

FREE TRADE ZONES IN URUGUAY – WHAT ARE THEY GOOD FOR?

Introduction:

In 1988, Law 15.921 created Uruguay's Free Trade Zone (FTZ) regime allowing any type of industrial, commercial, or service activity to be carried out in a designated FTZ.

Today, there are 12 Free Trade Zones (FTZs) in Uruguay, used for a range of activities, including bottling plants, cellulose plants, private banking, call centres and regional distribution hubs.

The purpose of the law is to:

- encourage foreign investment
- create jobs
- increase exports
- and promote international economic integration.

Over the last 29 years, the FTZ regime has encouraged progress in all four areas. And it seems likely the popularity of FTZs will continue well into the future.

Types and locations of Free Trade Zones in Uruguay

Free Trade Zones can be divided into two basic types:

- public FTZs
- and private FTZs.

Public FTZs are commonly created for the benefit of a single large user. For example, the FTZ in Fray Bentos (a town on the Uruguay River), is occupied exclusively by UPM, a company operating a cellulose plant.

Private FTZs are established and regulated by the Honorary Commission for Duty Free Zones, part of the Ministry of Economic and Culture ("MEC").

Most private FTZs are near Uruguay's capital and only major population center, Montevideo, on Uruguay's southern coast.

Examples of private FTZs include the World Trade Center (WTC) Free Zone, Aguada Park and Zonamerica.

Requirements to use a Free Trade Zone:

In order to operate from a FTZ the interested party must:

1. Set up a special type of company, whose statutes will be specific for the FTZ activity.
2. Prepare an investment project plan (basically a business plan) that requires approval by the MEC. The plan must provide information about:
 - i) The owners of the company and their business history.
 - ii) The amount of capital investment foreseen.
 - iii) The number of employees.
 - iv) Projected gross turnover.
 - v) Projected rate of return on capital investment.

There are no restrictions on the nationality of the owners of the business and no requirement to have a local partner.

Note that a maximum of 25% of the employees can be foreign nationals. It is possible to get a temporary exemption on this limit.

Tax and Social Security Advantages:

FTZ companies are exempt from all existing and future taxes. As of today, this means the following taxes are not applicable:

1. Income Tax on Economic Activity (I.R.A.E.).
2. Asset Tax (I.P.).

3. VAT (I.V.A.).
4. Specific Internal Tax (I.M.E.S.I.).
5. Control Tax on Companies (I.C.O.S.A.).

The government guarantees these tax exemptions, which is particularly important regarding future taxes.

Likewise, there is no restriction on the sending of profits or dividends abroad and/or capital.

The only limitation is that such remittances will be taxed if they are subject to tax in the country of domicile of the recipient and that person has a tax credit for any taxes paid in Uruguay. In other words, Uruguay will tax such payments, but only if the person can get tax relief for the same amount paid in their home country, via a double taxation or similar agreement.

All employees are required to pay local income tax and social security contributions. Foreign employees can opt out of the social security contributions, but not income tax!

Some Restrictions/Drawbacks:

1. Rentals are considerably higher than those in non-FTZ areas.
2. Salaries are also higher, although in part that reflects the fact that many of the jobs are for well skilled positions.
3. Other costs, such as service charges, will also be correspondingly higher.
4. For industries which depend on Trade preference deals, a FTZ will likely not be a good option, because in these cases where there is a quota

allocated to Uruguay then that quota goes first to companies operating outside the FTZ areas.

Conclusion:

In addition to providing a friendlier tax environment for businesses, Free Trade Zones have been good for Uruguay by providing a source of generally well-paid employment for a substantial number of Uruguayans and attracting considerable sums of foreign investment. We anticipate that they will continue to grow in the future.

In a follow up article we will refer to some specific examples of companies which have set up operations in the Free Trade Zones.

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