singularity of having three major political parties that have alternated in Government, without significant changes in the general economic principles and with a strong respect for clarity and transparency in the compliance with contracts. This quality is considered a differential by investors when choosing Uruguay, as a pillar for the generation of trust in the business environment. According to the Corruption Perceptions Index 2008, developed by Transparency International, Uruguay is located in position 23 among 180 countries and occupies the first position in Latin America as reliable country.

In Uruguay there is no discrimination in national and foreign capital treatment and the incentives to investment promotion are available for both. Neither are there limits for foreign capital endowment in companies. The foreign investor may perform any type of activity in the same conditions than local investors. In certain sectors, in virtue of the State's special regulation, the foreign investor may carry out the activities under a public works concession regime.

The tax system is also neutral regarding foreign investment. Likewise, it is not necessary to have a previous registration or authorization to carry out an investment.

The country has an attractive investment promotion regime approved by law. That set of promotional mechanisms is based on the legal certainty given by the existence of laws in that sense.

Likewise, the valid legislation expressly considers the existence of the banking and tax secrecy.

There are no limitations to profits transfers or the repatriation of capital, nor are previous authorities' permits required. The exchange market is free without limitations for buying and selling foreign currency, and investments may be carried out in any currency.

In Uruguay, it is possible to verify the existence of intellectual property's international standards. Protection of copyrights, trademarks and patents is specifically legislated. At the same time, according to international organizations' surveys, the country is considered as the one with greatest

protection to intellectual property in South America (source: The Global Competitiveness Report 2008-2009, World Economic Forum).

1.7 Government's attitude towards foreign investment

The foreign investor may develop any type of activity in the same conditions than local investors. In some sectors especially regulated by the State, the foreign investor may develop activities under the public works concession regime. There is an exception for the access to foreign investment regarding the operation of radio and TV stations: the property of those companies that develop these activities is restricted to Uruguayan citizens.

The foreign investor may operate in the country constituting a Corporation - the type of society mostly used – of which he can possess 100% of the equity. He may also operate through the constitution of a Limited Liability Company (SRL) or other personal type societies, integrated by partners who can be national or foreign natural or legal persons⁶. The foreign investor may also choose to operate in the country through a branch of a foreign company. The tax treatment of the different society types differs in several aspects, which makes it convenient to perform a previous and careful planning to select the society type to adopt.

Uruguay has traditionally provided a security framework to the foreign investor thanks to the effective validity of the Law and the economic stability. Uruguay is also member of international organizations that promote investments' security, such as the Multilateral Investment Guarantee Agency (MIGA) and the International Center for Settlement of Investment Disputes (ICSID) with headquarters in the World Bank. Furthermore, Uruguay has concluded capital investments' reciprocal promotion and protection treaties with several countries such as: USA, Germany, Spain, Portugal, Sweden, UK, Belgium, Holland, Italy, France, Switzerland and Finland.

The foreign investor may choose the option of seeking shelter on Law Nº 14.179 of foreign investment. This law grants the investor a convertibility guarantee for profits' transfer and the repatriation of capital, generally for a period of 10 years, according to the contract signed between the investor and the government. Given the freedom in Uruguay in exchange control matters, as well as regarding profits' transfer and capital repatriation, foreign investors usually do not choose to seek shelter on this law.

There are no limitations for hiring foreign personnel. Foreigners starting activities as employees in Uruguay shall comply with certain procedures on the National Migrations Directorate.

Both individual businessmen and business organizations have a favorable attitude towards foreign investors and businessmen visiting Uruguay. Visitors may as well expect a friendly welcome, both from banks and government's authorities.

Uruguay's geographical location between Argentina and Brazil, with its traditional reputation of economic and social stability, as well as its role as financial center, provide it with an advantageous position when assessing the localization of industries that have the MERCOSUR countries as consumer market of its products and supplier of its raw materials.

Multinational companies established in neighboring countries are in a particularly good position to take a chance on the advantages offered by Uruguayan Tax-free Zones.

⁶ In the case of companies that own rural properties and agricultural developments integrated by partners that are legal entities, the holders of the latter must necessarily be individuals.

2. Support infrastructure

Main features
<ul style="list-style-type: none">➤ Uruguay's strategic location in the middle of the MERCOSUR turns it into the natural link for communications between member countries.➤ The port of Nueva Palmira, situated on the Southern end of the Paraguay-Paraná Waterway, is a strategic point for goods entry and exit towards the continent's center.➤ Telecommunications, energy and water services are available without restrictions nationwide, with very good technological levels.

Uruguay offers competitive advantages to the investor, among other things, thanks to its strategic geographical location and a suitable support structure in full swing, for passengers and goods transportation by sea, air and land. The country is considered as the second in South America in infrastructure development (The Global Competitiveness Report 2008-2009, World Economic Forum).

2.1 Transport system

Due to its geographical location, Uruguay is a permanent link of terrestrial and maritime communications between the MERCOSUR countries, especially Argentina and Brazil, situation that is a consequence of its strategic insertion between the richest and most developed areas of its neighboring countries.

Distance between Montevideo and the region's main cities (km)	
➤ Buenos Aires	250
➤ São Paulo	1,970
➤ Rio de Janeiro	2,400
➤ Porto Alegre	870
➤ Asunción	1,550
➤ Santiago de Chile	1,900

Uruguay has developed competitive advantages in delivering services. Particularly, its transport system has existent infrastructures in full swing that enable it to assist the transport demands of the strong exchange flows between MERCOSUR member countries and of the particular requirements of the region's countries for their international exchange.

Uruguay's transport infrastructure enables it to totally interconnect its territory with the region without restrictions.

Road Transport

The main road network, paved and suited to the current territorial model, is the densest in Latin America and the Caribbean, with 45 paved kilometers per each 1,000 km² of area.

The international freight transport is carried out without restrictions through different borders between Uruguay, Argentina, Brazil, Chile and Paraguay, with a fleet available without limitations.

Domestic passenger transport is carried out mainly by buses managed by private companies under a "regulated competence" regime that has enabled a solution with high quality and efficiency standards.

Interconnections with neighboring countries are carried out through different borders: with Argentina there are three bridges on the River Uruguay in the cities of Salto, Paysandú and Fray Bentos, while with Brazil, roads are united in the cities of Artigas, Rivera, Río Branco and Chuy.

Railway Transport

The railway network in Uruguay is oriented to the transportation of important volumes of raw materials, such as agricultural and forest products and fuels among others. The railway transport tariff is competitive in comparison with road transport, in the massive demand segments served by the railway.

Currently, the main activity is grain transportation from the collection plants that have rail deflections to the ports or borders to be exported.

The State's Railway Administration (AFE for its Spanish acronyms) is the public independent company, open to the participation of private operators, responsible for operating the railway freight and passenger transport nationwide.

The railway network comprises three big trunk lines that communicate the capital city with the country's west coast (agricultural and forest zone, bordering Argentina), the North (forest zone, land border with Brazil) and the Northeast (rice zone, land border with Brazil). The three lines converge in the Central Station, near the Port of Montevideo, which can be accessed directly from the railway system.

In turn, AFE's railway network is connected with Argentina's and Brazil's networks. The connection with Argentina is through the International Bridge of Salto Grande that joins Salto and Concordia. Such connection enables the international railway transport with Argentina, Chile and Paraguay. The connection with Brazil is through the networks that join in the Rivera-Livramento Border.

Regarding the railway passenger transport, the service is provided in two small short distance interurban segments of little importance for the system.

Freight capacity is currently limited by the railway infrastructure condition, the rolling stock and lack of modern railway operation and organization systems, techniques and methodologies. In order to improve the maintenance of the services, the State created a private law and public capital corporation (Railway Corporation of Uruguay) which in association with AFE is made responsible for carrying out the necessary investments for the reconstruction of railway lines, in order to adapt it to international standards and enable a transit at 40 km/hour, with a cargo capacity of 18 tons per hub.

These investments constitute the initial incentive for the development of a railway system as part of the transport integrated system, indispensable for economy's growth.

River and sea transport

The country's main port is in Montevideo, which receives maritime lines from the whole world and concentrates exports, imports and transit trade. It is the first and only terminal in South America's Atlantic Coast operating under the free port system.

In real expansion, the port of Montevideo - where the public terminal co-exists with private terminals - is one of the region's most important points of goods distribution.

Moreover, the port of Nueva Palmira, on the River Uruguay, is the river-head of the most important river transport system in South America. Nueva Palmira is in the key point of the Paraguay-Paraná Waterway, which has 3443 km long and joins the River Plate and through it the Atlantic Ocean. Nueva Palmira is taking shape as one of the main goods transfer terminals from the region to the world, and a public terminal and several private ones co-exist in it.

Air transport

The main airport facilities are in the locations of greater concentration of population and touristic infrastructure, between Montevideo and Punta del Este.

The International Airport of Carrasco, whose new passenger terminal has been recently inaugurated, is located at the East of Montevideo, 18 km. from the city center and is the main passenger and freight air terminal of Uruguay. The intercontinental coverage in the airport is carried out by means of 14 international airlines which perform daily and regular passenger and freight services.

The Airport of Laguna del Sauce is located 15 km. from the city of Punta del Este. Its terminal building and airstrips were recently refurbished under private investment in concession regime.

2.2 Telecommunications

Telecommunications services have a wide coverage throughout the national territory. With the exception of fixed telephony services (provided by public company ANTEL), other services are delivered under a competence regime by public and private operators.

All the activities related with telecommunications are regulated and controlled by the Regulating Unit in Communications Services (URSEC), whose objectives are the extension and universalization of the access to services, the promotion of competence, the control of persistent monopolistic activities, the application of tariffs reflecting economical costs, the development of investment optimal levels and the protection of user rights.

Following are some indicators that show the degree of progress of the telecommunications sector in Uruguay:

- Digitalized telecommunications: 100%
- The greatest tele-density in fixed telephony in Latin America: 29 lines every 100 inhabitants.
- The greatest tele-density in mobile telephony in Latin America: 105 lines every 100 inhabitants.
- Population with access to Internet: 40%

2.3 Energy

The basic primary energy sources in Uruguay are hydroelectricity, gas and oil.

Liquid fuels

By statute, state-owned ANCAP has the monopoly of imports and refining of crude oil and of the production, exports and imports of its by-products. Since Uruguay has no fossil fuel reserves, all the supply in the national territory is imported. The imported crude oil is processed in ANCAP's refinery.

According to data of 2008, 21% of the consumption of oil by-products in Uruguay corresponds to light fuels (gasoline and LPG), while average fuels (kerosene, gasoil and diesel oil) and HFO (fuel oil and asphalt) represent 57% and 22% respectively.

Domestic demand of oil by-products (2008)	
Gasoil	56.8%
Fuel Oil	18.5%
Gasoline	15.3%
LPG	6.0%
Asphalt	2.9%
Kerosene	0.4%
Diesel Oil	0.04%
Source: National Directorate of Nuclear Energy and Technology	

Likewise, the main sector consuming oil by-products is transport, followed by the residential and industry sectors.

It should be noted that by statute, liquid fuels for automotive use will be complemented with biofuels as from 2009, by means of a blend of biodiesel with gasoil and ethanol with gasoline. Even though ANCAP is in charge of carrying out the blends, ethanol and biodiesel are supplied by companies under the private law regime, as long as the product complies with the correspondent quality standards.

Natural gas

Uruguay does not have fossil energy sources and imports all the oil and natural gas it consumes. Currently, all the regions' countries are interconnected by export pipelines. Argentina is Uruguay's supplier country of natural gas.

Natural gas supply chains in Uruguay are formed by pipelines and distribution networks that operate at low pressures and present larger territorial extension. Transport facilities provide with gas to big

users and to distribution networks, from where final residential, commercial and industrial users of low or medium consumption are supplied,

Electric power

Electric generation in Uruguay is carried out by the National Administration of Power Plants and Transmissions (UTE for its Spanish acronyms) and by industrial private power units for self-consumption and sale to UTE. The main input for its generation is hydropower, followed by gasoil and fuel oil and in lesser extent biomass. In 2009, the country also started to implement wind generation.

Installed power is 2,227 MW (70% of hydro-generation and 30% of thermal generation).

Uruguay also participates in a power connection with the other region's countries and when it finds it convenient, it imports electric power from Brazil and Argentina.

98% of urban housing has access to electric power.

2.4 Potable water and sewage facilities

Uruguay is the only country in Latin America to achieve an almost universal coverage of access to safe potable water and to suitable sewage facilities, with high quality services. Due to these accomplishments, the Government's priority is to improve the services' efficiency and expand the access to sewer service (in what is relevant) in places where on-site sanitation is used.

Potable water and sewage services are provided by state-owned company OSE, and are available without restrictions nationwide. The access to potable water sources covers 98% of the population. Based on its excellent level of potable water coverage, Uruguay has practically eliminated waterborne outbreaks and single diseases and is the only American country without records of cases of cholera in the pandemic that ravaged the continent between years 1991 and 2000. 81% of the urban population has sewage collective service.

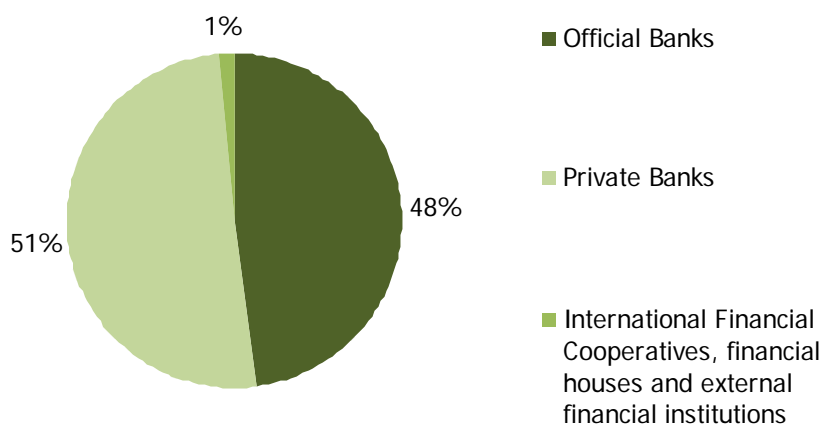
3. Financial system

Main features
<ul style="list-style-type: none">➤ Banking and financial activities are regulated by the Central Bank, that has the authority to approve the installation of new entities.➤ A wide range of banking services are available without restrictions to the foreign investor.➤ Off-shore operations have a broad tax relief.➤ Banking secrecy is protected by law.➤ Explicit deposit insurance.➤ There are no limitations to capital income or outflow, or exchange control on foreign currency operations.➤ International financial center: Uruguay has the qualifications that make it a financial center, particularly for the MERCOSUR and the region.

3.1 Banking system

The financial intermediation sector in Uruguay is constituted by 14 commercial banks, 5 financial houses, 1 financial intermediation cooperative and 4 external financial institutions. Private and public commercial banks have the largest market share.

Assets' share in the financial system Dec-08



Public Banks are: Banco de la República Oriental de Uruguay (BROU) – Bank of República Oriental del Uruguay, and Banco Hipotecario de Uruguay (BHU) – Mortgage Bank of Uruguay. The former

operates as a State's commercial bank and as promotion bank of the manufacturing and agricultural sectors. In turn, the BHU finances home buying.

Commercial Banks provide two types of interrelated activities. The first activity constitutes the essence of financial intermediation and is the collection of deposits from public savings to channel that mass of resources granting credits. Commercial Banks also render other services to their clients (bonds, endorsements and guarantees, international trading operations, foreign trade operations, investments, etc.).

Financial houses are concerned with all types of financial operations except for those reserved for banks and cooperative banks, such as current account opening. They are also authorized to raise funds from residents as well as from non-residents.

Financial intermediation cooperatives are institutions that – as their name implies – are organized as cooperatives, which are only authorized to provide banking services to their associates and have a differential treatment regarding capital requirements and certain tax advantages in comparison with commercial banks.

External Financial Institutions are off-shore institutions that provide financial services exclusively to non-residents under a special regulatory framework and are totally exempt from any type of encumbrance.

3.2 Central Bank

The Central Bank of Uruguay (BCU), which groups numerous functions, is in charge of the financial system's control. Typically, BCU is the public entity that regulates the monetary system through the issuance, the administration of international title hold and supervision of exchange operations.

It is also responsible for other controls, which are currently under the supervision of the Superintendence of Financial Intermediation Institutions, the Superintendence of Insurance and Reinsurance, the Control Area of the Pension Savings Funds Managers (AFAPs) and the Stock Market Area.

The Superintendence of Bank Savings Protection was created by Law on December 2002, as a decentralized unit of the BCU, with the aim of guaranteeing the financial system's deposits refund. The abovementioned created a Bank Deposits Guarantee Fund, financed by financial institutions and managed by such superintendence. This is how an explicit deposit insurance mechanism was formalized, with the objective of indemnifying depositors in case of banks bankruptcy.

3.3 Stock market

Besides resorting to the banking market, funds' deficit and surplus agents in Uruguay may resort to the stock market, although transactions made in this market are of smaller magnitude.

Uruguay's stock market comprises the Stock Exchange of Montevideo (BVM for its Spanish acronyms) and the Electronic Stock Exchange S.A (BEVSA for its Spanish acronyms). The latter operates for the exclusive use of banks and other financial institutions.

The operation in the primary market has basically the objective of issuing private sector Deposit Certificates in BEVSA (the public sector carries out its own issues out of the stock level). Government securities transactions prevail in the secondary market.

There also are regulations on different mechanisms to facilitate the access to credit for the non-financial private sector, which may be channeled by the BVM, as the issuance of corporate bonds (ON for their acronym in Spanish) and trusts.

3.4 Insurance

The insurance market was demonopolized in 1994. Since then, several foreign companies started their operations in Uruguay, in competition with the State Insurance Bank (BSE for its Spanish acronyms) which has led to a diversification of the products offered in the market and a reduction of insurance policies' prices.

The installation and operation of insurance and reinsurance companies in Uruguay are under control of the BCU. Reinsurance companies have no obligation to install in Uruguay to operate.

3.5 International financial center

Uruguay's current conditions of capital income and outflow freedom, inexistence of exchange control and the existent tax advantages, turn it into an attractive international financial center.

The exchange market is very active, especially for USD operations with non-residents, particularly with Argentina and Brazil.

