Working and living in Uruguay

A brief overview to individual taxation

Deloitte.

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Contents


MERCADO AGRICOLA

Preface

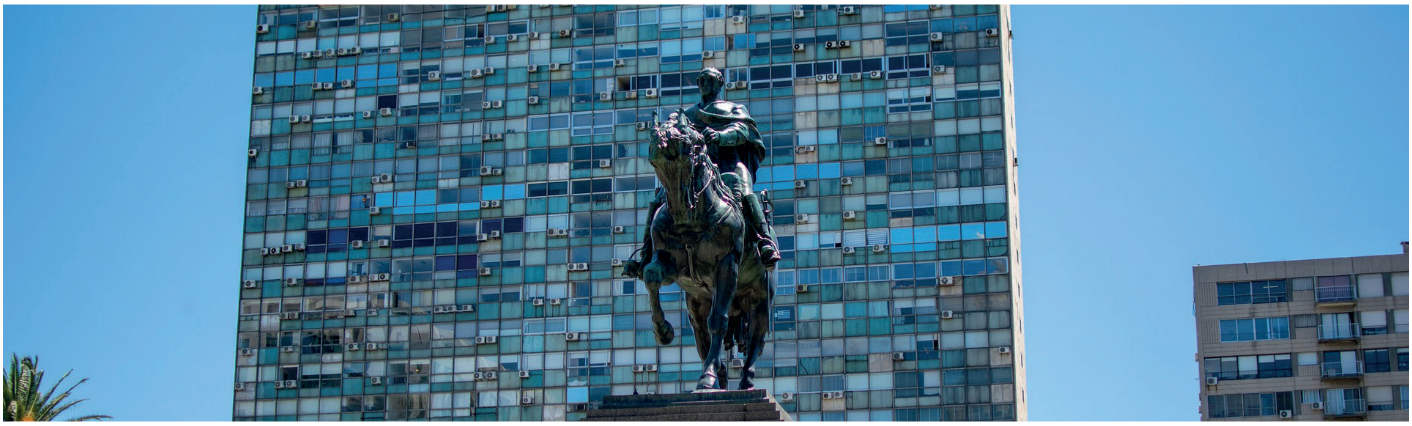
This booklet has been prepared in order to give you a general overview on the main aspects of immigration regulations, individual taxation and social security regime in Uruguay as at March, 2021

The idea is to provide a quick guide for employers considering sending international assignees to Uruguay and for employees who are contemplating a working assignment to this same country.

The booklet only presents a broad overview and does not provide in-depth answers to specific questions.

Given the complexity of the various laws and possible changes in our tax legislation, the information in this booklet should not be relied upon for tax planning in particular situations but only as a general overview. Rather, we encourage the reader to contact our Global Employer Services specialists to obtain detailed and up-to-date answers to questions.

Uruguay overview



República Oriental del Uruguay (The Oriental Republic of Uruguay normally known as Uruguay) is a South American country which lies on the Atlantic coast, located between Brazil and Argentina, with a population of 3.4 million people. According to the United Nations, Uruguay is one of the Latin American countries with the highest alphabetization rates, lower inequity index and highest human development levels.

Uruguay's economy is largely based on agribusiness making up the most substantial export. Agriculture (soy beans, rice, and wheat), cattle raising (cows and sheep) and agro industry derived products (meat, leather, milk and dairy) are the country's main resources. In the same way, over the last decades, a sustainable development of forest and tree resources is favoring the emergence of a booming export forest industry (mainly cellulose). Services (financial, logistics, transport and communications) also stand out as well as the dynamic IT industry, particularly software development and linked services.

Montevideo, is the capital city but also the most important port, followed by the ports of Colonia del Sacramento, Fray Bentos, Nueva Palmira, La Paloma. Other major cities are Paysandú and Salto on the River Uruguay, and on the Atlantic coast, 140 kilometers east of Montevideo: Punta del Este, one of the best-known seaside resorts in South America.

Immigration Requirements

Legal residence

Legal residence –either temporary or permanent – and the Uruguayan Identity Card (Cédula) are required for foreigners to legally work in Uruguay and be able to register before different entities.

If legal residence is not obtained, then the individual may only enter our country as a tourist and stay for a period not exceeding three months.

After obtaining the legal residence, the assignee will be given the Uruguayan Identity Card as a temporary legal worker for the period established in the working contract.

The process to obtain the legal residence may take up to six months depending on the complexity of the individual's situation. However, a temporary residence permit can be obtained within a few weeks.

