

This report provides helpful information on the current business environment in Uruguay. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

Report on Oriental Republic of Uruguay

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Important to Know

Official language

› Spanish

Currency

› Peso Uruguayo (UYU)

Bank holidays

2011	
January	1, 6
March	7, 8
April	18, 21, 22
May	1, 16
June	19
July	18
August	25
October	10
November	2
December	25
2012	
January	1, 6
February	20, 21
April	5, 6, 23
May	1, 21
June	19
July	18
August	25
October	15
November	2
December	25

Source: www.goodbusinessday.com.

Types of Business Structure

Under Uruguayan law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established.

Public limited liability company (corporation)

SA (*Sociedad Anónima*). This is a joint-stock company, which can be formed as an open or closely-held company. In an open company, shares are not registered to their owners and are tradable on a public stock market, whereas shares of a closely-held company are not available to the general public. SAs require a minimum paid up share capital of 25% before the business can be established, although there are no minimum or maximum capital requirements for formation.

Private limited liability company

SRL (*Sociedad de Responsabilidad Limitada*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires no minimum or maximum share capital, but it must be fully subscribed and at least 50% must be paid up at the time the business is established and fully paid within two years. SRLs can have no fewer than two and no more than 50 partners.

General partnership

SC (*Sociedad Colectiva*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

SCS (*Sociedad en Comandita Simple*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Partnership limited by shares

SCA (*Sociedad en Comandita por Acciones*). A partnership limited by shares allows some partners to limit their liability to the amount invested in the partnership (similar to a shareholder in a limited liability company), while general partners are fully liable. The shareholders can sell their shares to third parties. This requires no minimum share capital.

Cooperatives

Cooperativas. There are numerous cooperatives in Uruguay for various sectors. Each member has one vote and enjoys limited liability. This requires no minimum share capital.

Other organizational types

SCI (*Sociedad de Capital e Industria*). A capital and industry partnership is a type of partnership formed by individuals who contribute funds (capitalists) and individuals who provide only services. In this partnership, partners who contribute their work are liable up to the amount of their portion of retained earnings pending distribution. Silent partners (capitalists) are liable for the partnership's debts up to the capital they contributed.

SH (*Sociedad de Hecho*). A de facto partnership is a type of partnership lacking a written contract. It is subject to a regime similar to the general partnership.

Empresa unipersonal. A sole proprietorship is not considered to be a legal entity and is completely represented by its owner, who is fully responsible for its debts. All sole proprietorships must be registered with the General Tax Office, at the Social Security Office, at the Ministry of Labour and, in case of having employees, at the State Insurance Bank. This requires no minimum share capital.

GIE (*Grupo de Interés Económico*). A joint venture is an entity formed between two or more parties to undertake an economic activity, usually for a specific purpose or project.

Consortio. A consortium is an association between two or more companies or individuals to pursue a specific project. Members preserve their corporate identity and only bind themselves under the terms of the agreement. The agreement must be filed with the commercial registry and formally published in the Official Gazette and another newspaper.

Branches and representative offices

Non-Uruguayan companies are entitled to establish a branch office in Uruguay. A branch's activities are subject to Uruguay company law, although it is considered part of the company's head office and therefore not a separate legal entity. They require no minimum share capital. To open a branch, a company must file a number of documents, including head office articles of incorporation. Branches are primarily used for sales operations. While branches are permitted to make sales, representative offices may not sell directly in Uruguay.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be established in Uruguay in compliance with local legislation.

Domestic and foreign currency account restrictions

Residents are permitted to hold foreign currency accounts both within and outside Uruguay. They are not permitted to hold local currency (UYU) accounts outside Uruguay.

Non-residents are permitted to hold local currency and foreign currency accounts.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the customer.
- › Offshore banks are subject to the same regulations as onshore institutions but offshore trusts are not allowed.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at May 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

In Uruguay, VAT is not usually applied on banking services.

Payment and Collection Instruments

Cheques are commonly used by both companies and consumers and remain the most popular method of payment in Uruguay. Deferred payment cheques are available for payments due within 180 days. Electronic funds transfers are becoming more popular in Uruguay as the interbank payment clearing infrastructure develops. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with payroll via ATM particularly popular. A number of enterprises use third party payroll agencies. Non-urgent credit transfers are becoming a more common method of payment for business-to-business (B2B) transactions. Card payments are increasingly used for consumer transactions,

with credit cards more popular than debit cards. Direct debits are used primarily by utility and insurance companies to collect domestic payments; however, there is no interbank direct debit clearing and both payee and payer need to hold accounts at the same bank.

International Payments

International payments are processed by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (UYU-denominated)	Value dating rules	Cut-off time(s) in local Uruguay Standard Time (UYT)
High-value and urgent domestic transfers	Real-time settlement, immediate finality	17:30 UYT
Non-urgent, low-value domestic electronic payments	Payments are settled on a same-day or next-day basis	17:30 UYT for same-day settlement
Cheques	Settlement either next-day or in two days	17:00 UYT for next-day settlement

Central Bank Reporting

The Banco Central del Uruguay (BCU) does not apply central bank reporting requirements.

Exchange Arrangements and Controls

Uruguay applies no currency exchange controls.

Cash and Liquidity Management

There are limited opportunities to use cash management structures in Uruguay.

Physical Cash Concentration

Physical cash concentration is available from some Uruguayan and international banks. Resident and non-resident companies can participate in the same domestic cash concentration structure.

Pools can be denominated in local currency (UYU) and some foreign currencies. Cross-border and cross-currency physical cash concentration is not available.