3.6 Financing of companies

Both branches and local companies can be financed with local Banks, with foreign loans, with their headquarters or shareholders. Tax treatment differs in each case, so careful tax planning is convenient.

4. Intellectual rights, trademarks and patents.

Main features
<ul style="list-style-type: none">➤ Protection of copyrights, trademarks and patents is specifically regulated.➤ The foreign investor may enforce the rights registered in the country of origin, under certain circumstances.

Copyrights

Under the Law of Literary and Artistic Property, copyrights protection in Uruguay comprises literary, scientific and artistic works during a given period. Within this period, the author or the purchaser of the copyrights has certain exclusive rights upon the registered work, which is protected against non-authorized use or the violation of the acquired rights.

Copyright protection is valid during the author's life and for an additional term of forty years as from his decease. If the work is not published, represented, executed or exhibited within ten years as from the date of the author's decease, the work turns into public domain and can be freely used. The rights acquired by legal entities are protected for a term of forty years.

Foreign works are also considered under legal protection, but in these cases, the compliance with the correspondent legislation from the country of origin must be certified.

The works protected by copyright are inscribed in the registry of the National Library's Copyright Office. Such inscription is optional and its omission does not cause any detriment to the enjoyment and exercise of the rights recognized by the Law of Literary and Artistic Property.

Our country has ratified the Berne Convention for the Protection of Literary and Artistic Works, in virtue of which the authors of a signatory country who publish their works in Uruguay enjoy the same rights as those granted to national authors.

The regulations described above are applicable to software and creative work in electronics and informatics coming from foreign countries.

Trademarks

Trademark is every sign with the capacity to distinguish products or services of a natural or legal person from others. These signs may be both visible or non-visible, also considering slogans. It is necessary to register them in the National Directorate of Industrial Property (DNPI for its Spanish acronyms) in order to acquire the exclusive right for their utilization, as well as for the protection granted to the registrant during a term of 10 years renewable for successive 10-year terms indefinitely.

The exclusive property of a trademark is only acquired regarding the products for which it was requested; therefore, a trademark may be used by third parties if it is related to other products.

Trademarks' property may be granted to third parties through private agreements or deeds, but it is always convenient to register the transfer on the DNPI in order to obtain protection against the acquired rights' violation.

Trademarks' use can also be granted through a license agreement, which is inscribed on the Trademarks License Registry, which will be in charge of the DNPI. Except for an express agreement to the contrary, it is assumed that a business establishment's transfer or sale includes its trademarks.

Patents

Industrial patents is the name given to the set of institutes that protect the rights that emanate from inventions, creation of utility models and creation of designs or industrial models.

Patents obtained in Uruguay grant to their holders the exclusive use right during a renewable period of twenty years; so if that period passes by, the invention becomes of public domain. Patents are new product inventions or inventions of procedures that involve an inventive activity and are susceptible of industrial appreciation. If the holder does not use the patent within the first three years as from its registration date, he can be compelled to give up the rights, exclusively or not, to an interested third party. The three-year term may be extended to five, if non-use of the patent is due to circumstances not attributable to the holders' will.

Utility models (any new disposition obtained from tools, working instruments, utensils, gadgets, devices, equipment or other known objects, that provide a better utilization or result in the function to which they are intended for) and industrial models or designs (visible form which incorporated to a utilitarian product, gives it a different aspect or appearance) once patented, grant to their holder the exclusive use right for a period of ten years, renewable only once for five years.

For the purposes of enforcing the mentioned exclusive use rights, inventions, utility models and industrial models or designs against third parties, they must be registered on the DNPI.

The Paris Convention for the Protection of Industrial Property, ratified by Uruguay, grants a priority right upon an invention, a utility model or industrial model registered in one of the signatory countries of the Convention, to the people from these countries, regarding requests submitted by other people for the utilization of the same in Uruguay.

For the purposes of enforcing such right, the registration on the DNPI must be done within the correspondent term as appropriate (twelve months for patents and utility models and six months for industrial models or designs and trademarks). The registration is computed from the inscription on the country of origin.

Beyond these special provisions, foreign patent holders or legitimate claimants may obtain the revalidation of the same in Uruguay, by means of a request submitted to the DNPI within three years after they were granted in the country of origin. Revalidated patents are protected for a fifteen-year term, minus the protection term enjoyed in the country of origin. The nullity of the foreign patent implies the nullity of the revalidation patent, but not so with the expiration terms of each patent, which are independent.

Chapter 3: Investment and foreign trade promotion scheme

1. Investment general scheme

Main features
<ul style="list-style-type: none">➤ By statute, investment in Uruguay is declared of national interest.➤ The foreign investor enjoys the same incentives than the local investor; there is no discrimination from a tax perspective and there are no restrictions to transfer profits abroad.➤ Existence of general and automatic investment incentives.➤ Projects promoted by the Executive Power may have special tax benefits.➤ Companies installed in Tax-free Zones have broad tax exemptions.

1.1 Investment Promotion Law

The investment promotion scheme is framed in Law Nº 16.906, which declares the promotion and protection of investments made by national and foreign investors in the national territory of national interest.

This Law classifies tax stimulus in two groups: those of general disposition for investments and those regarding specific investments.

1.1.1 General disposition investment incentives

The beneficiaries of these tax incentives are all taxpayers to the Corporate Income Tax (IRAE) and to the Tax on Disposals of Agricultural Goods (IMEBA for its Spanish acronyms), who perform industrial or agricultural activities.

The Investment Law establishes the conferral of the following automatic benefits:

- Exemption of the Wealth Tax (IP) to all personal property directly destined to the productive cycle and to the equipment for electronic data processing.
- Exemption of the Value Added Tax (IVA) and the Excise Tax (IMESI for its Spanish acronyms) correspondent to imports and the refund of the IVA included in purchases in the market of personal property destined to the productive cycle and equipment for electronic data processing.

Additionally, the Executive Power has the capability of exonerating the following fixed assets from the IP:

- Fixed improvements with impact on industrial and agricultural activities.
- Intangible assets like trademarks, patents, industrial models, privileges, copyrights, goodwill, trade names and concessions granted for the prospection, growth, extraction and exploitation of natural resources.
- Other assets, procedures, inventions or creations that incorporate technological innovation and involve technology transfer.

1.1.2 Motivation regarding specific investments

Those companies from **any sector** that present an investment project promoted by the Executive Power, will have the possibility to obtain additional benefits. These incentives are considered in the new investment promotion scheme regulation (Decree Nº 455/007) and the General Operation Criteria defined by the Application Commission (COMAP for its Spanish acronyms).

Projects' classification

According to Decree 455/007 the eligible investment for the purposes of obtaining benefits comprises the acquisition of the following goods destined to integrate the fixed asset:

- Personal property directly destined to the company's activity (excluding non-utilitarian vehicles and personal property destined to the household).
- Fixed improvements (excluding those destined to the household).
- Intangible assets, established by the Executive Power.

Likewise, past investments made in the company's fiscal year in which the project is presented and those made in the 6 months previous to the request's presentation date, are considered eligible. In order to determine the exemption of the IRAE, firstly the project must be classified according to the investment's amount in Indexed Units (UI for their Spanish acronyms), as presented below:

	Million Indexed Units	Million dollars*
Small projects	Up to 3.5	Up to 0.3
Medium projects	Tranche 1 Between 3.5 and 14	Between 0.3 and 1.2
Tranche 2	Between 14 and 70	Between 1.2 and 6
Big projects	Tranche 1 Between 70 and 140	Between 6 and 12
Tranche 2	Between 140 and 500	Between 12 and 43
Tranche 3	Between 500 and 7,000	Between 43 and 605
Projects of great economic significance	More than 7,000	More than 605
(*) Approximate amounts that vary according to the dollar's and UI's quote		

Benefits

The **benefits** to which the companies whose investments are promoted by the Executive Power can have access to, are the following:

- Wealth Tax (IP)
 - Fixed asset personal property: Exemption of IP on fixed asset personal property that can not be exempted under other benefits. The term of the exemption is extended for all these assets' life cycle.
 - Civil works: IP exemption on civil works for up to 8 years if the project is located in Montevideo and 10 years if it is located in the provinces.
- Imports' tariffs or taxes
 - Exemption of tariffs or taxes to imports of fixed asset personal properties that cannot be exempted under the benefits of previous schemes, declared non-competitive of the national industry.
- VAT
 - VAT refund under exporters scheme, for the acquisition in the market (duly documented) of materials and services destined to civil works.
- Fees and salaries in technological developments of priority areas.
 - The amounts corresponding to fees and salaries in the project's scientific and technological developments in priority areas that establish the conditions set in articles 49, 52 and 55 of Decree 150/007, compute for one and a half for the liquidation of the IRAE, with a maximum equal to the amount of this tax without the benefit of the exemption for investments foreseen in this scheme.
- Corporate Tax (IRAE)

Exemption of the IRAE for a maximum amount and term that will result of applying the objectives' and indicators' matrix according to the type and tranche where the project is located. The term will be computed as from the accounting year where taxable income is obtained, including the latter in such calculation, provided that four accounting years have not yet passed from the promotional declaration. In this case, the referred maximum term will be increased by four years and will be computed from the accounting year in which the mentioned declaration was dictated.

Project	Exemption of IRAE (% of investment)
Small	51% - 60%
Medium – S1	Up to 70%
Medium – S2	Up to 80%
Big – S1	Up to 90%
Big – S2	Up to 90%
Big – S3	Up to 100%
Of great significance	Up to 100%

Regarding the exemption amount, the same rests on the payable tax and not on the taxable income. The exempted tax will be equivalent to a percentage of the amount effectively invested in the fixed or intangible assets comprised on the promotional declaration.

The conferral of the benefit for IRAE exemption is dependent on the score obtained in the objectives' and indicators' matrix developed by the COMAP, based on information provided by the investor. The indicators that comprise these projects' matrix are:

- Employment generation
- Decentralization
- Exports increase
- Increase of the national added value
- Utilization of cleaner technologies
- Increase of research and development
- Impact of the project on economy

Each indicator is computed as an integer from 0 to 10 points, obtaining the final matrix score as the weighted sum of each indicator (in the case of small projects for the calculation of the IRAE exemption benefit, a single indicator is reported, according to the investor's election among employment generation, foreign currency, cleaner production and research and development). In order to calculate the granted exemption score and term, the examiners vary according to the project's classification.

Procedure for obtaining benefits

The request is submitted to the Private Sector's Support Unit of the Ministry of Economy and Finance in four copies for the case of companies of the industrial sector and two copies for trade and services sectors, with all the information required by the COMAP.

The investment project is sent to the COMAP, which will determine to which Ministry and organism the assessment will correspond, according to the project's nature and the corresponding activity. Once the project has been evaluated by the corresponding Ministry, the COMAP establishes the recommendations regarding the case in question.

The term of evaluation as from the moment in which the project enters the COMAP is variable according to its classification. The terms the COMAP has to issue the evaluation are of 30, 45 or 60 business days for small, medium and big projects respectively (renewable in case of an information request).

In case the terms expire without any issuance from the COMAP, it will be understood that the organism is recommending the Executive Power the conferral of the benefits established in its instructions, for the project under analysis.

Once the COMAP has issued the evaluation (or when there is tacit approval), an undetermined period passes by for the Executive Power to sign the Resolution, granting the benefits to the company. Nevertheless, the company may already make use of the benefit.

After the investment project has been promoted, the COMAP will carry out its follow up, for which the company will submit the accounting statements with audit report (all projects) and an additional affidavit with information for the analysis of the compliance with the indicators for the application of the benefits.

1.2 General and automatic incentives

Incentives to research and scientific and technological development

The expenses directly incurred by the companies or the contributions made by them to public or private institutions to finance research and scientific and technological development projects, may be computed for one and a half its real amount for the IRAE. For such purposes, a request shall be submitted to the Application Commission (COMAP) created by Law 16.906.

Exemption of profits' reinvestment

The companies investing in certain assets may benefit with an exemption regarding the IRAE, of a percentage of the assets' cost.

Such percentage may be of up to 40% in the acquisition of industrial machines and facilities, agricultural machines, fixed improvements in the agricultural sector, utilitarian vehicles, personal property for hotels', motels' and hostels' equipment and re-equipment, capital goods destined to improving services' delivery for tourists in entertainment, recreation, information and transportation, necessary equipment for electronic data processing and for communications, phosphate fertilizers destined to the installation and refertilization of permanent grassland (previous certification of its destination), etc.

The percentage is 20% regarding the construction of hotels, motels and hostels and the construction of industrial buildings or their extension.

Incomes exempted for the application of this benefit shall not exceed 40% of the net income of the accounting year after deducting other exemptions for special schemes (should there be a surplus it may be dragged up to the two following accounting years) and they shall not be distributed, being compulsory to create a title hold whose final destination is capitalization.

Exemption to plant and industrial equipment investments

Personal property of the industrial equipment directly related to the productive cycle compute for 50% of their tax value for Wealth Tax (IP).

Moreover, capital goods directly used in the productive cycle and equipment used for data processing are exempt from such tax.

Real estate destined to agricultural exploitation, excluding improvements, are assets also exempt from IP.

Incentives to personnel training

Expenses destined to personnel training in areas considered priority may be deducted regarding the Corporate Income Tax (IRAE) for one and a half its real value.⁷.

1.3 Promotion of the tourism industry

Under the Industrial Promotion Law, the Executive Power declared the investments in Resorts of national interest (Decree 175/003), granting the same, several tax benefits besides those established by the Industrial Promotion Law and the Investments Law.

- Credit for the IVA included in market purchases of goods and services destined to the construction, improvement or extension of Resorts, as well as exemption of the IVA to imports of goods with the same destination.
- Exemption of the Wealth Tax at the accounting year's closure of the work's initiation and the subsequent 10 years on investments on land, infrastructure and Resorts' civil works, its improvements and extensions.
- Exemption of the Wealth Tax on Resorts' equipment at the accounting year's closure of their incorporation and for four subsequent years.
- Exemption of taxes to imports of the Resort's necessary equipment.
- Accelerated depreciation regarding the Corporate Income Tax of construction, improvement and extension of resorts in a period of 15 years and the investments in equipment in a period of 5 years.

Applicable regime

In order to have access to these benefits, an investment project shall be submitted. It is also possible to do it under the general regime established by Decree 455/007, already mentioned.

1.4 Forestry law and citrus

Forests grown in forest priority areas, as well as on occupied land related to them, are covered by broad tax exemptions of national and departmental scope.

⁷ Currently, the regulation of the Executive Power establishing the areas defined as having priority is pending.

Artificial, protective, performance and natural protective forests, qualified according to the requirements established by the Forest Law are included in this regime.

Citrus forests enjoy the same exemptions, with exception of those applicable in relation to the Income Tax.

Benefits

Imports taxes: raw materials' imports for the following are exempted: national production wood processing, equipment, machinery, utilitarian vehicles and tools required for the installation and operation.

Corporate Income Tax: the income obtained by the exploitation of forests is exempted. In the case of new plantations, the benefit is subject to certain additional conditions established by law (basically qualifying within the quality wood projects defined by the Ministry of Agriculture and Fishing).

Wealth Tax forests, as well as the land occupied by them are exempt from the Wealth Tax. They are also exempt from the property tax.

Applicable regime

In order to access to these benefits, a forests plantation and management project shall be submitted, which shall be approved by the Forestry Directorate.

1.5 Other promotional schemes

Hydrocarbons' exploitation

All activities related to hydrocarbons, including the phases of exploration, exploitation, transport and commercialization are exempt from all taxes or encumbrances of any nature, created or to be created in the future.

Companies contracting hydrocarbons' exploration and exploitation work only pay the income tax.

Biofuels production

Companies producing biodiesel and ethanol with an authorization from the Ministry of Industry, Energy and Mining, may access to an exemption of the Wealth Tax on fixed assets, as well as to a 100% exemption of the Corporate Income Tax (IRAE) for a period of 10 years.

Software (logical support)

According to the provisions of Decree Nº 150/007, incomes derived from the activity of logical support production are exempted from IRAE. Such exemption will be valid for accounting years ended up to 31st December 2009, and during year 2010 the exemption will be of 50%.

Vehicles or auto-parts

Companies producing vehicles or auto-parts for export have tariff benefits for automotive vehicles' imports destined to the domestic market, proportionally to the exports amount⁸. Among the products considered apt to be included in the benefits are auto-parts produced in the country from

⁸ In case the exporting-importing company is not the same, the exporting company may transfer the benefit to another vehicle importing company by means of an agreement.

national or imported raw material and finished or semi-finished vehicles assembled in the country from imported kits

Printing industry

The activities of printing and sale of books, brochures, literary, scientific and artistic magazines, and educational material enjoy tax exemptions, with exception of the income tax.

Shipbuilding industry

Import of materials, raw materials, capital goods and in general everything needed for the construction of shipyards, dry docks and dams, as well as for ship construction, recovery, transformation or modification are exempt from all taxes, even IVA.

Likewise, according to Decree N° 58/009, the shipbuilding industry (ship and water transport vehicles' construction, maintenance and repair, production of sub-groups and groups for ship and water transport vehicles) was promoted with the support of Law N° 16.906, which implies the exemption of IRAE (in decreasing tranches until year 2018) under the condition of creating at least 150 direct skilled jobs and the implementation of a supplier development program.

Communications industry

Newspaper, broadcasting, TV, theater, and film exhibitor and distributor companies. These companies are exempted from the taxes on their imports, capital, sales, entries, acts and transactions, with the exclusion of the income tax.

Electronics industry

Together with the shipbuilding industry, the electronics industry (production of electronic and electric equipment, logic controls, computers, telecommunication equipments, measurement tools, medical equipment, electrical appliances) was also promoted by the support of Law N° 16.906, which implies the exemption of the IRAE (in decreasing tranches until year 2018) under the condition of creating at least 150 direct skilled jobs and the implementation of a Supplier Development Program.

Contact centers

The activity developed by contact centers (delivery of services carried out by tele-operators who receive or make telephone calls, send or receive Internet and other channel messages) was promoted by Law N° 16.906, which implies the exemption of the IRAE under the condition of creating at least 150 direct skilled jobs and that the services are fully exploited abroad by non-residents.

Maritime or air navigation companies

Maritime or air navigation companies are exempt from the income tax. In the case of foreign companies, the exemption will be valid as long as similar Uruguayan companies enjoy the same exemption in their countries of origin.