Assignees from Argentina and Brazil

In the case of assignee's coming from Mercosur, a specific Legal Residence may be issued with less formal requirements for a period of one year – that may be extended to a second year.

Documentation and procedure

In order to obtain legal residence, a working contract with a local company is required (secondment agreement).

This contract together with other documentation required, needs to be filed before the Migration Office. It is important to get in contact with the Global Employer Services team in Uruguay to make sure all documents required for this procedure, issued by the home country, have been prepared prior leaving.

Identity form

In case the assignee´s period of presence in Uruguay does not exceed 180 days, it is not necessary to carry out the procedure to obtain legal residence. Instead, the individual needs to apply for an Identity Form which requires less formal procedures.

VISA

Although a working VISA is generally not required to enter the country, there are some specific exceptions for individuals from certain countries who do require a VISA.

It is important to bear in mind this in order to initiate the corresponding procedures with sufficient time before travelling to Uruguay.

Individual taxation Generalities

Taxation in Uruguay

Uruguay has a territorial concept of taxation. This means, in general terms, that income of Uruguayan source is taxed. Both resident and non-resident individuals are taxed on Uruguayan-sourced income they receive.

Taxation of these categories is calculated separately. For Work Income see page 11. of this booklet. For Capital Gains and Holding Income see page 13.

Tax year

The tax year corresponds to the calendar year for individual's taxation.

Source of income

Uruguayan-sourced income is defined as that which stems from activities developed, goods placed or rights used in Uruguay. It also includes, however, income received by employees of a local company (IRAE or IRPF taxpayer) when working abroad as well as that received by independent workers when providing technical services from abroad to an IRAE (Corporate Income Tax) taxpayer.

Tax residents are subject to personal income tax (IRPF), while non-residents are subject to Non-residents Income Tax (IRNR).

Both of these taxes are levied on two different categories:

- Work Income
- Capital Gains and Holding Income

Tax residence

An individual is considered a tax resident if he/she has been in Uruguay for more than 183 days in the calendar year, if the individual carries out activities in Uruguay or if his/her economical or vital interests are in Uruguay (there is an assumption that an individual has his/her vital interests in our country when his/her spouse and underage children live here).

The tax that has to be paid (IRPF or IRNR) depends on whether the individual is deemed to be resident or nonresident.

According to the regulations, economic interests are in Uruguay when the individual has one of the following investments in the country:

- In real estate for more than USD 1.600.000 (approximately)

- In real estate invested after 1/7/2020 for more than USD 375.000 (approximately) and a physical presence in the country of 60 days or more in a calendar year.

- In local companies (with investment projects approved) for more than USD 4.800.000 (approximately).

- In local companies for more than USD 1.600.000 (approximately), investment done after 1/7/2020, and whenever the company generates more than 15 new direct employees, full time, during the calendar year.

The above conditions (of economic interests in the country) will not make the person resident if he/she can prove tax residence in another country.

Treaties to avoid double taxation

Uruguay has double taxation treaties in force with Argentina, Belgium, Chile, Ecuador, Finland, Germany, Great Britain, Hungary, India, Italy, Liechtenstein, Luxembourg, Malta, Mexico, Paraguay, Portugal, Republic of Korea, Romania, Singapore, Spain, Switzerland, United Arab Emirates and Vietnam.

Please mind that in case of the existence of a tax treaty between Uruguay and the assignee's home country, the tax regime applicable might be different to that explained in this booklet. These cases should be particularly analyzed.

Income tax

Work income

Personal income tax (IRPF)

Generalities

Tax Resident individuals are subject to Personal Income Tax. This tax is levied on both: capital gains/holding income and work income, although calculated separately.

This chapter of the booklet covers taxation of Work Income received by employees (not independent workers). For taxation of capital gains and holding income, please see point 6 of this booklet.

Work Income is taxed at progressive rates ranging from 0% to 36%. In the case of employees of local companies, this tax is withheld monthly by the employer and paid directly to the Tax Authority.

Taxable income

In general terms, all benefits received by an employee –either in cash or kind– are subject to this tax.

A “Primary Tax” is first calculated applying the corresponding scale (Appendix 1) to all gross income.

Deductions

There are very few admitted deductions – and basically include Social Security Charges paid in Uruguay, a notional amount per under-aged child and mortgage loans.

There are deducted at a specific rate that depends on the level of income of the individual.

Filing obligations

Companies are required to make an annual adjustment of this tax by the end of the year to each of their employees included in payroll in December.
Individuals working for only one employer who are also included in the Uruguayan payroll as at 31st December each year are, in general, not required to file a tax return for Work Income.