Notional Cash Pooling

Notional cash pooling is available in Uruguay between accounts denominated in USD. There are strict rules which apply.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from one month to over a year, although shorter terms may be available. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms ranging from one week to a year.

Non-bank instruments

Few Uruguayan companies issue commercial paper (CP).

The Uruguayan government issues Treasury bills, denominated in UYU and USD. The UYU-denominated bills are issued with maturities between three weeks and one year. The USD-denominated bills tend to have longer maturities.

Some Uruguayan companies have access to international money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Uruguay in UYU and USD to both resident and non-resident companies. Banks will usually charge a margin over the average interest rate for the financial system published by the central bank for facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Some companies issue CP, though the market is limited. Issues are traded on the stock exchange.

Trade bills are discounted and factoring is available.

Taxation

Corporate Taxation

- › Resident companies are subject to economic activities income tax (IRAE). Non-resident entities obtaining income through a permanent establishment (PE) in Uruguay are also subject to IRAE.
- › The IRAE rate is 25%.

- › IRAE applies to annual net income derived from activities in Uruguay.
- › IRAE is imposed only on Uruguayan-sourced income. Foreign-sourced income is exempt from tax.
- › Losses may be carried forward for five years, adjusted by the year's inflation. Losses may not be carried back.
- › Income obtained by non-residents in Uruguay, other than through a PE, is taxed at a flat rate of 12%. Reduced rates apply for certain types of bank interest (3% and 5%) and for dividends (7%).
- › Income from technical services rendered abroad to local taxpayers will be considered to be Uruguayan-sourced.

Financial instruments

- › There are no specific tax rules in place to determine the tax treatment of financial instruments.

Interest and financing costs

- › Only expenses that are taxed in the hands of the recipient of the income are deductible. These expenses have to be taxed under Personal Income Tax (IRPF), Non-Residents' Income Tax (IRNR), IRAE or by an effective income tax abroad.
- › The percentage of allowable deduction depends on the rate at which they are taxed. As the rates of both IRNR and IRPF (capital gains) are 12%, the expense provides a 48% deduction (12/25 - IRAE rate). If income is also taxed abroad, the expense can be deducted by the following percentage: $(12 + \text{Foreign Income Tax rate}) / 25$.

Foreign exchange

- › There are no specific rules that deal with foreign exchange conversions.
- › There are no specific tax reporting rules in respect of the currency in which taxable profits and the tax liability are calculated.

Advance Tax Ruling Availability

- › In certain cases, the tax authorities will provide an advance ruling on certain tax aspects of businesses.

Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties/Fees
Resident companies	Nil	Nil	Nil
Non-resident companies in non-tax-treaty country	12%*	7%	12%

* Typically.

- › A rate of 3% or 5% applies to interest paid by financial institutions on certain deposits.

Capital Gains Tax

- › Business capital gains are treated as ordinary business income and are subject to IRAE at the rate of 25%.

Capital Tax

- › All businesses, including PEs of foreign entities, are subject to an annual 1.5% capital tax on the net worth of the company, subject to limited deductions.

Thin Capitalization

- › There are no thin capitalization rules. However, the allowable deduction of interest on loans granted from a non-resident entity is proportional to the rate to which such interest is taxed (the foreign rate + 12% IRNR over 25% IRAE).

Transfer Pricing

- › Uruguay has introduced transfer pricing rules, based on the Organisation of Economic Co-operation and Development (OECD) models.
- › These rules affect all entities that have transactions with related parties and companies situated in tax havens.

Sales Taxes / VAT

- › VAT is levied on domestic trade of goods, services and imports.
- › The general VAT rate is 22%. Certain products (e.g. basic foods, pharmaceuticals) and hotel services for residents are taxed at the reduced rate of 10%.
- › Exported goods are exempt, as are hotel services for tourists.
- › There is an internal specific duty levied at varying rates on alcohol, cosmetics, tobacco, fuel and cars.

Financial Transactions / Banking Services Tax

- › There are no specific financial transactions and/or services tax that apply to services, loans, money transfers, letters of credit and/or foreign exchange.

Payroll and Social Security Taxes

› Generally, the following contributions are required:

Contribution	Employee	Employer
DIPAICO* (retirement benefit contributions)	15%	7.5%
DISSE (medical insurance contributions)	3%, 4.5% or 6%**	5%
FRL (fund for retraining the unemployed)	0.125%	0.125%

* Those employees receiving monthly wages exceeding approximately USD 3,334 are only obliged to make retirement benefit contributions up to this amount. Contributions with respect to an amount in excess of USD 3,334 are optional.

** These percentages were increased by law so that children and disabled people could have free medical assistance. People in charge of children or disabled people must contribute 6%. Employees without children or disabled dependents must contribute 4.5% and persons receiving salaries lower than UYU 5,153 (approximately USD 258) must contribute 3%.

› Contributions by banks and financial companies are as follows:

Contribution	Employee	Employer
Retirement benefit contributions*	17.5%	32.75%
FONASA (medical insurance contributions)	3%, 4.5% or 6%**	5%
FRL (fund for retraining the unemployed)	0.125%	0.125%

* Uncapped. Employer's percentage may vary according to different types of financial companies.

** These percentages were increased by law so that children and disabled people could have free medical assistance. People in charge of children or disabled people must contribute 6%. Employees without children or disabled dependents must contribute 4.5%, and persons receiving salaries lower than UYU 5,153 (approximately USD 258) must contribute 3%.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 1, 2010.

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