Incentives to foreigners' immigration

The favorable policy towards foreign investment is also translated in incentives to foreigners' immigration, as well as of Uruguayan citizens who lived abroad for 3 years and settle in the country entering capital to be invested in activities that contribute to the economic, social or cultural

development. Under certain conditions, the introduction of capital goods made for these purposes is exempt from tariffs, as well as personal property, household furniture and appliances.

1.6 International financial center

External financial intermediation institutions

Financial companies with the exclusive object of performing financial intermediation operations abroad are exempted from certain national taxes (for example the Wealth Tax) and are subject to a tacit IRAE assessment regime (similar to the applicable to companies developing offshore trading activities).

Investment Financial Corporations

Investment Financial Corporations (SAFIs for their Spanish acronyms) are a special type of corporation, whose main object is to invest abroad in securities, real estate or perform trade activities abroad on their own behalf or on behalf of third parties or for third parties.

These societies, whose only asset in the country is constituted by shares of other societies of the same type, by balances in bank accounts of less than 10% of the total assets or by government securities, are subject to a single tax of 0.3% on their capital and title hold, except for the taxation on social security⁹.

1.7 Tax-free Zones

The promotion and development of Tax-free Zones, aiming at boosting investments, exports, employment and international economic integration, have been declared of national interest by law.

Tax-free Zones may be public or private, being authorized and controlled by the Tax-free Zones National Directorate in both cases. Currently there are Tax-free Zones in the cities of Canelones, Colonia, Nueva Palmira, Montevideo, Libertad, Florida, Rivera, Río Negro and Nueva Helvecia.

Tax-free Zones are basically conceived in order to develop the following activities:

1. Commercialization, storage, retrofitting, classification, segmentation, mixture, assembly, disassembly and other operations that do not imply merchandise and raw materials industrialization.
2. Installation and operation of manufacturing establishments.
3. Delivery of all types of services, both within the free-tax zone as well as from it to third party countries, including professional, financial, informatics, reparation and maintenance services.

The users of free-tax zones may also render the following services to the non tax-free territory: electronic mails; distance education; issuance of electronic signature certificates and international call centers, except for the cases in which the same have as single or main destination the national territory.

⁹ It should be highlighted that the creation of new SAFIs was prohibited from 1st July 2007 and the special tax regime enjoyed by these societies will stop being valid as of 1st January 2011, fitting the general taxation regime.

Likewise, they may develop logical support production services, IT consulting and training from the free-tax zone to the non free-tax territory (although in that case such activities will be subject to the general taxation regime).

Corporations operating as Tax-free Zones users enjoy the following benefits:

- Exemption of all national taxes, including the Corporate Income Tax (IRAE). The payment of dividends by the Tax-free zone user to its shareholders living abroad is not subject to tax withholdings in Uruguay.
- The exemption does not include social security taxation, except for foreign personnel who may choose not to contribute.
- A minimum of 75% of the personnel must be Uruguayan citizens.
- Payment of royalties, interests, technical services and dividends made to foreign countries by free-tax zone users is not assessed by IRNR withholdings.
- Goods' entry and exit to the free-tax zone is exempt of all taxes.

It is also worth mentioning that any State monopolies of industrial and commercial domain services do not apply in Tax-free Zones.

The introduction of goods in Tax-free Zones from the national non free-tax territories is considered as exports. The exit of goods from Tax-free Zones is exempt from all taxes and if goods are introduced in the non free-tax national territory they are considered as imports, for which they have to pay the corresponding tariffs.

Likewise, the goods coming from Tax-free Zones entering third party countries will pay the corresponding tariffs. In the special case of MERCOSUR, they are subject to the common external tariff valid for goods entering from outside the area of MERCOSUR. This tariff treatment has reduced the advantages of the Tax-free Zones' industrialized products in comparison with industrialized products of the non free-tax national territory for the purposes of their introduction to the MERCOSUR countries.

Nevertheless, the broad exemption of which companies operating in Tax-free Zones enjoy is still a significant advantage for the investor, which will have to be evaluated in each case.

2. Foreign trade

Main features
<ul style="list-style-type: none">➤ The Uruguayan economy is free and open, with no restrictions to imports and exports. The exchange market is free without restrictions to foreign trade operations.➤ Uruguay constitutes a Customs Union with Argentina, Brazil and Paraguay¹⁰. MERCOSUR has also signed free trade agreements with other countries.➤ There are Tax-free Zone and Free Port regimes that allow having tax free storage spaces, to export to Uruguay or re-export to third party countries.➤ Imports tariffs vary between 0% and 20% for goods coming from outside the MERCOSUR.➤ There are Temporary Admission and Draw Back regimes that allow importing inputs for exports industry without tariffs payment or with their refund.➤ There are no exports encumbrances¹¹ and the incidence of indirect taxes is eliminated, by means of refund regimes.

2.1 Imports

Imports restrictions

In our country there is import freedom of any type of goods¹², imports of certain products are subject to the compliance with security, phitosanitary and other controls, not different from those with which the investor is familiar with from his country of origin.

Documentation

Imported goods shall be accompanied with documentation commonly used in foreign goods' trade: commercial invoice, bill of lading, origin certificate, etc.

The mentioned documentation is prepared following the MERCOSUR's Common Nomenclature, adjusted to the Amendment of the Harmonized Goods Description and Coding System.

¹⁰ Although Venezuela applied to MERCOSUR in 2006, its accession is dependent on the acceptance of all member countries.

¹¹ Except for a 5% detraction on dried and salted bovine and ovine leather, leather and removed flesh, leather picklings and wet-blue.

¹² Except for imports of used motorcycles and cycles, bodies and chassis and certain used vehicles, which have been recursively banned for 180 day periods by means of successive decrees.

Imports are channeled on national customs. The participation of a Foreign Trade Agent is mandatory for the purposes of their transaction.

Tariffs

In tariff matters, Uruguay has made a considerable effort to reduce tariff levels, which reached its highest point with the formation of the Southern Common Market (MERCOSUR).

Currently, the implicit tariff (quotient between the collection of tariffs and imports) is approximately 4%.

In principle, goods entering the country from countries which are not members of MERCOSUR - integrated by Argentina, Brazil, Uruguay and Paraguay – are subject to the payment of a Common External Tariff (AEC) which varies between 0% and 20%. There is, nevertheless, an Exception Regime to such AEC, which consists of a list of products whose entry in the region does not pay AEC, but the tariff valid in each country. In the case of Uruguay, the overall tariff rate is applied, which comprises the Imports Single Customs Tax and the Imports Surcharge, which varies from 0% to 23%.

In the case of goods coming from MERCOSUR member countries, their entry into the country is in general tariff-free, except for goods included in the Adequacy Regime, the Sugar Sector products and the Automotive Sector products, which still pay the import tariffs valid in the country. The Adequacy Regime foresees a progressive reduction of tariffs in order to reach the free movement of goods between member countries.

Tariffs are applied on the imported products' customs value, determined according to the valuation criteria established by the World Trade Organization.

There are tariff exemption regimes for certain goods or sectors, among which the industrial sector's capital goods, those destined to the hotel sector and the forest activity stand out.

Origin

The origin requirement adopted by the MERCOSUR for products in whose manufacturing, non-originating inputs are used, establishes that the inputs and the final product shall be classified in different tariff positions, or that the CIF value of the non-originating inputs does not exceed 40% of the resulting product's FOB value.

Other imports taxes

Besides the payment of tariffs, imports are subject to the IVA to the 22% rate applicable to the customs value plus the import surcharges corresponding to the operation.

2.2 Exports

Uruguay has an exports promotion policy through instruments of different nature and scope, all of which satisfactorily comply with the regulations of the WTO's Subsidy Code.

The basic principle is exports freedom, without encumbrances or bans. In exceptional cases, the export of some products derived from the agricultural sector is subject to the payment of taxes and non-tax benefits destined to comptroller agencies, as the case of the Uruguayan Wool Secretariat and the National Meat Institute, whose incidence is not significant.

Tax returns

Regarding the IVA, there is a special regime in virtue of which exports are exempt from its payment, foreseeing a mechanism that enables the exporter to retrieve the tax added in his purchase invoices, thus avoiding that such tax influences the cost of the product to be exported.

Likewise, there is a return regime of indirect taxes, in virtue of which the exporter may retrieve the internal taxes that are part of the exported product's cost, determining the corresponding amount to be returned as a percentage of its FOB value fixed by the Executive Power.

Temporary admission

The import of inputs for the exports industry is subject to a regime that allows importing without the payment of tariffs.

The manufacturing companies may enter tariff-free the raw materials, parts, pieces, engines, packs and packaging material, matrixes, molds and models, semi-elaborated and intermediary products, agricultural products and products to be consumed in the productive process without being incorporated to the finished product, but directly interfering in the production and in contact with the product to export.

A previous authorization shall be obtained and the final products shall be exported within a term of 18 months (upon duly justified request of the company, the mentioned term may be renewed by the Executive Power for 18 additional months). In some cases the definite introduction of the goods may be authorized.

Draw-back

For certain products, this regime allows the refund of the tariffs paid when importing, on occasion of their re-exportation, whether they are reexported after being industrialized or in the same condition.

Financing

There is an exports financing regime that enables exporters to have access to the credit with preferential rates, obtaining loans in dollars from the private financial system, depositing 10% or 30% of such funds in the Central Bank.

Free port and port deposits

As from the Ports Law Nº 16.246 of May 1992 - and its subsequent regulations – Montevideo is the first terminal of South America's Atlantic coast operating under a "Free Port" regime. This regime is also applied to the trading ports of Fray Bentos, Nueva Palmira, Colonia, Sauce and La Paloma.

The free port regime implies the free movement of goods in the Republic's ports and port terminals with capacity of receiving overseas ships, without the need of authorizations and formal procedures. During their permanence in the port's customs enclosure, the goods are exempt from all taxes and surcharges applicable to imports or generated on occasion of the same.

Apart from the mentioned customs benefits, the movement of goods and delivery of services carried out in the port customs enclosures are exempt from the application of the IVA. Likewise, the goods deposited under the free port regime are not included in the taxable base of the Wealth Tax.

The Free Port regime constitutes one of the pillars for Uruguay to position as a logistics platform in the Mercosur and a distribution center for goods in transit.

Chapter 4: Business forms

Main features
<ul style="list-style-type: none">➤ The foreign investor may select any business organization form. The most commonly used are the Corporations and branches of foreign legal entities.➤ A Corporation may have a single shareholder while personal societies must have at least two.➤ There are no previous requirements or necessary permits for a foreign investor.➤ There are no restrictions for capital or profit repatriation.➤ Although formation procedures may be complex, there are pre-established corporations which can be acquired and enable an immediate start.

The Uruguayan positive Law gathers practically all society types existent in the world, being possible to constitute a new legal entity as well as to set up a branch of a foreign society.

In the case of constituting a new legal entity, the most commonly used society types are the following:

- Corporations (whose capital may be represented by nominative shares or bearer shares)
- Limited Liability Companies

Other less used society types are:

- Partnerships
- Limited partnerships
- Capital and industry companies
- De facto partnerships
- Cooperatives

Consortia and Economic Interest Groups (GIE) may also be organized, and in case of individual ventures, sole proprietorships.

All the mentioned society types and GIE have legal personality.

Consortia and sole proprietorships do not have legal personality.

1. Corporations

The Corporation with bearer's shares (S.A for its Spanish acronyms) is the most used society type for the development of trade or industrial activities in general, and almost invariably is the one employed by big companies. The law also foresees the existence of special SA whose object is the development of certain activities, with formation and operation requirements differing from those established by common SA.

Main aspects of the common SA to be considered by the investor	
Line of business:	Without operative limitations of any kind; in general it is enabled to develop any type of activity. In order to perform some activities it requires the attainment of a previous government's authorization, for example banking activity.
Responsibility:	Investors' responsibility regarding shareholders, is limited to the amount of capital they pledged to contribute.
Capital:	There are no capital maximums or minimums. The only demand for SA's capital is that it must be expressed in national currency. There are exceptions (for example, in Investment Corporations, the capital may be expressed in foreign currency).
Personal commitment:	Since it is a capital company the society's persons are completely dissociated.
Anonymity:	Shares may be issued as nominative or bearer's shares, except for financial, insurance and agricultural activities, where they must be nominative.
Profits:	They are distributed proportionally to the contributed capital. It is compulsory to distribute a minimal dividend to shareholders of at least 20% of the accounting year's net profits.
Transfer:	Bearer's shares are transferred by simple delivery and nominative shares must be endorsed and their transfer must be communicated to society.
Other:	<p>After its formation, the SA may have a single registered shareholder of its entire capital.</p> <p>The investor may finance the SA by means of loans under conditions similar to those of an independent third party.</p> <p>There are two types of corporations:</p> <ul style="list-style-type: none">- Open: Basically those that resort to public savings or go public, and- Closed: Those which are not open.

Operation

Board of Directors or Manager

The SA is governed by a Board of Directors or a Manager, according to what the Statute or the Shareholders' Meeting determine. The Manager or directors may be legal, national or foreign persons, and be settled abroad. During the term in which the society acts "in formation" they are responsible in a solidary and unlimited way.

Shareholders' Meeting

The Shareholders' Meeting is the SA's sovereign body. It is necessary to carry out an annual Regular Assembly to consider the advance of social businesses, the Board of Directors' performance and approve the accounting year's accounting statements. In order to consider other issues from those handled by the Regular Assembly it is necessary to call an Extraordinary Assembly. Assemblies shall be held in the national territory. Shareholders' Assemblies decide generally by absolute majority of the present shareholders' votes, unless the Social Statute or the Law dispose otherwise. The Commercial Companies Law establishes the following exceptions to the principle that the Shareholders' Assembly decides by an absolute majority of the present shareholders' votes: advantages and conditions of shares' amortization and redemption; society's share in other societies; formation of voluntary title hold; society's merger, scission, transformation, prorogation or early dissolution; transfer of the society's domicile abroad; object's fundamental change; capital increase or refund (majority of integrated capital); non-payment of the compulsory minimal dividend to shareholders at the accounting year's closure (75% of the integrated capital). Shareholders may be represented by third parties in Assemblies, by means of a simple power of attorney, provided that they have specific instructions to vote.

Every Assembly shall be called by the Board of Directors or the Manager and the calling published in the Gazette and another newspaper, publication that is not needed when the Assembly is attended by shareholders who represent the total integrated capital.

Controls

SAs are subject to the control of the Internal Audit of the Nation (AIN for its Spanish acronyms) during their formation, modification of the social bye-laws or capital, dissolution, transformation, merger or demerger, but during their operation and liquidation the control is restricted to publicly-listed SAs. Tax-free Zones SAs (SAZF for their Spanish acronyms) are exempt – as the AIN only intervenes for the purposes of controlling capital subscription and integration.

2. Limited Liability Company

The Limited Liability Company (SRL) has been the most commonly used society type by small and medium companies. In virtue of the legal requirements on social capital existent until 1st July 2007, the SRL was not normally used by big companies.

Main aspects of SRLs to be considered by the investor	
Line of business:	It has no operative limitations, except for carrying out financial and insurance activities.
Responsibility:	The partners' responsibility is limited to the amount of their capital contributions. There are two exceptions to this principle, in which partners are responsible for social debts: the case of wage nature debts and debts generated by concept of the IRAE.
Capital:	There are no capital maximums or minimums.
Personal commitment:	The dissolution may be accorded in case of decease or inability of one of the partners.
Anonymity:	Social quotas representing capital are nominative.
Profits:	Profits are distributed according to the provisions of the social contract, although it is possible to use a criterion different from that of the contributed capital's proportion, as long as this is not clearly disproportionate in comparison with contributions. It is not compulsory to distribute a minimal dividend.
Transfer:	Without limitations among the partners. Transfer to third parties is subject to the approval of 75% of the partners.
Other:	<ul style="list-style-type: none"> - It may have from 2 to 50 partners, who may be legal persons without nationality restriction. - They may transitionally subsist with a single partner.

Operation

Administration

One or many persons, assigned in the social contract, administer and represent the SRL, not partners. If partners are less than 20, the partners meetings' decisions are adopted generally by partners who have the absolute majority of the social capital. If partners are 20 or more, decisions are generally adopted by the majority of votes of the present partners, corresponding one vote per capital quota.

Controls

They are not subject to AIN's control.

3. Other legal types

Following, there is a description of the basic characteristics of other society types, less used in practice.

3.1 Partnerships

Partnerships (SC for their Spanish acronyms) are characterized by the fact that their partners respond unlimitedly and in a solidary manner for the company's debts of which they are usually the managers.

The administration and representation regime will be the one established in the social contract and failing that, any of the partners may administer and represent the society.

3.2 Limited Partnership

Limited Partnerships (SC for their Spanish acronyms) are characterized by the existence of two types of partners: general and limited partners. General partners respond for the social obligations in a subsidiary, solidary and unlimited manner. On the contrary, limited partners only respond up to the amount of the contributed capital.

The society's administration and representation will be executed by the general partners or failing these by third parties assigned for those purposes.

3.3 Companies Limited by Shares

In Companies Limited by Shares (SCA for their Spanish acronyms) the limited capital is divided in shares. The general partners respond for social obligations in a subsidiary, solidary and unlimited manner and the limited partners respond only up to the amount of the contributed capital.

The administration and representation will be the responsibility of one or more administrators or of a Board of Directors according to the stipulations of the social contract. The administrators or directors may be general partners or third parties assigned by the former or in the social contract.

3.4 Capital and Industry Companies

In the Capital and Industry Companies (SCI) the special partners respond for social obligations as the partners of SCs, while those who exclusively contribute with their industry or work respond up to the concurrence with the amount of their corresponding un-paid earnings.

The administration and representation may be executed by any of the special partners.

3.5 De facto Partnerships

De facto Partnerships (SH for their Spanish acronyms) are those which lack a social contract in writing and have a similar regime than SCs (any of the partners may represent the society).