In all other cases, a tax return is most likely to be required.

Filing of the tax return is usually due between July and August of the year following the tax year-end.

Payment / Credit

If there is a balance due, the payment of the owed amount is made in the following year to the tax year-end. In case the Tax Return results in a credit, such will be reimbursed by the Tax Authority in a local bank account.

Joint assessment

Taxpayers may opt between filing as an individual or joint assessment. Different scale is applicable to joint assessment.

Although it may seem more tax-advantageous at first, this option is not always convenient because it may entail further expenses. Hence, each individual case should be analyzed.

Non-Resident income tax (IRNR)

Generalities

When an individual is considered a non-resident from the tax point of view, it is subject to Non-Resident Income Tax. This tax is levied on both, capital gains/ holding income and work income although calculated separately. Work gross income of Uruguayan source is taxed at a flat rate of 12%.

For capital gains/holding income, please see page 13. of this booklet.

In the case of employees, this tax – like IRPF – is withheld by the local employer monthly and paid directly to the Tax Authority.

However, there might be cases in which no withholding agent has been designed. Thus, the non-resident should appoint a resident individual or entity to represent it towards the Uruguayan Tax Authority (DGI).

Filing obligations

In general, since this tax is usually paid via withholding, there is no obligation to file a tax return.

Employees of a free zone user

Foreign employees of a Free Zone who opt out of the Uruguayan Social Security System may choose to be subject to Non-Resident Income Tax (IRNR) instead of paying Personal Income Tax (IRPF) for the income related to the activity in the Free Zone.

In both cases, IRNR and IRPF, all income paid/reported by the FZ employer will be subject to tax, irrespective of the work being carried out within the Faz or abroad.

Capital gains and holding income

Generalities

Both, residents and non-residents are taxed on the capital gains and holding income of Uruguayan source by Personal Income Tax and Non-residents Income Tax respectively. Capital gains are those derived from the sale of an asset (profits on the sale of real estate, shares, etc.), while holding income is that derived from the possession of an asset and basically includes dividends, interests, rents and royalties.

Tax residents are also taxed on holding income (not capital gains) derived from movable assets such as loans, deposits and any kind of capital investment in non resident entities.

In case of investments in tax heavens or low taxation regimes, tax residents find taxed holding income and capital gains without restrictions.

There is a tax credit for taxes paid abroad for this foreign-sourced income.

Foreigness that become tax resident in Uruguay enjoy a tax holiday on foreign holding income for the first 6 years of residence.

However, individuals that become tax resident in Uruguay as from 1 January 2020 can elect one of the following options:

-An eleven-year tax exemption on foreign holding income, after which the general 12% rate will apply; or

- No exemption, but a reduced 7% rate will apply permanently on such foreign-source income.

Tax resident individuals that are currently within the six-year exemption period can elect to extend this period to eleven years if they invest in real estate in Uruguay after January 2021 for more than USD 375.000 (approximately) and have physical presence in the country of 60 days or more in the calendar year.

Rates

The general rate is 12% for taxed holding income and capital gains in both, IRPF and IRNR. A 7% rate is applicable in the case of dividends of Uruguayan companies.

However, if these dividends relate to holding income from non-resident entities, the rate applicable is 12%. Also, reduced rates may apply to certain deposits in local financial institutions as well as some interests derived from local debentures and other local debt securities.

Payment and filing

In all cases where there is no designated withholding agent, the individual is required to include these income in an annual tax return filed the following year to the tax-year end. In some cases payments in advance are required.

Social Security

Generalities

Social Security Charges (CESS) are payable by both, the employer and the employee over all the payment received by employees related to their activity in Uruguay.

Personal charges are withheld monthly by the local company and paid directly to the Social Security Authority.

	Employee	Employer
Retirement Benefit Contributions	**15%**	**7.5**
Medical Insurance Charges	**4.5% - 8%**	**5%**
Fund for retraining the unemployed	**0.1%**	**0.1%**
Labour credit Guarantee Fund		**0.025%**

Rates

Retirement benefit contributions are capped to approx. USD 4,700 (this amount changes in February each year). Contributions over this amount are optional.

The rate applicable to Medical Insurance Charges will depend on whether the individual has under-aged children or not and whether it has a non-working spouse.

Private pension funds (AFAP)

Uruguay has a "mixed" regime in terms of Retirement Benefit Contributions. Depending on the salary of the individual and age, the withholding made by the employer will be paid partly to a Private Pension Fund (AFAP) – which may be chosen by the individual – and partly to the Social Security Authority. Upon retirement, these contributions may or not be recovered depending on the years worked in our country and the existence or not of a Social Security Agreement between Uruguay and the home country.