Main aspects of these types of societies to be considered by the investor

Line of business:	They have no operative limitations, except for carrying out financial and insurance activities.
Responsibility:	The partners respond in a subsidiary, solidary and unlimited manner for social obligations. Limited partners (SCSs and SCAs) only respond up to the amount of the contributed capital, and in capital and industry companies, industrial partners respond up to the amount of the un-paid earnings.
Capital:	They have no minimum or maximum capital.
Personal commitment:	The dissolution may be accorded in case of decease or inability of one of the partners.
Anonymity:	Social shares representing capital are nominative. Shares corresponding to limited Partners of SCAs may be bearer's shares.
Profits:	Profits are distributed according to the provisions of the social contract, although it is possible to use a criterion different from that of the contributed capital's proportion, as long as this is not clearly disproportionate in comparison with contributions. It is not compulsory to distribute a minimal dividend.
Transfer:	It requires the partners' unanimous consent, allowing an agreement to the contrary only for the transfer to another partner.
Other:	They may have a minimum of two partners, without a maximum top, who may be legal persons without nationality restriction. They are not subject to the control of the Internal Audit of the Nation (AIN).

4. Cooperatives

Cooperatives are special companies whose most characteristic feature is that profits are not distributed among the partners proportionally to their contributions, but according to the work performed by each one of them or the number of operations they carry out.

Without detriment of the general regulation, there are special rules for agricultural, housing, savings and credit and production and consumption cooperatives.

Main aspects of cooperatives to be considered by the investor

Line of business:	It has no operative limitations although they must exclusively have cooperative aims.
Responsibility:	The partners' responsibility is limited to the amount of the capital contributions.
Capital:	The capital increases or diminishes according to the associates' admission or withdrawal. There is no maximum or minimum capital top.
Personal commitment:	Unlike the other types of societies, the system called "open doors" governs, by which the partners may access or retire from the cooperative whenever they consider it appropriate. Each partner has the right of a vote, whichever the number of social shares or quotas he possesses. In case of dissolution, the partner receives as a refund the amount of the contribution he made. The society bye-laws must set the destination that will be given to the society's balance.
Profits:	The profits obtained are not distributed proportionally to the value of the contributions, but they are distributed according to the work or number of operations carried out by each partner. Only a maximum of 80% of the profits will be distributed among the partners. Necessarily, 15% will be destined to the formation of a reserve fund until it equals the capital, being reduced to 10% as from that moment and being terminated when the capital is tripled.
Anonymity, transfer:	Quotas are nominative and indivisible and they cannot be transferred except to the persons who have the qualities established by the statutes to be partners and with the Board of Directors' approval. Their representation is not authorized in negotiable securities. A quota's transfer is made by the assignment of non-endorsable credits.
Other:	They shall not have the propaganda of ideas as a main or secondary aim. It is prohibited to establish in the statutes the association of the candidates with religious, ethnic, nationality, political parties and other types of organizations, as an admission condition to the cooperative. The contract shall be registered in the Public and General Trade Registry. In all cases it is required to obtain a government's authorization.

5. Sole proprietorships

The business venture may be carried out individually without forming a society. This is the case of the sole proprietorships, which do not have legal personality.

The firm's holder responds personally and unlimitedly for its bonds.

Main aspects of sole proprietorships to be considered by the investor

Line of business:	It has no operative limitations, except for carrying out financial and insurance activities.
Responsibility:	The sole manager responds personally and unlimitedly for social obligations.
Capital:	They have no minimum or maximum capital.
Personal commitment, anonymity, profits:	There is a total identity between the person and the firm, and the person owns the firm and its profits.
Transfer:	The sole proprietorship's ownership cannot be transferred; the firm's assets and liabilities must be transferred.

The firm shall be registered in the General Tax Directorate (DGI for its Spanish acronym), Social Security Bank (BPS for its Spanish acronym), Ministry of Labor and Social Security (MTSS for its Spanish acronym) and in case of contracting personnel, in state-owned insurance institute BSE. They are not subject to AIN's control.

6. Consortia and Economic Interest Groups

Main aspects of consortia and economic interest groups to be considered by the investor

Line of business:	They cannot deviate from the specific aim for which they were constituted.
Responsibility:	<p>In Consortia, each member is responsible for his own bonds, without solidarity, except for an agreement to the contrary.</p> <p>In Economic Interest groups members are responsible in a subsidiary and solidary manner.</p>
Capital:	They have no minimum or maximum capital.
Personal commitment, anonymity, profits, transfer:	They are directly associated with their members and they are not destined to obtain and distribute profits.

Consortia

They are constituted by means of a contract between two or more natural or legal persons (typically between two or more companies) which are temporarily linked to carry out a work, deliver a service or provide certain goods. They are not destined to obtain and distribute profits, but to regulate the parties' activities. They have to legal personality.

The contract is registered in the National Trade Registry and an extract is published in the Gazette and another newspaper.

The members develop the activities according to what is stipulated in the contract, each of them responding for the obligations assumed, without solidarity, except for an agreement to the contrary.

Consortia are not destined to obtain and distribute profits among the members but to regulate the activities of each one of them. However, if an income is generated, it will be assessed by the IRAE and its distribution will be assessed by the IRAE, IRPF or IRNR accordingly.

Economic Interest Groups

They are constituted by means of a contract between two or more natural or legal persons, with the objective of facilitating or developing their members' economic activity or improve or increase that activity's outcomes. By itself, the Economic Interest Group (GIE) does not result in obtaining or distributing profits among its associates and it can be constituted without capital. They enjoy legal personality.

GIEs are constituted by means of a contract that is registered in the National Trade Registry. The object, administration form and other characteristics may be agreed upon freely between the parties.

In case the GIEs generate an income, it will be assessed with the IRAE.

The Joint Venture (JV) is not foreseen as an association specific form; therefore, it may adopt, in principle, any of the society types considered previously. However, a JV may constitute a GIE in order to operate easily.

7. Branch of foreign company

Companies constituted abroad may hold private events in the country and appear in trial, but in order to habitually execute the activities foreseen in their social objective, they shall install a branch.

When the foreign company decides the establishment of the branch in Uruguay, it shall assign the person or persons who will manage or represent it.

Main aspects of branches to be considered by the investor

Line of business:	Even though they have no operative limitations, they maintain the Headquarter's line of business.
Responsibility:	The foreign Company's Headquarters, whose equity is inseparable from the branch's, is responsible for the branch's bonds.
Capital:	There are no capital maximums or minimums.
Personal commitment, anonymity, profits:	Since Branches are Foreign Companies, these aspects will depend on the regime applicable at the company headquarters.
Transfer:	Their capital is not represented by shares or quotas that may be transferred. The company operating as Branch can only be transferred following the legal rules that regulate the disposal of trade establishments or firms.
Other:	Like most companies constituted in the country, it shall keep the books separately in national currency and Spanish language. Branches are Foreign Companies and in consequence, they may not change by adopting another society type.

8 Special activities

For the development of certain special activities, the adoption of society types with specific characteristics is required, according to the legislation in force.

8.1 Financial activities

Within the spectrum of financial companies, the following can be highlighted: insurance companies, credit card management companies, companies of previous savings circles, investment funds companies, banks, financial houses and external financial institutions. The three last ones are the most important ones.

Banks and financial houses

Banks can carry out financial intermediation activities without restrictions, but may not deviate from that objective, while financial houses may perform loans or money placements, but they cannot receive residents' deposits or open current accounts.

Banks and financial houses shall adopt the SA or SA limited by shares forms, with nominative shares. The previous authorization of the BCU is necessary to transfer the shares. Foreign institutions may also choose to install Branches.

In order to start operating they require an authorization from the Executive Power and a habilitation from the BCU, who will then control all their activities.

They shall maintain a minimum equity fixed in 130 million (UIs)¹³ for banks and 91 million UIs¹⁴ for financial houses. Such minimum equity cannot be inferior to an established percentage of the assets that vary according to the level of activity and to the risk of the assets, based on regulations that follow the recommendations of the Basel Committee.

The law imposes these institutions to maintain the secrecy on their clients' operations.

Banks and financial houses may operate with residents and non-residents, but banks shall keep the regulatory frameworks established by the BCU on residents' deposits.

External Financial Intermediation Entities

In order to carry out financial intermediation operations exclusively with non-residents, it is possible to constitute an External Financial Intermediation entity (IFE for its Spanish acronyms) which shall adopt the form of Corporation by nominative shares or operate as a foreign company's branch.

IFEs are subject to the same requirements and controls as banks and financial houses. They shall be established in the country and deposit the sum of USD 500,000 in the Central Bank of Uruguay, or the equivalent in national government's securities nominated in foreign currency, quotable in Stock Exchanges.

They shall also keep the secrecy on their clients' operations.

IFEs present two main advantageous aspects:

- They enjoy the exemption of all taxes, except for Special Social Security Contributions (CESS for their Spanish acronyms)
- They are not bound to maintain regulatory frameworks.

8.2 Other activities

Companies may develop activities abroad, whichever the society type they have adopted and, since according to the Uruguayan tax regime only profits, operations and assets in the country are assessed, those activities are not subject to taxation in Uruguay.

However, there are special business forms that offer significant tax advantages for the development of certain activities which, based in Uruguay, are directed mainly to the foreign market.

Investment Financial Corporation

Investment Financial Corporations (SAFIs) are closed SAs with the object of performing offshore investments and trading operations, enjoying a special tax regime that can be very advantageous. This is why their utilization is well spread among foreign investors. However, as from 1st. July 2007, the creation of new SAFIs was prohibited. Likewise, the special tax regime of which these companies

¹³ USD 11 million approximately.

¹⁴ USD 7.8 million approximately.

enjoy will no longer be valid as from 1st. January 2011. They will have to adapt to the general tax regime.

Main aspects of SAFIs to be considered by the investor

- The object of these companies is to perform abroad the typical activities of portfolio companies, consisting on the diversified tendency of securities and real estate. They may also perform trade intermediation between third party countries, on their own account, or third parties' account or for third parties, without the physical movement of goods through Uruguay.
- As main limitations they shall not issue shares by public subscription or list them on the stock, perform banking, swap or capitalization operations.
- They may maintain bank accounts in foreign currency in the country.
- They are subject to a single annual tax of 0.3% on their capital, title hold and bonds at the end of the accounting year, adding the liability part and third parties' funds exceeding the double of the previous items' total.
- They may represent their capital and keep their books in foreign currency.
- They constitute a especially suitable means for the performance of international financial operations among companies of the same economic group, also operating as a financial center.

Tax-free Zone Corporation

Tax-free Zone Corporations (SAZF) are a special type of SA whose exclusive objective is to perform trade, industrial or services operations in Tax-free Zones (ZF for their Spanish acronyms), enjoying a broad tax exemption regime that includes the corporate income tax (IRAE).

Main aspects of SAZFs to be considered by the investor

- SAZFs may operate as direct users (in their own facilities) or as indirect users (in a direct user's facilities).
- SAZFs enjoy a total tax exemption, except for CESS, both direct and indirect users. Foreign personnel who waive their social benefits may be exempted from making contributions on this concept.
- The entry of goods and the services delivered in ZF are exempt from all taxes. The goods coming from non-free-tax national territory are considered exports. Likewise, the exit of goods from Tax-free Zones is exempt from all taxes and if goods are introduced in the non free-tax national territory they are considered as imports, for which they have to pay the corresponding tariffs.
- At least 75% of their personnel shall be Uruguayan, percentage that may be reduced by means of an authorization from the Executive Power.
- They are especially suitable means to develop foreign trade intermediation or mediation operations with or without physical movement of goods through the ZF, for the delivery of financial services to third party countries or users of the ZF and to deliver technical or professional consultancy services.
- Likewise, they are used as goods' warehousing and distribution centers and industrial plants are installed in their area.

Chapter 5: Accounting and auditing standards

Main features

- The companies included in the Major Contributors Division or in the Special Companies' Comptroller (CEDE for its Spanish acronyms) Group of the General Tax Directorate shall submit their accounting statements together with the IRAE and IP affidavits. If they are companies included in the CEDE Group with accounting assets exceeding 6,000 Resettable Units (approximately USD 75,000) such accounting statements shall be accompanied by a limited review report; if they are companies included in the Major Contributors Division, accounting statements shall be accompanied by an Audit report.
- Financial entities, companies with a certain debt level with the financial system, societies issuing shares or bonds in exchange and public transport companies shall submit audited accounting statements.
- Accounting and auditing principles are in line with international regulations.

Legal books

All societies shall implement the following legal books or registries, which shall be certified in the Trade Registry:

- Journal: where all the company's operations are registered.
- Book inventory: where all items comprising the company's account statement are detailed at the accounting year's closure.
- Letter book: where all mailing related to the company is copied.

SAs shall also conduct a minute book of the Board of Directors and Shareholder meetings, as well as a book for the registration of the assistance of shareholders to the meetings. **Accounting statements accompanied with a Certified Public Accountant report**

Central Bank regulations establish the submission of the accounting statements to companies indebted with the financial system according to such indebtedness' level.

- Indebtedness exceeding USD 1,605,000: audited accounting statements, including Balance Sheet, Income Statement, Statement of Stockholders' Equity, Statement of Sources and Uses and notes to the accounting statements.
- Indebtedness between USD 535,000 and USD 1,605,000: accounting statements accompanied with a limited review report, with the same referred requirements.
- Indebtedness of less than USD 535,000: accounting statements, accompanied with a compilation review.

Additionally, companies indebted with the financial system shall submit prospective information including: balance sheet, statements of income and cash flows projected from the accounting year. In case the financing is for a longer term, the projection shall also cover such period.

Companies submitting accounting statements to any government office shall present an audit report, limited review report or compilation report, according to the requirements established by each office.

Passenger public transport companies shall submit accounting statements accompanied by an audit report or limited review report depending on their assets' level.

Open companies, this is, those that list their shares on the Stock Exchange or raise funds from the public by means of the public issuance of bonds through the stock exchange, shall assign a syndic who, among other things, shall submit a position on the company's accounting statements.

Open corporations shall publish their annual accounting statements approved by their assemblies, previous review of the AIN.

Companies whose shares or bonds are listed on the stock exchange, shall submit the accounting statements of the last three accounting years and accounting statements consolidated with those of the subsidiaries of which they own most of the capital, together with a compile report.

Central Bank regulations also establish that financial institutions shall submit accounting statements audited by an independent auditor.

Auditing standards

Auditing standards generally accepted are the International Auditing Standards issued by the International Federation of Accountants (IFAC).

Accounting Standards

The adequate accounting standards of mandatory application in Uruguay are the **International Financial Reporting Standards** issued by the International Accounting Standards Board (IASB) in force to the date of publication of Decree 266/07 (31/07/07), translated into Spanish and published in the AIN's Website. For the purposes of submitting the accounting statements, the basic structure of the annex and accounting statements' models of Decree Nº 103/991 of 27th February 1991 will still be used, adapting them to the submission of comparative information required by the International Financial Reporting Standards referred to in Decree 266/07. For the purposes of developing the Statement of Cash Receipt and Disbursements, what is established in the International Accounting Standard 7 - Statement of Cash Flows, shall be applied. Notes to accounting statements shall contain, besides the disclosures required by Decree Nº 103/331 of 27th February 1991, the information required by the standards referred to in Decree 266/07.

The BCU is empowered to establish accounting standards for financial institutions.

Form and content of accounting statements

Commercial companies' accounting statements, as well as those submitted to government's bodies, besides being formulated according to adequate accounting standards, shall adjust to a uniform model.

Basic uniform accounting statements that intend to present synthetically the financial statement comprise:

- Balance Sheet
- Income Statement
- Statement of Cash Receipts and Disbursements
- Statement of Stockholders' Equity
- Notes to accounting statements

In order to clarify certain situations of the basic accounting statements by means of an appropriate discrimination, the following annex is presented:

Annex 1 – Use goods, intangibles, real estate investments and amortizations.

Book-tax differences

Tax standards establish criteria that in many cases differ from accounting standards.

The deferred tax to account in the accounting statements is calculated according to temporary differences resulting from the accounting and tax valuation of assets and liabilities at the closure of the accounting year and the income tax rate valid to that date.

Chapter 6: Tax aspects

1. Uruguayan tax regime

Main features

- The Uruguayan tax system comprises indirect and direct taxes. Indirect taxes constitute the main sources of revenue.
- The source principle governs.
- Incomes are assessed by IRAE, IRPF or IRNR, accordingly.
- There is no Estate Tax and heirlooms are not assessed by IRPF.
- Earned income and capital income of Uruguayan source obtained by resident natural persons are assessed by the Income Tax for Natural Persons (IRPF); likewise, income of Uruguayan source obtained by non-residents (natural or legal persons) is assessed by the Income Tax for Non Residents (IRNR).
- The main taxes assessing business activity are the Value Added Tax, the Wealth Tax and the Corporate Income Tax.
- The economic reality prevails on the legal form.
- Tax-free zone users are not subject to any tax; they are object of a broad tax exemption.

1.1 Legal framework

Legislation

According to the valid Constitution, the approval of national tax laws is the Legislative Power's capacity and their regulation competence of the Executive Power.

During the first semester of each period of government (5 years), the Executive Power submits the national remuneration, expenditure and investment budget and the corresponding funding sources to finance them for the Legislative Power's approval.

The nineteen departments in which the national territory is divided may establish, collect and control only certain departmental taxes through their Departmental Council: basically taxes on the urban or suburban real estate and on vehicles, and comptroller or public services rates. The most important taxes are the Property Tax, the Vehicle License Fee and the Bromatology Fee, but their incidence on companies is generally not significant.

The Tax Administration has no powers to modify the tax legislation. The Constitution does not expressly prohibit the enactment of laws with retroactive effect. However, the majority doctrine and jurisprudence have understood that such prohibition derived from general principles contained in the Constitution. In practice, laws with retroactive effect are not enacted.

Jurisprudence

The interpretation of tax laws is based on the regulations established by the Tax Code. They establish that tax regulations shall be interpreted according to the economic reality and not to the legal form. Jurisprudence directs in the sense of how justice can judge in similar cases and on the tax administration's position.

Tax infringements

Violations to regulations related to accounting and backup documentation of the operations made by the taxpayer, submission of affidavits of taxes and tax payments or withholdings, are enacted according to what the Tax Code establishes.

Binding queries

When there are doubts about the application of a regulation to a real situation, the taxpayer may obtain a written position from the tax Administration on the matter. In this case the Administration will be bound to maintain the criterion sustained regarding the consultant. The criterion's modification shall be notified to the taxpayer and it will only be effective for events subsequent to such notification.

1.2 Main taxes

The Uruguayan tax system is based on the application of indirect taxes, where the Value Added TAX (IVA) represented 55% of the collections in 2008. The collection of direct taxes is much less significant regarding total revenues.

Corporate Income Tax

The Corporate Income Tax (IRAE) is an annual tax that assesses net incomes of Uruguayan source derived from business activities of any nature, at the rate of 25%. Incomes of Uruguayan source are those obtained from activities developed, assets located or rights exploited economically in Uruguay. Incomes derived from agricultural activities are also assessed by the IRAE. The taxpayer may choose in certain cases, to pay this tax or the Tax on Sales of Agricultural Goods - IMEBA (this tax assesses the sale of certain goods produced by such sector).

Income Tax for Natural Persons

The Income Tax for Natural Persons (IRPF) is a personal and direct tax that assesses the incomes of Uruguayan source obtained by resident natural persons. For the purposes of this tax, natural persons living more than 183 days a year in the country or who have the center of their vital or economic interests in Uruguay are considered residents. The tax is applied under a dual system that distinguishes the incomes derived from the capital production factor (assessed at proportional rates from 3% to 12%) and those derived from the work production factor (assessed at progressive rates from 0% to 25%). The tax has an annual nature and is settled as a rule on the 31st of December each year. Notwithstanding, the regulation foresees advances and withholdings for different types of incomes.

Income Tax for Non Residents

The Income Tax for Non Residents (IRNR) is an annual tax that assesses the incomes of Uruguayan source obtained by non resident natural and legal persons. The tax is applied at proportional rates that vary from 3% to 12% depending on the type of income. In general, the tax is applied by means of withholding through local companies that pay or accredit assessed incomes abroad. When there is no

assigned withholding agent, the taxpayer shall name a representative in Uruguay and pay the tax directly.

Wealth Tax

The Wealth Tax (IP) is a tax that assesses the assets in the country – deducting some debts – at the accounting year's closure with rates of 2.8% for banks and financial houses and 1.5% for the rest of legal persons. Natural persons pay the IP at progressive rates that vary between 0.7% and 2.5% (it is intended to reduce such aliquots annually until unifying them in a 0.10% rate) with a non-taxable minimum of approximately USD 85,000 which is duplicated for families.

The IP settled by industrial and trade companies, including financial entities, may be compensated up to 1% with the IRAE paid in the same accounting year (except for non-resident legal persons or resident entities with bearer's shares or whose holder is another legal person).

Value Added Tax

The Value Added Tax (IVA) is a tax that assesses the internal movement of goods and services, imports and the added value generated in the construction made on real estate. The basic rate of the IVA is 22% and there is a minimum rate of 10% applicable to first need products and medicines, as well as a series of goods and services exempt from the tax.

Excise Tax

The Excise Tax (IMESI) assesses the first sale made by producers and importers of certain goods (cigarettes, alcoholic drinks, soft drinks, cosmetics, etc.) in the domestic market. Exports are not assessed. The rate varies for each assessed article and is generally fixed by the Executive Power within the parameters established by the law.

1.3 International aspects

Activities developed abroad

The IRAE assesses only the incomes of Uruguayan source, defined as that coming from activities developed, goods located or rights used economically in the Uruguayan territory.

Offshore operation center

The financial intermediation companies exclusively performing offshore operations (IFE) are exempt from IRAE and IP.

Investment Financial Corporations (SAFIs) are also exempt from IRAE and pay a single tax of 0.3% over their capital and title hold until 1st. January 2001 (as from that date they will be governed by the general tax regime).

Common Corporations performing goods' trading activities are subject to a preferential tax regime, paying IRAE at a 25% rate over the 3% of the difference between the sale price and cost price.

Tax-free Zones

Operations performed in Tax-free Zones enjoy broad tax exemptions and they are not subject to internal or foreign trade taxes.

1.4 Tax administration

Tax system administration

National taxes are administered and collected by the General Tax Directorate (DGI). In the case of IRPF, the collection is carried out jointly by the Social Security Bank and the General Tax Directorate.

Local taxes are administered and collected by departmental governments.

All information submitted by taxpayers to tax authorities, or obtained by the latter during inspections are secret and shall not be revealed under any circumstance, except for trials for criminal or family cases and only when such information is considered indispensable.

Affidavits

The tax system operates based on affidavits made by the taxpayer, which may be audited by the treasury.

IRAE and IP taxpayers shall submit the affidavits of such taxes in forms supplied by the DGI within the fourth month following the accounting year's closure. The taxpayer shall pay the balance of the settled tax on such date, once the monthly advances made during the accounting year have been deducted.

In case the total tax payable is withheld to IRPF and IRNR taxpayers, they will be exempt from the obligation of submitting affidavits if they choose to give finality to the advances made.

The affidavits may be modified in case of factual error or error of law, notwithstanding the responsibilities for infringement incurred in. The amendments shall not be submitted on occasion of tax authorities' inspections.

Appeals

The taxpayer may resort to the DGI its own decisions (revocation action), simultaneously submitting proceedings to the Executive Power (hierarchical appeal). Both proceedings shall be submitted jointly within 10 days from the notification. If both are rejected, the taxpayer may act on the Court of Administrative Litigation in order to declare the administrative act null and void.

Payments

Generally, taxes are settled and paid annually. IRAE, IRPF, IRNR and IP taxpayers shall make payments on account of the tax monthly, and pay the balance of the tax when submitting the annual affidavit. IP withholdings on credits maintained with people abroad up to 31st of December of each year shall be paid to the treasury during the month of May of the following year.

Tax audits

The DGI may audit the affidavits submitted by the taxpayers. Since audits are generally made according to samples at random, it is no possible for the taxpayer to foresee them.

The taxpayer may have to explain some aspects arisen as a result of the performed audit. In case the DGI does not agree with the explanations, it shall formally notify the taxpayer of those observed

aspects. The taxpayer has a term of 10 days to respond formally in relation to the observations made by the DGI. After that period, the DGI makes an appraisal of the observed points that may be appealed by the taxpayer.

The tax authority may perform tax determinations when the affidavits are not submitted or when accounting entries are missing or insufficient. The determinations made may be appealed by the taxpayers.

Sanctions

The non total or partial extinction of taxes, withholdings and special social security contributions when appropriate, are penalized with a fine of between 5% and 20% of the tax's amount and with a monthly surcharge capitalized every four months. The non version to the treasury of tax withholdings made is penalized with a fine of 100%.

The payment default (infringement of residual nature defined by article 97 of the Tax Code) is penalized with a fine between one and five times the value of the omitted tax and up to 15 times in case of defrauding. The crime of tax defrauding may also be criminally penalized.

Prescriptive period

The right to collect taxes prescribes five years as from the end of the accounting year in which the assessed event was produced. The term of the prescriptive period is extended to ten years if the taxpayer incurred in defrauding or did not comply with the obligations of registering and submitting the affidavits.

2 Business taxation

Main features

- Only incomes of Uruguayan source are assessed and no tax credit is granted for taxes applied abroad, unless there are agreements to avoid double taxation.
- Real income is assessed (i.e., adjusted by inflation).
- Dividends earned by local companies are not assessed.
- Capital profits are assessed.
- Interests of loans paid to non residents are deductible with certain limitations and are assessed by IRNR withholding.
- IP and IRAE are not deductible expenses.
- Dividends paid abroad are assessed by IRNR withholding when they correspond to incomes assessed by IRAE.
- Balances of imports, loans and deposits in foreign currency maintained with persons abroad are exempt from the Wealth tax.

2.1 Corporate Income Tax (IRAE)

The Corporate Income Tax (IRAE) is an annual tax that assesses incomes of Uruguayan source derived from business activities of any nature, at the rate of 25%.

Taxable subjects

Trade companies and permanent establishments of foreign entities pay the IRAE for all their Uruguayan-source incomes. The remaining entities pay the IRAE for their business incomes, this is, those generated in the capital-work combination

Territoriality

Incomes of Uruguayan source are those obtained from activities developed, assets located or rights exploited economically in Uruguay. Incomes derived from agricultural activities are also assessed by the IRAE. The taxpayer may choose in certain cases, to pay this tax or the Tax on Disposals of Agricultural Goods - IMEBA (this tax assesses the sale of certain goods produced by such sector).

Permanent establishment

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

The law enumerates a series of situations that configure a hypothesis of permanent establishment with illustrative nature, among them location of address, branches, offices, factories or workroom; mines, oil or gas wells, quarries or any other place of extraction of natural resources and construction works or projects whose duration exceeds three months.

A negative listing is also included, indicating with a non-limited nature that the term permanent establishment does not comprise the utilization of facilities with the only aim of storing, exhibiting or delivering goods or merchandise owned by the foreign entity; the maintenance of a warehouse of goods or merchandise owned by the foreign entity with the only aim of storing, exhibiting or delivering them, or being transformed by another company; the maintenance of a fixed business location with the only aim of buying goods or merchandise or gathering information for the foreign entity; or any other activity of preparatory or auxiliary nature.

It will also be considered that a foreign company has a permanent establishment, when a person who is not an independent agent performing in the ordinary framework of his activity, acts on its behalf and habitually exercises powers in the country to conclude contracts on that company's behalf, in regard to the activities that this person develops for that company.

According to what is established in the applicable laws, the permanent establishments of foreign entities shall compute all the incomes obtained in the country ("courts of appeal") in their IRAE settlement.

Foreign entities acting in the country by means of a permanent establishment shall assign a resident natural or legal person to represent them on the Tax Administration. That person will be responsible

in a solidary manner for the tax obligations of the represented entity (if no representative is assigned or if the same is not notified to the authorities, a defrauding intention will be assumed).

Income and expenses valuation

The assessed income is determined considering the incomes and expenses accrued during the accounting year.

Computable incomes

The gross income is given by the total net sales minus the acquisition or production cost.

The following, among others, are also considered gross income:

- the result of fixed assets' disposal.
- the benefit resulting from comparing the tax value and the sale price in the market of the goods awarded or given as payment to partners or shareholders.
- the exchange differences accrued in the accounting year.
- the result of the disposal of establishments or trade houses.
- all other equity increase produced in the accounting year, with exception of those resulting from re-valuations of fixed assets or social capital integrations, reimbursements or redemptions.

Inflation adjustment

A fiscal inflation adjustment determined by applying the variation percentage of the Index of Prices to the Producer of National Products, between the months of the previous accounting year's closure and the one being settled on the fiscal patrimony, is performed in a partial intent to neutralize inflation's distorting effects.

Valuation of fixed assets

The fixed assets' value shall be revaluated as from the following accounting year to the one of their incorporation due to the variation operated during the accounting year on the index of prices to the producer of national products (the revaluation criterion from the accounting point of view may be different). For the purposes of calculating the result of fixed assets' sale, their value is revaluated until the closure of the accounting year in which the sale is carried out. The equity increase produced by the revaluation of fixed assets does not constitute an assessed income; likewise, the fixed assets existent at the accounting year's start is excluded from the base of the fiscal inflation adjustment.

Inventory valuation

Merchandise inventories may be valued by their acquisition or production cost, or by the reinvestment value at the accounting year's closure, to the taxpayer's choice. Whichever the

adopted valuation criterion, the cost of the sold goods is determined by the application of the history costs' convention; thus, when the inventories are valued at market values, the difference between market value and history costs is considered assessed income.

For the purposes of determining cattle sale costs, the initial inventories are valued at market values in force on the date of closure of the accounting year. Cattle is also excluded from the inflation adjustment base.

A sales method, different from the one used in accounting, may be chosen for fiscal purposes (FIFO, LIFO or average).

Provisions for inventories' obsolescence are admitted as long as they correspond to effective losses. Provisions for possible future losses are not admitted.

Securities' valuation

Securities of any nature are valued at their quotation on the date of the accounting year's closure. If they are not quoted they are valued by their revaluated cost value by the variation operated from the month or accounting year of the asset's entry in the equity (taxpayer's choice) in the Index of Prices to the Producer of National Products.

In the case of shares of companies paying the IRAE, they may choose between the abovementioned valuation system or the value resulting from such companies' account statements adjusted according to the Wealth Tax regulations.

The shares in other taxable subjects of the tax will be valued by the value resulting from such companies' account statement adjusted according to the Wealth Tax regulations.

Capital gains

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

Interests

Interests are computed based on the accrued. There are no regulations in relation to indebtedness/equity ratios; therefore, there is no «thin capitalization» concept according to which the indebtedness may be treated as equity and assessed as such.

Dividends

Dividends paid or accredited to IRAE taxpayers living in Uruguay are considered income not assessed by IRAE, in order to avoid double taxation.

Dividends paid to resident natural persons or non-resident natural or legal persons are assessed by IRPF and IRNR respectively if they correspond to profits assessed by IRAE.

Exchange differences

The results of the accounting year from exchange differences are computable for the IRAE. They are determined by the revaluation of the asset and liability balances in foreign currency existent at the accounting year's closure.

Exempt incomes

The following incomes are exempt from the IRAE, among others:

- Those corresponding to maritime or air navigation companies. In the case of foreign companies, the exemption will be valid as long as similar Uruguayan companies enjoy the same exemption in their countries of origin. The government may exonerate the land transport foreign companies on condition of reciprocity.
- Freights for goods' maritime transport abroad are not included in the exemption of the previous item.
- Those derived from the performance of agricultural activities comprised in the IMEBA, provided that they are obtained by someone who chose to pay this tax.
- Those comprised in the Income Tax for Natural Persons.
- Those comprised in the Income Tax for Non Residents.
- Those derived from research and development in biotechnology and bioinformatics and those obtained by the production activity of logic supports and those services related to them (as long as they are integrally exploited abroad). This exemptions' regime coexists temporarily with another under which incomes derived from the development of logic supports and certain connected services, are exempt from the IRAE under certain conditions, even if they are exploited in Uruguay. The exemption of incomes under this regime will be total up to 31st. December 2009 and 50% during year 2010.
- Dividends or profits and equity variations derived from the possession of capital shares.
- Incomes of cultural, educational and sports institutions.
- Incomes of official bodies of foreign countries on condition of reciprocity and of international organizations to which Uruguay is associated with.
- Incomes of small companies. Companies whose incomes do not exceed the amount established annually by the Executive Power are exempt from the tax.

Deductible expenses

The general principle to determine the net income consists of deducing from the gross income, the expenses necessary to obtain and maintain it, accrued in the accounting year and duly documented, without prejudice of certain limitations or exceptions that could apply.

Additionally, as a general rule, only those expenses constituting the following for the counterpart may be deductible:

- Incomes assessed by the IRAE;
- Incomes assessed by the IRPF or the IRNR;

- Incomes assessed by an effective taxation to incomes abroad (it should be highlighted that regulations have included a long list of exceptions to this general rule).

For the case of expenses caused by personal services provided in a dependence relationship that generate incomes assessed by the IRPF, the deduction is also conditioned to the payment of retirement contributions if applicable.

When the expenses constitute for the counterpart, incomes assessed by the IRPF in category I of such tax (Capital Performance and Equity Increases) or incomes assessed by the IRNR, the deduction will be limited to the amount obtained by applying the quotient between the maximum rate applicable to incomes of such category in the corresponding tax (12%) and the IRAE rate (25%) to the expense.

For expenses constituting incomes assessed by a taxation of income abroad for the counterpart, the deduction will be 100% if the effective rate abroad is equal or greater than 25%. If the effective rate is lower, the corresponding proportion shall be performed, without prejudice to the limit previously mentioned. It will be assumed that the effective rate is equal to the nominal rate, unless the existence of special regimes determining the taxable base, exemptions and similar, which reduce the tax resulting from the application of such nominal rate is verified.

The IRAE regulation decree adds that when the counterpart is assessed by an effective taxation to incomes abroad and also by the IRPF in Category 1 (Capital Incomes) or by IRNR, the maximum rate of the local tax and the effective rate of the foreign tax will be added to the quotient's numerator (the deduction may never exceed 100% of the expense).

For the purposes of deducing the expenses made abroad, their tax treatment in the counterpart country shall be justified by means of a certificate issued by the tax authorities of such country or by a company of external auditors.

Depreciations

Intangible assets such as trademarks and patents are depreciated linearly in a 5-year period provided that they represent a real investment and that the seller is identified. The registration expenses of limited life intangible assets may be deducted in the accounting year in which the expenses were made or paid off at fixed installments in the validity period, according to the taxpayer's choice. The depreciation of goodwill is not admitted.

Fixed asset securities are depreciated linearly according to the number of years of their probable useful life. New automobiles are depreciated in a period of 10 years.

The lineal depreciation system shall be used. However, the DGI may authorize another depreciation system if it considers it technically suitable.

The results of fixed asset sales are determined by the difference between the sale price and the cost price of the asset depreciated and revalued up to the date of the accounting year's closure.

Leasing contracts

Tax regulations distinguish between the financial leasing and the operative leasing. The financial leasing is basically the one that grants a purchase option at a price lower than 75% of the involved good's fiscal value (revaluated and amortized history cost) on the date of the option's accounting year. In other cases it is an operative leasing. If the leasing is financial, the operation is treated as a sale in installments for fiscal purposes. In consequence, economically, the asset's ownership is transferred to the holder who will compute it in his fixed asset and will acknowledge an annual amortization on such good.

Other deductions

Without prejudice to the rule in matters of expenses deduction, the regulations expressly admit as deductible the following expenses:

- Losses caused by a fortuitous or force-majeure case in the part that is not covered by indemnization or insurance.
- Penalties for bad credits.
- The expenses made to train personnel in areas considered as priority and those made to finance research and development projects, which may be computed for once and a half their real amount.

Non-deductible expenses

The following expenses are non-deductible:

- Losses derived from illicit operations.
- Penalties for fiscal infringements.
- Expenses corresponding to obtaining exempt incomes.
- Personal remunerations for which no retirement contributions are made.
- Income and wealth taxes.

Fiscal losses

Losses generated in an accounting year may be deducted, adjusted by inflation, from profits generated in the following five accounting years, though such circumstance is conditioned exclusively to losses accrued in fiscal years started as from 1st. July 2007 (for those accrued previously the term is 3 years).

Losses generated in an accounting year may not be deducted from profits generated in previous accounting years.