Social security agreements

There are social security agreements between Uruguay and several countries which basically benefit seconded individuals from accumulation of years of work while in Uruguay and the possibility to opt not to be included in the Uruguayan Social Security System – which is commonly referred to as a Certificate of Coverage.

Individuals holding a certificate of coverage will be subject to Social Security Charges in their home country for their work in Uruguay. However this option can only be developed for a period of one year –and sometimes extended to a second year.

The countries with which Uruguay has social security agreements with are Argentina, Austria, Belgium, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Ecuador, El Salvador, France, Germany, Greece, Israel, Italy, Luxembourg, Netherlands, Paraguay, Peru, Portugal, Quebec, Spain, Switzerland, USA and Venezuela.

Employees of a tax free zone user

Foreign employees of a Tax Free Zone user may opt out of the Social Security system in Uruguay and not pay these contributions in our country. Further to this, those individuals who do opt out may also choose to pay Non-Resident Income Tax (IRNR) rather than Personal Income Tax (IRPF).

In both cares, IRNR and IRPF, all income paid/reported by the FZ employer will be subject to tax, irrespectiveof the work being carried out withinthe FZ or abroad.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Tax on net worth

Generalities

An annual Personal Net Worth Tax is imposed on residents and non-residents. The tax is levied on assets situated in Uruguay on the 31st December each year valued according to fiscal regulations. Only debts with local banks can be deducted from taxable assets.

Rates

Individuals are taxed at progressive rates ranging from 0% up to 0,5%
The non-taxable amount is of approximately USD 120,000 and is doubled in the case of joint assessment.

Appendix

Rates for 2021

Primary Tax

Monthly scales in UY$		
from	to	
-	34,090	0%
34,090	48,700	10%
48,700	73,050	15%
73,050	146,100	24%
146,100	243,500	25%
243,500	365,250	27%
365,250	560,050	31%
More than 560,050		36%

Annual scales in UY$		
from	to	
-	409,080	0%
409,080	584,400	10%
584,400	876,600	15%
876,600	1,753,200	24%
1,753,200	2,922,000	25%
2,922,000	4,383,000	27%
4,383,000	6,720,600	31%
More than	6,720,600	36%

Deductions Tax

Monthly scales in UY$		
from	to	
-	73,050	10%
73,050		8%

Annual scales in UY$		
from	to	
-	876,000	10%
876,600		8%

Our clients say so everyday:
"What matters today is service excellence, quality professionals, and industry knowledge."

Our services for expatriates

Entrance Meeting

We inform the assignee, from an unbiased perspective, about Personal Income Taxes (IRPF/IRNR), Social Security Charges (CESS), tax on net worth as well as any specific regime that may be applicable.

Procedures to obtain legal residency

We carry out the necessary procedures to obtain the documents which entitle foreigners to work in Uruguay.

Revision of employment contract and benefits

We analyse the employment contract and benefits received by the assignee in order to determine the proper taxability for IRPF/IRNR and CESS, as well as possible tax savings applicable.

Advice on social security agreements and obtaining a certificate of coverage

Uruguay has signed several social security agreements which benefit seconded individuals from temporary transfers as well as accumulation of working periods. In order to be benefited by these agreements, we carry out the necessary procedures to obtain the Certificate of Coverage required.

Advice on treaties to avoid double taxation

Uruguay has signed several treaties regarding this issue, some of which are currently in force while others are still waiting for parliamentary approval.

Tax equalization/Hypo tax calculation

We assist the company and the assignee in comparing the remuneration received in the home country to that received in the host country, in order to offset any difference so that working abroad is tax neutral for the employee.

Tax return / Tax amendments

Those employees working for only one employer during the calendar year and included in payroll in each December, do not need to file a Tax Return. The obligation to do so arises the year in which the assignee leaves the country. Deloitte can calculate and file the Tax Return when it is compulsory as well as when it is optional and the assignee decides to do so. Amendments of Tax Returns are also handled by our team in order to ensure full compliance with local taxes.

Tax reconciliation

In cases where the expatriate's contract establishes that part of the salary will be borne by the company and part by the assignee, often a Tax Reconciliation process needs to be carried out after the annual tax is calculated. Our team can provide support in these calculations to ensure a proper allocation of income and deductions when calculating the tax burden/credit supported by each party.

Exit meeting

We give advice and support regarding tax obligations that may arise in the year leaving the country, as well as on claiming tax credits consequence of that year's taxation.


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