Settlement

Net income

For the purposes of determining the net income subject to tax, the following procedure shall be made:

1. The total net income is determined by deducing from the gross income, all the necessary expenses to obtain it and preserve it, as well as losses of previous accounting years.
2. After determining the total net income, the non-assessed part is deducted from it (non-assessed incomes and associated expenses) for the purposes of reaching, in principle, the taxable amount; in case of assuming the benefit of exemption for investments, such amount is deducted, thus reaching the fiscal result on which to apply the tax's rate.

Fiscal credit

Except for payments on account and compensations with credits generated by other taxes, there are not other credits to compensate with the IRAE.

Since the IRAE only assesses Uruguayan source incomes, no fiscal credit is granted for taxes paid abroad.

For fiscal purposes, the consolidation between subsidiary companies is not admitted. In consequence, it is not possible to compensate one company's losses with the revenues of another.

Transfer prices

Law 18.083 introduces regulations on transfer prices between related companies to the Uruguayan tax system. The same consider the following aspects among others:

Operations made between related parties: Basically, they establish that when operations carried out between related companies are not adjusted to the market's practices between independent entities, which shall be proven reliably by the General Tax Directorate, such operations shall be adjusted according to certain methods established by the legal regulation.

Configuration of the relationship: The relationship will be configured when a subject taxable with IRAE performs operations with a non-resident or with entities operating in customs enclosures and enjoy a null or low tax regime (for example Uruguayan free-tax zones) and both parties are directly or indirectly subject to the direction or control of the same natural or legal persons; or these have the power to conduct or define the activities of the aforementioned taxable subjects, either for their share in the capital, the level of their credit rights, their functional influences or of any nature, contractual or not. The relationship concept considered by the regulation is extremely broad and includes the operations made by the taxable subjects with their foreign subsidiaries, branches, permanent establishments or other type of non-resident entities related to them.

Countries of low or null taxation: It is established that operations carried out with a company located in low or null taxation countries, specifically determined by the IRAE regulation, will be considered as not adjusted to normal market practices or values between independent parties.

Adjustment methods: In case it corresponded to perform adjustments to the accorded prices, the applicable methods are established. The same basically coincide with those recommended by the OECD (Organization for Economic Cooperation and Development) in its current guidelines on the topic, for example: prices comparable between independent parties, resale prices set between

independent parties, cost plus benefits, distribution of revenues and net transaction margin. The law delegates the regulation of such methods on the Executive Power.

Optional regime of income determination: The Executive Power has the capacity to establish with general nature, special regimes of presumed profits in view of, among others, the methods of the operations, lines of business or exploitation, under which taxpayers may seek shelter, to determine the income of Uruguayan source of international operations.

Special affidavits: The General Tax Directorate may demand from companies, the submission of special affidavits containing the data it considers necessary to analyze, select and proceed to verify the accorded prices.

Incomes from International Activities

Incomes from activities performed partially in the country are determined, in principle, by the application of regulations that control the concept of Uruguayan source. However, the net incomes of certain international activities are specifically determined by law:

Transport companies

Net incomes of Uruguayan source of transport companies (sea, air or land) are fixed in 10% of the gross amount of the tickets and freights corresponding to travels from Uruguay to foreign countries.

Cinematographic and TV industries

The net incomes of Uruguayan source of film and tape producing, distributing and intermediary companies, as well as those carrying out direct transmissions of TV or other similar media, are fixed in 30% of their incomes for the exploitation in the country.

International news agencies

Net incomes of Uruguayan source obtained by international news agencies are fixed in 10% of the gross income.

Lease of containers for international trade operations

Net income of Uruguayan source is fixed in 15% of the accorded price.

In all these cases, the taxpayer may also choose to determine the net incomes of Uruguayan source on a real base, according to general regulations. By adopting one of the two procedures, the same may not be changed for a 5-year period and in order to modify the procedure adopted, the DGI's authorization is required.

Trading

For the purposes of the IRAE's settlement, a tacit regime of determination of the net income of Uruguayan source is established, for certain cases of intermediation operations made in the Uruguayan territory.

3% of the difference between the good's or service's sale price and purchase price is considered Uruguayan source income in the following cases:

- performance of merchandise trading operations without physical movement through Uruguay
- intermediation in the delivery of services as long as they are provided and used economically abroad.

2.2 Wealth Tax

The Wealth Tax (IP) assesses the assets in the country - after deducting certain debts - of industrial and commercial companies and agricultural developments, at the accounting year's closure, with a rate of 1.5%.

In the case of banks and financial houses the tax assesses the net equity, but with a rate of 2.8%.

Companies will lower the IP of the accounting year in the amount generated during the same accounting year by concept of IRAE or IMEBA. The maximum limit of the depreciation will reach 1% of the IP generated in the accounting year.

Within the industries' assets, the securities influenced by the industrial productive cycle are exempted.

Industrial and commercial companies and agricultural developments may only compute as liabilities the debts from local banks' loans, debts with local suppliers, unless they are Public Entities who do not pay this tax, debts from taxes, as long as they have not expired and bonds or debentures issued by public subscription and listed on the stock exchange.

There are several exempt assets, such as real estate destined to agricultural developments, excluding their improvements, government's securities and securities issued by the Mortgage Bank of Uruguay (BHU) and the Central Bank of Uruguay (BCU), the shares or social quotas of companies paying the IP and bonds listed on the Stock Exchange.

The tax's regulation adopts the territoriality criterion, for which assets located, placed or economically used in Uruguay are computed in order to settle the tax. Nevertheless, when there are assets abroad and exempt assets, only the computable amount of the debts exceeding the value of such assets is deducted from the assessed asset in order to determine the taxable amount.

Some companies' debts, which could constitute assets assessed by the tax for creditors and in consequence, have an impact on interests, constitute exempt assets. Among them are balances of imports' prices, loans and deposits whose holders live abroad and bonds issued by companies that are listed on the Stock Exchange.

3 Taxation of natural persons

Main features:

- Natural persons living in Uruguay are assessed by the Income Tax for Natural Persons on their Uruguayan source incomes.
- Natural persons pay the Wealth Tax when their patrimony exceeds the non-taxable minimum, which is relatively high.

3.1 Income Tax for Natural Persons

The Income Tax for Natural Persons (IRPF) is a personal and direct tax that assesses the incomes of Uruguayan source obtained by natural persons living in Uruguay.¹⁵

The tax is applied under a dual system, assessing two types of incomes: Category I or incomes derived from the capital production factor (securities and real estate) and Category II or incomes derived from the work production factor.

Category I includes, among others, interests earned on local loans or deposits and real estate rents that a person collects from real estate leases in Uruguay.

Category II includes work incomes in dependence relationship, as well as work incomes obtained by personal service providers out of the dependence relationship who do not pay the IRAE.¹⁶

In relation to incomes derived from the work productive factor, the following aspects stand out:

- a) Work incomes are determined by applying the principle of the accrued.
- b) Incomes generated with exchange differences and price readjustments are computed in the moment of the collection.
- c) Work incomes in dependence relationship are constituted by regular or extraordinary revenues, in money or in kind, generated by taxpayers for concept of payment for their personal activity in dependence relationship. Indemnizations for dismissals, provided that they exceed the corresponding legal minimum and for the quantity exceeding such minimum, are considered included in the aforementioned item.
- d) The tax corresponding to work incomes is determined by means of the application of progressive rates linked to an income scale. For such purposes, the addition of the computable incomes is entered in the scale. The rate corresponding to the scale's tranche to which the part of income is comprised in is applied.

¹⁵ Families integrated by resident natural persons also constitute taxable subjects, provided that they choose to pay jointly, though such option can only be made for earned incomes.

¹⁶ Through law 18.314, valid from 1st. July 2008, retirement and pensions were excluded from generating the IRPF (and IRNR) and started to be assessed by the Tax of Assistance to Social Security – IASS for its Spanish acronyms, which assesses incomes for retirements, pensions and retirement benefits of similar nature, provided by institutions located in the country. The addition of the assessed incomes constitutes the taxable base on which the aliquots are applied in a progressive way.

- e) For the purposes of the aforementioned, the following income tranches scale and the corresponding aliquots are fixed (the values in USD are approximate):

Annual computable income	Rate
Up to the non-taxable minimum of 84 Benefits and Contributions Bases (BPC for their Spanish acronyms)¹⁷ (USD 7,600)	Exempt
More than 84 BPC and up to 120 BPC (USD 7,600 – USD 10,800)	10%
More than 120 BPC and up to 180 BPC (USD 10,800 – USD 16,300)	15%
More than 180 BPC and up to 600 BPC (USD 16,300 – USD 54,300)	20%
More than 600 BPC and up to 1,200 BPC (USD 54,300 – USD 108,500)	22%
More than 1,200 BPC (USD 108,500)	25%

- f) It is expected that taxpayers may deduct the following concepts:

- Retirement contributions to different social security entities, accordingly.
- Contributions to the public health insurance and the Labor Reorganization Fund.
- Benefits destined to the Solidarity Fund¹⁸.
- For medical attention to under age children in the taxpayer's charge: 13 annual BPCs per children. This deduction will be duplicated in case of children, under age or of age, legally declared disabled, as well as those suffering severe disabilities, according to what the regulation establishes. Identical deductions will be applied in case of persons under a guardianship regime.
- Active affiliates to the Banking Retirement and Pension Fund may deduct the paid amounts in application of literal b) of article 53 of law No. 17.613 of 27th. December 2002, modified by article 6 of law No. 17.939 of 2nd. January 2006.

Responsible taxable subjects

In use of the capacities granted by Law 18.083, the Executive Power assigned a series of subjects responsible for third parties' obligations in the IRPF Regulatory Decree.

Except when there are expressed dispositions on the contrary, the responsible persons shall:

- Issue receipts to the taxpayers for the amounts withheld or collected on each occasion.
- Deposit those amounts in the terms and conditions established by the DGI.
- Submit an affidavit of the performed withholdings in the terms and conditions established by the DGI.

¹⁷ Currently 1 BPC = \$ 1,944

¹⁸ Public non-governmental entity that manages a scholarship system for students of the National University (Universidad de la República) and the Technical-Professional Education Council, financed by means of compulsory contributions of such institutions' graduates.

The agents assigned as responsible in matters of the IRPF include:

a) *Withholdings on rents*

Article 36 of the Regulatory Decree assigned as IRPF withholding agents, a series of subjects for the rents and other return on real estate capital paid to taxpayers of such tax.

Among the subjects assigned as withholding agents are the IRAE taxpayers included in the Major Contributors Division and the CEDE Group of the DGI.

The withholding will be carried out on occasion of the payment or credit, applying the following aliquots to the addition of the amount collected by or accredited to the rent's holder plus the corresponding withholding:

- 10.5% in the case of real estate rents.
- 12% in the remaining cases of real estate capital returns.

b) *Responsibility for the payment of dependent work incomes*

Regarding incomes derived from work, the IRPF Regulatory Decree assigned as substitute responsible persons the employers of active affiliates to BPS and other social security institutes. For such purposes, an active affiliate is every dependent or independent worker performing activities under the shelter of such social security institutes.

The withholding will take place monthly, as a monthly IRPF advance, on account of its annual settlement. The amount of the advance will be determined by applying the monthly incomes scale for the determination of aliquots and deductions (for example, dividing the annual scales into 12) to the month's incomes. The value of the Benefits and Contributions Base taken into account for the mentioned determination will be the one established by the Executive Power, considering the increase expected in the accounting year.

The computable incomes for the determination of the withholdings shall not be less than the assessed amounts for the determination of the Social Security Special Contributions.

In principle, the withholding will be constituted by the difference between the amounts resulting from applying the following aliquots to incomes and deductions of the period:

To the total monthly income:

Computable monthly income	Rate
Up to 7 BPC ¹⁹	0%
More than 7 BPC and up to 10 BPC	10%
More than 10 BPC and up to 15 BPC	15%
More than 15 BPC and up to 50 BPC	20%
More than 50 BPC and up to 100 BPC	22%
More than 100 BPC	25%

To admitted deductions:

Computable monthly deduction	Rate
Up to 3 BPC	10%
More than 3 BPC and up to 8 BPC	15%
More than 8 BPC and up to 43 BPC	20%
More than 43 BPC and up to 93 BPC	22%
More than 93 BPC	25%

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

- **Non-proportional deductions** (basically the deduction for medical attention to under age or disabled children): a twelfth of the annual amount.
- **Proportional deductions** (basically social security contributions): applying the percentage corresponding to the amount of the income being computed.

The information available at the moment of such determination will be considered for the application of deductions.

For such purpose, the worker shall assign the information corresponding to all his personal circumstances related to the deductions (for example, number of children or people in his charge) to the substitute responsible person through an affidavit. This information will be included in the affidavit that the substitute responsible person will carry out for the Social Security Bank. The mentioned affidavit will establish the corresponding deductions to be made by the employer or entity.

¹⁹ Currently 1 BPC = \$ 1,944

If the taxpayer chooses not to inform the responsible person of the circumstances generating the right for deductions, the responsible taxable subject will calculate the withholdings without considering any deductions (nevertheless, the taxpayers may consider such deductions in their annual tax affidavit).

Dependent workers shall submit the affidavit when the IRPF comes into effect and on occasion of starting the work relationship, as well as any further modification. Otherwise, the corresponding circumstances will be considered as from the following month to that on which they were informed.

Besides the monthly withholdings, the substitute responsible person will determine an annual adjustment on the 31st. December of each year. The balance will result from the difference between the tax determined according to general regulations and the withholdings made. If a balance payable resulted from such determination, the responsible person will make the corresponding withholding and deposit it on the collection body.

In case it resulted in a balance in favor of the taxpayer, the same will be refunded by the General Tax Directorate in the conditions this body determines. If the taxpayer obtained work incomes exclusively from one substitute responsible person in the accounting year, the withheld tax would have definite nature; therefore, the taxpayer would be released from submitting the corresponding affidavit. If the taxpayer obtained other work incomes assessed by IRPF, the withheld tax would be considered as an advance.

c) Responsibility for the payment of independent work incomes

Article 73 of the Regulatory Decree assigned the IRAE taxpayers included in the Major Contributors Directorate and in the CEDE Unit of the General Tax Directorate as responsible for the IRPF correspondent to incomes generated in services out of the dependence relationship that this tax's taxpayers provide.

The withholding will be made monthly and will only be applicable in case the monthly total amount invoiced by the taxpayer to the responsible person exceeds 10,000 Indexed Units (UI) monthly, excluding the Value Added Tax²⁰.

The amount of the withholding will be the one resulting from applying the 7% rate to the addition of the amount paid or accredited to the income holder plus the corresponding withholding.

The withheld amount will be considered as a payment on account by the taxpayer and will be deducted from the amount of the advances of the same period. If the taxpayer had a credit from the end of the accounting year's settlement for such concept, the same could be destined to pay liabilities to the DGI or BPS.

²⁰ In case of insurance brokers and producers the withholding will operate in all cases, independently from the monthly amount invoiced.

3.2 Wealth Tax for Natural Persons

The wealth tax for natural persons, families and undivided successions is applied on the assets in the country after deducting some debts.

Only assets located, placed or economically used in Uruguay are assessed.

The tax is applied at progressive rates that vary from 0.7% to 2.5% with an individual non-taxable minimum of approximately USD 85,000 that is duplicated for families.

Natural persons living abroad, as well as legal persons abroad are not subject to the payment of this tax regarding exports balances, loans and deposits made to Uruguayan residents. Natural persons are considered as residents for fiscal purposes when they live or develop most of their activities in Uruguay.

Assets of natural persons, families and undivided successions are valued at market value, with certain exceptions, mainly in the case of real estate and vehicles whose values are periodically determined by the government.

The following assets are exempt:

1. Shares of entities subject to the payment of this tax and of financial entities exclusively dedicated to carrying out offshore operations.
2. National debt.
3. Bank deposits of natural persons.

Deductible liabilities include only debts with local banks up to the limit in which they exceed the addition of the exempt assets plus assets located abroad.

4. Taxation of Non-residents

Main features:

- Uruguayan source incomes obtained by non-resident natural or legal persons without a permanent establishment in the country are assessed by the Income Tax for Non-Residents (IRNR).
- IRNR is applied at proportional rates that vary from 3% to 12% depending on the type of income.

The Income Tax for Non-Residents (IRNR) assesses Uruguayan source incomes obtained by non-resident natural or legal persons without a permanent establishment in Uruguay.

Uruguayan source incomes of any nature obtained by these tax's taxpayers, including those of business nature, capital returns, work returns and equity increases are assessed.

The incomes from activities developed, assets located and rights economically used in the country are considered of Uruguayan source for IRNR purposes. Incomes obtained from technical services provided from abroad to IRAE taxable subjects are also considered of Uruguayan source.

The concept of resident established for the purposes of this tax is the following:

- In the case of natural persons, it will be understood that the taxpayer has his fiscal residence in Uruguay when any of the following circumstances is verified:
 - His permanence in the country for more than 183 during the calendar year.
 - The main part or base of his activities or economic or vital interests is settled in Uruguay.
- In the case of legal persons, they will be considered residents when they have settled according to national laws.

IRAE taxpayers paying or accrediting business incomes, capital incomes or earned incomes to IRNR taxpayers have been assigned withholding agents of this tax. In case of inexistence of an assigned withholding agent, the IRNR taxpayer shall assign a representative in national territory to be represented on the Tax Administration in relation with his tax liabilities (this representative will be responsible in a solidary manner towards the taxpayer for the referred liabilities).

Rates for this tax are as follows:

- Interest corresponding to deposits in national currency and in indexed units, to more than one year in financial intermediation institutions: 3%
- Interest of bonds and other securities issued at terms of more than 3 years, by means of public subscription and stock exchange quotation: 3%
- Interest corresponding to deposits up to a year or less, constituted in national currency without a readjustment clause: 5%
- Dividends and profits paid or credited by IRAE taxpayers: 7%
- Remaining incomes: 12%

It should be highlighted that regarding dividends, only those distributed by IRAE taxpayers that correspond to incomes effectively assessed by this tax, accrued in accounting years started as from 1st July 2007, are assessed by IRNR.

The law has also established other exemptions, among which the following stand out:

- a) National Debt interests.
- b) Interests of loans granted to IRAE taxpayers whose assets influenced by the attainment of incomes not assessed by this tax exceed 90% of their assets valued according to fiscal regulations.

- c) Incomes generated in the disposal of bearer shares of societies contributing to IRAE.
 - d) Equity increases derived from equity transmissions when their price considered individually does not exceed 30,000 Indexed Units, and as long as the addition of the operations not exceeding such amount does not surpass 90,000 Indexed Units during the year.
 - e) Incomes corresponding to maritime or air navigation companies on reciprocity condition. Incomes corresponding to goods' maritime or air transport freights abroad are exempt in all cases.
 - f) Incomes from activities developed abroad, in customs enclosures, port customs enclosures, customs warehouses and free-tax zones, by non-resident entities, with foreign merchandise declared in transit or deposited in such enclosures; when such merchandise has no origin in national customs territory and is not destined to the same. This exemption will also be applicable when such merchandise is destined to the national customs territory, provided that such operations do not exceed (within the accounting year) 5% of the total amount of the disposals of merchandise in transit or deposited in the enclosures made in that period.
- The settlement and payment of the IRNR will be made annually but, should the total amount of the tax be object of withholding, the taxpayer may choose not to make the corresponding affidavit.

5. Value Added Tax

Main Features:

- The basic IVA rate is 22%, and there is a minimum rate of 10% applicable only to certain products and services.
- Agricultural exports and products are subject to the zero rate regime by which fiscal credit is refunded.

IVA is applied in Uruguay since 1972 and has acquired greater importance through the years. Besides being the main source of fiscal resources, the essential economic objective of IVA is to assess the domestic consumption of goods and services without introducing distortions in commercial relations. The intention is not to turn the IVA into a discriminatory tax, both from the point of view of imports in relation to local production and from the point of view of the number of companies participating in the economic process and their degree of vertical and horizontal integration in the same.

Individuals and companies subject to IVA

All IRAE taxable subject companies are IVA taxable subjects. IVA is also applied to natural persons and entities delivering personal services.

Assessed operations

IVA is assessed on imports and sales of goods and services developed within the Uruguayan territory.

The tax is configured with the delivery of goods, services or definite introduction of goods to the country.

Exemptions

The following are exempt from IVA, among others: vegetables' and fruits' disposals, foreign currency, precious metals, credit grants, real estate, agricultural machinery and its accessories, fuels derived from oil except for fuel oil, milk, agricultural inputs, books, newspapers, magazines, educational material and water.

There is also an exemption for the delivery of certain services, including government's securities', bonds' and deposits' interests, real estate rents, banking operations except for interests on consumption loans, personal payments for services related to cultural activities, etc.

Calculation of IVA

The IVA is calculated on the net amounts invoiced for sales and services; the same shall be differentiated in the respective invoice. The IVA included in the acquisition of goods and services which directly or indirectly are part of the cost of goods or services sold or lent by the tax's taxable subject (as long as it is clearly specified in the purchase invoice) it may be deducted from the IVA of sales invoiced for disposals of goods or delivery of services.

Invoices shall comply with certain minimal formalities established by the relevant regulations, as the consecutive pre-printed numeration, the identification of the vendor or service provider and the purchaser, the registry number of the vendor or service provider on the General Tax Directorate and the amount of the tax, differentiating the good's or service's value.

Rates

The basic rate is 22%, but there is a minimal rate of 10% applicable to certain goods as first need food products and medicines, and services provided by hotels regarding lodging.

There is no special rate applicable to sumptuary products, which, nevertheless, are subject to the Excise Tax.

Zero rate

Exports and sales of agricultural products made by IRAE taxable subjects are assessed by the IVA at zero rate. This implies that the IVA is not included in the invoice, but the IVA of purchases correspondent to goods and services which directly or indirectly integrate the cost of sold agricultural products or exported goods, may be retrieved.

Exempt services and goods

In the case of sales of exempt goods and services, the IVA included in the acquisition of goods and services that integrate the cost of the goods sold or services provided, may not be deducted, turning into a cost factor.

Collection of IVA

The IVA is collected by the General Tax Directorate. The affidavits shall be submitted monthly, at the expiration of the month following the one in which the assessed event occurred. Should a credit in favor of the taxpayer arise from the affidavit, the same is transferred to the following month or accounting year, without an inflation adjustment until it is absorbed by the IVA of sales.

In the case of exporters and other similar taxpayers, the fiscal Authority issues credit certificates for the amount of the IVA of sales, which may be used to cancel other tax or endorsed debts, in their case, in favor of the exporters' suppliers. These certificates may be requested monthly and are generally issued within two or three months from their request.

6. Other taxes

Main Features:

- The Excise Tax is applied on different goods, among them, alcohol, tobacco, fuels, cosmetics and automotive vehicles.
- The constitution of corporations is assessed by a 1% tax on the contractual capital.

6.1 Excise Tax

The Excise Tax (IMESI) currently represents approximately 9% of the tax collection.

IMESI is assessed on a great range of products at differential rates.

The tax assesses the first disposal made by producers or importers of such products in the domestic market. Exports are not assessed.

The rate varies per each assessed article and is generally fixed by the government within the parameters established by law.

The goods that are subject to higher rates are alcoholic drinks, tobacco, fuels, lubricants and other oil by-products. The maximum rate for alcoholic drinks is 80% and for tobacco 70%. Oil by-products are assessed on their sale price with differential rates depending on the product. Such rate may reach a maximum of 133% as in the case of refined gasoline. Other assessed goods like alcohol, soft drinks, cosmetics and motor vehicles are assessed by rates that vary between 10% and 30%.

6.2 Tax to Corporation Formation

The formation of corporations is assessed by this control tax, applicable on occasion of their formation and at each accounting year's closure.

The applicable rates are the following:

- a) 1.50% for the corporation's formation.
- b) 0.75% for each accounting year's closure.

The taxable amount is constituted by the minimum capital for SAs valid at the moment of the occurrence of the generating events.

This tax is not applied to foreign companies' Branches.

6.3 Tax on sales of Insurance Companies

Insurance companies are subject to the payment of a tax on their gross income. The general rate is 5% with the exception of maritime insurance whose rate is 2%, life insurance whose rate is 0.5% and fire insurance whose rate is 15%.

Should the insurance entity be unauthorized or disqualified to develop insurance activities in the country, the applicable aliquots could increase to up to 40%.

6.4 Tax on Sales of Agricultural Goods

The Tax on Sales of Agricultural Goods (IMEBA) assesses the first sale made by producers to IRAE taxpayers of different goods, such as wool and leather, livestock, seeds, milk, poultry farming, apiculture and rabbit breeding by-products, fruits and vegetables.

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

Rates vary between 0.9% and 2.5% depending on the good.

Likewise, sales of wool, leather, livestock, seeds, milk and forest products and the exports of horticultural, fruit and citric products is assessed by two additional taxes of 0.4% and 0.2%.

Agricultural companies must settle the IRAE on a mandatory basis instead of the IMEBA when some of the following conditions are verified:

1. In case of Corporations, Companies Limited by Shares, permanent establishments of non-resident entities or Trusts.
2. When they obtain incomes exceeding 2,000,000 UI (USD 170,000 approximately) in the accounting year (the incomes obtained during the immediately previous accounting year are considered for such purposes).
3. When they carry out their exploitation in land exceeding 1,250 hectares CONEAT 100²¹ at the beginning of the accounting year.

²¹ The CONEAT is an index that measures the land's productive capacity. The average productive capacity of the country is 100.

6.5 Property Transmission Tax

This tax assesses real estate transfers. Both parties participating in the transaction are subject to the payment of this tax at a rate of 2% on the property's real value (which is generally less than the market value). When the asset is transferred without any payment, the beneficiary shall pay the tax at a 4% rate. The inheritors in ascending or descending direct line shall pay the tax at a 3% rate.

7. International Treaties

Main features:

- There are treaties to avoid the double taxation, signed with Germany and Hungary.

Uruguay has signed treaties with Germany and Hungary in order to avoid the double taxation. Such treaties regulate tax aspects and are considered a good mechanism to promote local investments.

The treaty signed with Germany derives from the "German Model", which in turn has its source in the OECD's model. The main aspect of this treaty to highlight is the reduction of the tax to be withheld, when applicable, on the payments or credits to the other country that signed the treaty, for concept of royalties, technical assistance, interests and dividends. Under certain conditions in Uruguay, all the aforementioned concepts except for interests, are subject to taxes by means of withholding when performing payments or credits abroad.

According to what such treaty establishes, the rates are reduced to the following:

Dividends, royalties and interests:	Up to 15%
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Payments for concept of technical assistance:	Up to 10%
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The concept of permanent establishment has been introduced in order to accept encumbrances from the country where such establishment is located. The treaty signed with Hungary contains similar dispositions to those of the treaty signed with Germany.

Likewise, in 2009, a treaty was celebrated with Spain in order to avoid the double taxation, though the parliamentary ratification is pending.

Chapter 7: Labor and social security regimes

Main features:

- Salaries are established in each case with the employee, or in other cases, in agreements negotiated with labor unions. Salaries can not be less than the national minimum salary established by the Executive Power, or inferior to the minimum established for each work category by the Salary Councils.
- Salaries shall be adjusted half-yearly, according to the guidelines set by the Salary Councils.
- Labor costs are reasonable.
- There is availability of skilled workforce.
- The social security system is integral and joint: based on a public distribution system and an individual capitalization private system.

1. Labor relations

Relations between employees and companies

Labor relations at individual level are regulated by a detailed legislation that constitutes one of the bases on which democracy is founded in Uruguay. On the contrary, regarding collective relationship the legal regulations are scarce. A broad union freedom is acknowledged, confirmed in the Constitution as well as in the Law.

Collective relationships are based on a strong autonomy of labor and employer's organizations, which are freely interrelated; the State only mediates in a secondary and indirect way.

Labor Unions

The labor unions' movement is organized in associations by company and sector, and the affiliation of the employees to the labor union is voluntary.

When wage agreements are made with labor unions, not only salaries are negotiated but also other aspects as work conditions, additional benefits, etc. The Ministry of Labor and Social Security performs an important role as mediator in case of labor conflicts.

The law establishes that any discrimination towards reducing the employees' union freedom regarding their job or the access to it, is absolutely null, forcing the reintegration of the dismissed employee for labor union reasons.

Within the rights of the labor unionists is the enjoyment of paid free time to carry out labor union activities.

The representatives of employees acting on behalf of a labor union will have the right to place the labor union's notices in the company's facilities, in a place or places agreed upon with the company's management and to which the employees have easy access.

Availability of workforce

According to Latin American standards, Uruguayan workforce is within the best trained and qualified. The availability of skilled workforce does not constitute a restriction for new investment projects.

Temporary contracts

It is possible to make trial contracts for 3 months at the beginning of the labor relationship. Moreover, in case it is justified, it is also possible to make forward contracts.

2. Salaries

Determination of salaries

In Uruguay, the salary comprises a set of economic advantages received by the employee as a consequence of the contract of employment.

This concept includes fixed payment methods (per hour, per day or per month) and variable payment methods (by the job, by commissions, shares, etc.). When the salary is exclusively variable or includes variable elements, it shall not be, in total, inferior to the national minimum salary, or to the salary valid for the respective category or activity in question.

There are different mechanisms for salary-fixing: by means of the individual negotiation with each employee in his contract of employment, through a two-party negotiation by signing collective agreements between company and labor unions or through a tripartite negotiation in which the government participates together with the employees and employers in fixing minimum salaries per category and semiannual adjustments, through the Salary Councils (tripartite bodies integrated by representatives of the Government, the employees and the employers).

In fact, salaries' readjustments and each category's minimum salaries for the private sector may be fixed by means of the individual negotiation with the employee or, in some sectors, through collective negotiations that establish minimums per professional category and adjustment parameters of periodical application. However, both salaries fixed through individual negotiation (contracts of employment) as well as through collective negotiation (collective agreements) shall not be inferior to those established by Salary Councils.

Additionally, the government fixes the value of the national minimum salary for those employees with no representation in Salary Councils and the salaries of civil servants.

The national minimum salary fixed by the Executive Power, currently represents the equivalent to approximately USD 193 per month.

Profit-sharing

There are no legal regulations or general agreements establishing employees' profit-sharing systems. Except for managerial levels, this regime is not used in Uruguay.

Labor cost

Labor cost is not usually the most important production cost factor, even considering the cost of social security contributions.

3. Workday

Duration

Workday is limited to 8 hours per day, a total of 44 hours per week in business activities and 48 hours per week in industrial activities.

In business activities, each employer may adjust opening and closing hours, respecting the 8 hours per day and 44 hours per week, which enables opening on Saturdays and Sundays.

Professionals, salesmen and travelling salesmen, brokers, collectors, collection controllers, and high rank personnel are not considered in the regulation of the workday limitation.

Breaks

The workday shall be interrupted by an intermediate break whose duration may be of half an hour or two hours and a half, depending on the activity. In the first case, the workday is called “continuous”, since the intermediate break is considered for the purposes of generating a salary. In the second case, the workday is considered “discontinuous” and break time is not considered work and is not paid. In the last case (“discontinuous workdays”) the intermediate break time may be reduced to an hour, as long as there is a written agreement between the employer and the employee or employees whose break will be reduced.

Overtime

The work exceeding the legal or conventional limitation of the workday shall be paid double in business days and for two and a half times in holydays.

4. Social benefits

Paid annual leave

Employees have the right to a paid annual leave of twenty continuous days, which increase at a rate of one day per four years of seniority, as from the fifth year.

The annual leave shall be enjoyed within the immediate following year to the period in which it was generated. It may be enjoyed in two divided periods, the shorter of which may not be less than 10 days, as long as an agreement is signed with at least the absolute majority of the company's employees.

The leave shall be paid with the work's usual remuneration, according to the amounts valid at the moment it takes place.

Holiday pay

Employees have the right to receive, besides the leave payment, a complement destined to a better enjoyment of it, known as holiday pay.

The same is equivalent to 100% of the leave's net wage, this is, the leave wage minus social security contributions paid by the employee.

This complement shall be paid at the beginning of the leave.

Paid holidays

Employees have the right to be paid as working days, the following holidays: 1st January, 1st May, 18th July, 25th August and 25th December. In case of effectively working on those days, they shall obtain double salary.

Christmas bonus

Christmas bonus, also called complementary annual salary, is a salary benefit to which all private sector employees are entitled to. It consists on the twelfth part of the total remunerations in money received by the employee from the employer in the twelve months previous to the payment date, which shall be carried out before 24th December.

The Executive Power may authorize, and thus it has been carrying it out, the payment of the Christmas bonus in halves: 50% in June and 50% in December.

Indemnization for dismissal

The employer has the capacity to dismiss his employees, for which he is bound to pay an indemnization. In case of a monthly employee, such indemnization is equivalent to a monthly salary per seniority year or fraction in the company, with a maximum of six monthly salaries.

In the case of a laborer, he shall work at least 100 days in order to generate the right to indemnization; if he exceeds 100 days, he acquires the right to an indemnization consisting of two day-wages per 25 days worked, with a maximum of 150 day-wages.

Additional indemnizations correspond to the dismissal of sick employees, bank employees, salesmen and travelling salesmen and pregnant women.

The employer is not bound to pay the indemnization for dismissal when the same is caused by the employee's notorious misconduct. Though the law does not define this concept, the same is considered as a situation that endangers the continuity of the work relationship as a consequence of the employees' misconduct or failure. This misconduct may consist on a single event of sufficient severity or on a series of events of minor importance.

Outsourcing

Employers hiring sub-contractors, intermediaries or workforce suppliers, are responsible in a solidary manner, for the labor obligations of the former towards the contracted employees, as well as for the payment of social security contributions to the corresponding social security entity, for the bonus for industrial accident and occupational disease and for the penalties and refunds owed to the State Insurance Bank regarding those employees.

Likewise, it is prohibited to employ by means of subcontracting, intermediation or through workforce suppliers in order to replace employees under unemployment compensation or in labor dispute.

Employees provided by companies supplying temporary employment shall not receive less work benefits than those established by decision of the Salary Councils, collective agreements or decrees of the Executive Power for the category they work in and the one corresponding to the line of business of the company where they provide their services.

5. Social Security System

The social security system covers the risks of disability, old age, retirement, disease, industrial accidents, maternity, unemployment and death.

The affiliation to it is mandatory, with exception of foreign employees working in Tax-free Zones. Likewise, some foreign employees may choose to stay out of the social security system, under the shelter of international treaties signed by Uruguay.

The Social Security Institute (BPS) is the government's body that administrates the social security system, in charge of collecting practically all the contributions made by companies and employees and of updating the registries of each affiliate's work history.

5.1 Benefits

Retirement

The retirement regime covers the risks of disability, old age and retirement. It divides the employees in three levels, according to their remunerations: the first level includes employees with remunerations of up to approximately USD 861; the second level includes employees with remunerations between USD 861 and USD 2,500; and the third level includes employees with remunerations exceeding USD 2,500.

The employees comprised in the first level are included in the intergenerational solidarity regime, a distribution regime whose benefits are paid by the BPS. Employees of the other two levels are included in the compulsory individual savings regime, an individual capitalization regime, administered by corporations called Pension Savings Funds Managers (AFAPs) through a personal accounts system, with which the benefits received by the employee will be directly according to the contributions made in his personal account.

Employees whose income does not exceed USD 861 may choose to contribute for up to 50% of their remuneration to the individual savings regime (AFAP) and for the remaining 50% to the intergenerational solidarity regime (BPS). Employees with remunerations exceeding USD 2,500 may choose to contribute or not, for the payment exceeding such maximum. All contributions are collected by the BPS which then transfers the corresponding share to the AFAPs.

The employee will receive a retirement pension (paid by the BPS) and a life income (paid by an AFAP).

For the purposes of being eligible for the retirement pension, the employee shall have 35 years of service and 60 years of age.

Unemployment

There is an unemployment compensation regime by means of which the temporarily or definitely unemployed worker (who should have worked 180 days in the 12 months previous to being unemployed) receives a subsidy paid by the BPS of 66% of the monthly average of the salaries received in the last six months in the first month of subsidy, 57% in the second month of subsidy, 50% in the third month of subsidy, 45% in the fourth month of subsidy, 42% in the fifth month and 40% in the sixth month without ever exceeding 11 monthly Benefits and Contributions Bases (approximately USD 930). The term of this coverage is six months and in case of temporary unemployment, the employee shall be reincorporated to his job or definitely dismissed at the end of this six-month term.

Disease and maternity

The employee has the right to affiliate for free to a medical care benefit society. In case of common disease the contract of employment is interrupted and the BPS pays a disease salary to the employee equivalent to 70% of his usual salary.

Pregnant employees have the right and obligation to interrupt their work six weeks before and six weeks after the birth, receiving health services and a substitute for the salary, Christmas bonus, annual leave and vacation salary during that period. These benefits are paid by the social security organization; therefore, they do not represent an additional cost to the company.

Industrial accidents

Both industrial accidents and occupational diseases that the employee could suffer are sheltered by a public compulsory coverage regime administered by the state-owned insurance institute BSE. The same grants social security benefits and pays the income for temporary or permanent disability generated in the accident or disease.

The employer is bound to hire this insurance with the BSE each time he employs personnel. The value of the insurance policy will depend on the risks of the company's activity, the number of employees and the salaries paid.

5.2 Contributions

Payments to dependent employees, including SA directors and trustees, as well as payments to personal societies' partners and sole proprietorship holders are subject to Special Social Security Contributions (CESS) and to the mandatory contribution to the Labor Reorganization Fund.

Companies shall make the monthly contributions they are responsible for and withhold and deposit the contributions corresponding to their employees, applied to the real salaries paid to them.

For business and industrial companies, the contribution rates are the following:

	Contributions made by	
	the company	the employees
Social Security Contributions		
Pensions for retirement, old age or disability and unemployment compensation	7.5%*	15%*
Health insurance	5%	3%, 4.5% o 6% ²²
Labor Reorganization Fund	0.125%	0.125%

* For a monthly payment amount exceeding approximately USD 2,500 these contributions will be made only if the employee should choose to do so.

In the case of personal society partners and sole proprietorship holders developing an activity in the company, the taxable base is the remuneration of the company's best paid employee or the effective remuneration received by the partner, depending on which one is greater. In any case should the base be lower than a notional of approximately USD 190 per month which may vary depending on whether it is a personal society or a sole proprietorship.

In the case of SA Directors, the contribution base is the same as that of partners of personal societies with activity but with a minimal tacit base of approximately USD 360 per month. However, in the following cases, no contributions are generated:

- when they do not receive any remuneration
- when they live abroad

Higher rates are set for banks and financial houses.

In agricultural developments, the taxable base of the contributions made by the company are not remunerations. There is a tacit taxable base calculated according to the number of hectares and their potential productivity.

5.3 Foreign personnel

Work permits

Foreigners working in Uruguay for more than six months shall obtain the temporary residence (up to 2 years) or permanent residence, which is granted without further requirements: a proof of having no criminal record in the previous country of residence, certificate of good health and livelihood.

Companies may not hire or register in the Job Control Sheet, foreigners who are not duly authorized to work legally in the country, either definitely or temporarily.

Such authorization may only be done by exhibiting the certificate issued by the National Migration Directorate, with expressed proof that the interested party is enabled for that purposes.

²² Depending on the amount of the income and the number of children in charge.

Special regimes

Foreign personnel is included in the general social security system, unless there is a treaty signed with the country of origin or that they work in Tax-free Zones and chose not to benefit from the Uruguayan social security regime.

Restrictions to the employment

The only activities restricted to foreign personnel are:

Fishing: the captain and at least 50% of the crew shall be Uruguayan.

Uruguayan airlines: the crew shall be Uruguayan and at least 75% of the employees shall be Uruguayan citizens.

Tax-free Zones: 75% of the employees shall be Uruguayan citizens in order to obtain the valid exemptions.

Chapter 8: Practical aspects for starting a business

1. Formation and installation procedures

1.1 Corporation (SA)

Formal requirements

(i) The founders shall approve a social statute, which shall be in turn approved by the Internal Audit of the Nation (AIN), registered in the National Trade Registry (RNC for its Spanish acronyms) and published (an extract) in the Gazette and another newspaper of national circulation. The formation term may extend for several months. During that term, the company may operate as a “SA in formation”; thus, the founders shall respond in a solidary and unlimited manner to society and third parties. The company shall be registered in the General Tax Directorate (DGI), Social Security Bank (BPS), Ministry of Labor and Social Security (MTSS) and in case of contracting personnel, in the State Insurance Bank (BSE).

Documentation to submit when constituting a SA

- AIN: Statute and certified copy; subscription and integration minute and certified copies.
- DGI and BPS: Registration and Updating Request Form with certification by public notary.
- MTSS: Job Control Sheet (in case of hiring personnel), Registration in BPS and DGI and Employment Record Book.
- RNC: Statute and AIN’s approval, Legal books.

(ii) Instead of complying with the corporation’s formation procedure, it is possible to acquire a pre-constituted company (both in case of corporations and special corporations) that has never performed any activity. These companies’ control is acquired by means of a simple share transfer against the payment of a price and the designation of a new Board of Directors, which may be done in one day.

This method is commonly used. The cost of the shares of a pre-constituted SA is approximately between USD 1,000 and USD 2,000, according to the type of SA in question.

Capital requirements

The statute shall establish the equity, which has no maximums or minimums. The founders shall contribute at least 25% in the foundation act and commit themselves to contribute the remainder until completing 50%, liability that has not expiration date. The equity shall be expressed in national currency, as well as the accounting records. There may be ordinary or preference shares. The latter shall not be issued for more than 50% of the equity.

SAs holders of rural properties and agricultural developments and holders of radio and TV stations shall express their capital in nominative shares and their holders shall be natural persons. In the case of radio and TV stations' holders, they shall be Uruguayan citizens living in the country.

1.2 Limited Liability Company (SRL)

Formal requirements

Founding partners shall celebrate a social contract to be registered in the National Trade Registry (RNC). An extract of the same shall be published once in the Gazette and another newspaper. This procedure takes approximately a month. Activities may start as from the celebration of the social contract, mediating the founders' solidary and unlimited responsibility for the company's liabilities until the procedures' culmination.

It shall be registered in the DGI, the BPS and the MTSS and in case of hiring personnel, in the BSE.

Documentation to submit when constituting a SRL

RNC:	Social contract with certification by notary public Legal books
DGI and BPS:	Registration and Updating Request Form with certification by notary public.
MTSS:	Job Control Sheet (in case of hiring personnel), Registration in BPS and DGI and Employment Record Book.

Capital requirements

SRLs have no capital maximums or minimums. When celebrating the social contract, at least 50% of the equity shall be integrated in the cases of money contributions, and/or 100% in the cases of contributions in kind. The capital is distributed in indivisible quotas of the same value which may not be represented by negotiable bonds. In order to transfer the quotas, the social contract must be modified, complying with the same procedures as for the formation. This transfer is generally free only among the SRL's partners. The accord of the remaining partners representing at least 75% of the equity is needed to grant quotas to third parties.

1.3 Partnership, Limited Partnership, Companies Limited by Shares, Capital and Industry Company, De Facto Partnership.

Formal requirements

The formation procedure of these society types, except for the De Facto Partnership, where there is no written social contract, is similar to the SRL's, with no publishing requirement.

Documentation to submit when constituting these society types

- | | | |
|---|--------------|--|
| - | RNC: | Social contract with notary public certification, except for de facto partnerships.
Legal books |
| - | DGI and BPS: | Registration and Updating Request Form with notary public certification. |
| - | MTSS: | Job control sheet (in case of hiring personnel)
Registration in BPS and DGI
Employment Record Book |

Capital requirements

They have no minimum or maximum capital requirements.

In general, the dispositions applicable to SRLs are also applicable to these society types.

1.4 Sole proprietorships

Formal requirements

Sole proprietorships do not require a formation procedure; they shall only comply with tax obligations. They also must be registered in the DGI, the BPS, the MTSS and in case of hiring personnel, in the BSE.

Documentation to submit when constituting a sole proprietorship

- | | | |
|---|--------------|--|
| - | RNC: | Legal books |
| - | DGI and BPS: | Registration and Updating Request Form with certification by notary public. |
| - | MTSS: | Job Control Sheet (in case of hiring personnel), Registration in BPS and DGI and Employment Record Book. |

Capital requirements

They have no capital requirements to the extent that they do not constitute a society.

1.5 Consortia and Economic Interest Groups (GIE)

Consortia

They are constituted by means of a contract between two or more natural or legal persons (typically between two or more societies). The same shall be registered in the RNC and published (an extract) in the Gazette and another newspaper.

Economic Interest Groups

GIEs are constituted by means of a contract that shall be registered in the RNC.

1.6 Branch of Foreign Company

Formal requirements

An authenticated copy of the Foreign Headquarter's statute and the Act of its competent body resolving the installation of a Branch in Uruguay shall be registered in the RNC, indicating the name, address and allocated capital of the Branch, and the person or persons who will administrate or represent it. The mentioned documents shall be certified and translated into Spanish if they were granted in another language. After the registration in the RNC, an extract of all the documentation shall be published in the Gazette and another newspaper.

It shall also be registered in the DGI, the BPS and the MTSS and in case of hiring personnel, in the BSE.

The term of the constitution may extend for several months, but the Branch may operate as from the start of the installation procedures.

Documentation to submit when constituting a branch	
- RNC:	Certified and authenticated copies of the resolution of installing the branch and the statute of the Headquarters.
- DGI and BPS:	Registration and Updating Request Form with certification by notary public.
- MTSS:	Job Control Sheet (in case of hiring personnel), Registration in BPS and DGI and Employment Record Book.

Capital requirements

There are no capital maximums or minimums.

1.7 Free-Tax Zone Corporations (SAZF)

Formal requirements

Their constitution is made according to a simplified regime that does not require the AIN's approval of the social statute. The social statute shall be registered in the RNC and the user contract in the General Trade Registry – Tax-free Zones Area.

Documentation to submit when constituting a SAZF

- RNC: Statute and certified copy; subscription and integration minutes and certified copies.
- DGI and BPS: Registration and Updating Request Form with certification by notary public.
- MTSS: Job Control Sheet (in case of hiring personnel), Registration in BPS and DGI and Employment Record Book.

Capital requirements

The statute shall establish the equity and the founders shall contribute at least 30% in the foundation act and commit themselves to contribute the remainder until completing 50%, liability that has not expiration date.

2. Other regulatory aspects

2.1 Leasings

Contracting commercial or industrial leasing is generally free, respecting the conditions established by agreement of the parties. In case of properties built before 1968, there are regulations regarding the minimum renting term, 5 years, and the price's readjustment method. In order to initiate any legal action it is necessary to certify the fact of keeping up with the Income Tax for Natural Persons, Category I (Capital Incomes).

2.2 Environment

Investment projects whose activities are listed in Decree N° 349/005 of the regulation of environmental impact evaluation and environmental authorizations, require a Previous Environmental Authorization granted by the Ministry of Housing, Land Management and Environment. Thus, the National Environment Directorate (DINAMA for its Spanish acronyms) shall be notified in order to classify the project in one of the following categories:

- Category A: Not-significant negative environmental impacts, within what is tolerated and established by in force regulations. In these cases, the Previous Environmental Authorization will be granted without any more procedures.
- Category B: Moderately significant environmental impacts, whose negative effects may be eliminated or minimized by means of the adoption of well known and easily applicable measures. In these cases, a sector environmental impact study shall be carried out.

- Category C: Significant negative environmental impacts. Such impacts will require a complete environmental impact study.

3. Main operational costs (valid on August 2009, with exception of land)²³

WATER	
Industrial consumption (average by consumption)	USD 1.71 per m ³

FUELS	USD per liter
GAS OIL	
GASOLINE	1.31
SUPER 95 SP	1.35
GASOLINE SPECIAL 87 SP	1.35
GASOLINE PREMIUM 97 SP	1.41
DIESEL OIL	0.95
HEAVY FUEL OIL	0.56
LOW SULFUR FUEL OIL	0.83

ELECTRICITY				
VOLTAGE LEVEL Kv	TROUGH USD/kWh	NORMAL USD/kWh	PEAK	USD/kWh
0.230-0.400	0.0443	0.0864		0.2674
6.4-15-22	0.0414	0.0816		0.2187
31.5	0.0411	0.0778		0.1810
60	0.0407	0.0769		0.1596
110-150	0.04	0.0745		0.1319

²³ Prices in Uruguayan pesos expressed in USD at the average interbank exchange rate of September.

TELECOMMUNICATIONS		
International call	USA, Canada, Chile, Spain and Buenos Aires	USD 0.05 per minute
Mobile destinations	Rest of America, Europe and Asia	USD 0.07 per minute
Internet connection	Latin America, Europe and Asia	USD 0.21 per minute
	Varies according to the contract. To contract 3 MB (flat fee) with 3,072 kbps for downloading and 512 kbps for uploading, the monthly cost is about USD 190.	

Source: private operator.

COST OF THE LAND (average of the first semester 2009)	
Average cost per hectare (varies according to zones and forest priority areas)	USD 2,300

4. Average salaries (in USD)

Data on July 2009	Industrial Sector
CEO	8,203
CFO	5,241
Commercial manager	2,734
Sales manager	2,188
Worker	501
Note: Nominal values for 8 hour employment.	

5. Useful addresses (all in Montevideo; add code +5982 to telephone numbers)

Asociación Bancos del Uruguay (Association of Banks of Uruguay)

Rincón 468, 2° floor

Tel: 916 23 42

Fax: 916 23

Asociación Rural del Uruguay (Rural Association of Uruguay)

Uruguay 864

Tel. 902 04 84/86

Fax. 902 04 89

www.aru.org.uy

consultas@aru.com.uy

Internal Audit of the Nation (AIN)

Paysandú 941

Tel. 900 03 94 / 901 12 57

Fax. 901 72 23

www.ain.gub.uy

Central Bank of Uruguay (BCU)

Diagonal Fabini 777

Tel. 1967

www.bcu.gub.uy

info@bcu.gub.uy

Social Security Bank (BPS)

Colonia 1921

Tel. 1997

www.bps.gub.uy

consultasweb@bps.gub.uy

State Insurance Bank (BSE)

Av. Libertador Brigadier General Lavalleja 1465

Tel. 908 93 03

Fax: 902 10 63

www.bse.com.uy

Stock Exchange of Montevideo

Misiones 1400

Tel. 916 50 51

Fax: 916 19 00

www.bvm.com.uy

bvm@bvm.com.uy

Electronic Exchange

Misiones 1537, 6th. floor Tel. 917 00 00

Fax. 917 00 00 int. 4

www.bevsa.com.uy

bevsa@bevsa.com.uy

Cámara de la Construcción del Uruguay (Uruguayan Construction Chamber)

Plaza Independencia 842, 9th. floor

Off. 905

Tel. 908 35 72 / 908 76 52

Fax. 900 69 00

www.ccu.com.uy

formweb@ccu.com.uy

Chamber of Industry of Uruguay

Av. Italia 6101

Tel. 604 04 64

Fax: 604 05 01

www.ciu.com.uy

ciu@ciu.com.uy

Chamber of Commerce of the Country's Products

Av. Gral. Rondeau 1908, 1° floor

Tel. 924 06 44

Fax. 924 47 01

www.camaramercantil.com.uy

info@camaramercantil.com.uy

National Trade Chamber

Rincón 454, 2nd. floor

Tel: 916 12 77

Fax: 916 12 43

www.cncs.com.uy

info@cncs.com.uy

National Industries Directorate

Sarandi 690 D, 2°EP

Tel. 916 24 11 / 12

Fax : 916 36 51

www.guiaindustrialuruguay.com/dni.htm

dirnaind@adinet.com.uy

General Trade Directorate

Uruguay 948

Tel: 901 41 15 / 900 71 95

Fax: 902 17 26

secretariadgc@dgc-mef.gub.uy

General Tax Directorate (DGI)

Av. Daniel Fernández Crespo 1534

Tel: 1344

dacontri@dgi.gub.uy

Rural Federation of Uruguay

Av. 18 de Julio 965, 1st. floor

Tel. 900 47 91 / 900 55 83

Fax. 900 47 91 / 900 55 83

www.federacionrural.org

fedrural@gmail.com

Technological Laboratory of Uruguay (LATU for its Spanish acronyms)

Av. Italia 6201

Tel: 601 37 24

Fax: 600 22 91

www.latu.org.uy

atencionalcliente@latu.org.uy

Ministry of Economy and Finance

Colonia 1089

Tel. 17122

Fax: 1712 2265

www.mef.gub.uy

seprimef@mef.gub.uy

Ministry of Agriculture and Fishing

Constituyente 1476

Tel. 410 41 55 / 58

Fax: 419 96 23

www.mgap.gub.uy

webmaster@mgap.gub.uy

Ministry of Industry, Energy and Mining

Paysandú esq. Libertador Brig. Gral Lavalleja, 4° floor

Tel. 900 02 31 / 33

Fax: 900 02 91

www.miem.gub.uy

direccion.general@miem.gub.uy

Ministry of Foreign Affairs

Colonia 1206

Tel. 902 10 10

Fax: 902 13 27

www.mree.gub.uy

webmaster@mrree.gub.uy

Ministry of Labor and Social Security

Juncal 1511

Tel: 916 26 81

Fax: 916 27 08

www.mtss.gub.uy

webmtss@mtss.gub.uy.

Ministry of Transport and Public Works Rincón 561

Tel: 915 83 33

www.mtop.gub.uy

difusion@mtop.gub.uy

Ministry of Tourism and Sports

Rambla 25 de agosto de 1825 s/n esq. Yacaré

Tel. 1885 100

Fax: 1885

www.turismo.gub.uy

webmaster@mintur.gub.uy

Ministry of Housing, Land Management and Environment Zabala 1432

Tel: 917 07 10

www.mvotma.gub.uy

secmtro@mvotma.gub.uy

National Trade Registry (RNC)

Av. 18 de Julio 1730, 7th. floor

Tel. 408 24 11

Fax: 402 91 93

www.dgr.gub.uy

rco@mercurio.dgr.gub.uy

Division of Industrial Promotion Actions' Administration Tel: 916 24 11 / 12 int.337

proyectos@dni.miem.gub.uy

Union of Exporters of Uruguay

Uruguay 917, 1st. floor

Tel. 917 01 05

Fax: 917 01 05

www.uruguayexporta.com

info@uruguayexporta.com