

## URUGUAY – TAXES FOR SMALL BUSINESSES

### **Introduction:**

Historically, many sole traders in Uruguay operated “informally” due to the high registration and reporting costs associated with a small business.

(Having previously run a small import business in Uruguay, I can testify that the fixed minimum monthly reporting costs can be entirely disproportionate to the size of the business.)

As a result, many sole traders earning a modest living, were not contributing to social security or paying taxes, and didn't have access to healthcare (or any other social security benefits). And additionally, could not get formal credit to grow their businesses.

The government sought to address this problem with reduced reporting requirements for very small businesses.

### **Creation of the Single Tax (“Monotributo”):**

In 2007, the government passed Law 18.083 which created a regime to make all tax and social security payments in a single monthly payment to the BPS.

The idea is to encourage people in the informal sector to become part of the formal economy. It is intended to increase government revenues, but also provide these people with access to healthcare and possible financial assistance.

It also represents an opportunity for foreigners looking at Uruguay as a possible retirement location, but want or need to supplement their income with part-time self-employment, but without the standard costs or paperwork associated with setting up a company.

### **What limitations are there on business activities?**

When the law passed in 2007, it was intended for market stall owners and the like. But now, the regime is open to almost any activity (including services), with only some specific limitations as follows:

- For a sole-trader, you can only have up to one employee – although you can work with a spouse or concubine.
- For a partnership, there can only be two partners (three if they are family members) and no employees.
- You cannot operate out of a shopping centre or other premises over 15 square metres.
- You cannot run an import business under this format.

### **How much do you have to pay?**

The amount to be paid per month depends on whether or not the person wants to have health coverage and the number of family members.

For a sole trader, the minimum payment is 1,223 Uruguayan pesos (approx. 40 US dollars) per month without healthcare. Or, 3,019 Uruguayan pesos (approx. 110 US dollars) per month including healthcare.

If a sole trader has children under 18, they can be included in the healthcare coverage for a total of 3,345 Uruguayan pesos (approx. 125 US dollars) per month.

If the sole trader has a spouse or concubine, the minimum payment is 2,447 (approx. 90 US dollars) without healthcare coverage. Or, 6,039 (approx. 210 US dollars) per month with health coverage for the spouse/partner, and 6,619 Uruguayan pesos (approx. 225 US dollars) per month to include children under 18.

### **How much can you invoice?**

A sole trader can invoice up to 641,946 Uruguayan pesos (approx. 22,000 US Dollars) per annum.

A partnership can invoice up to 1,069,910 Uruguayan pesos (approx. 36,000 US dollars) per annum.

There is no monthly limit, as long as the yearly figure is not exceeded.

If the total exceeds this, the person will become responsible for the other taxes as per the standard regime – basically a 22% Value Added Tax (VAT) and Income Tax.

Once the limit is exceeded and the person goes over to the standard regime, then it is not possible to revert to the monotributo for 3 tax years.

### **What are the benefits?**

The person is entitled to health coverage under the Fonasa scheme for a minimal payment, and this can also cover family members.

No need to complete complicated tax returns or VAT returns. You just pay a single fixed amount once per month.

The person does not have to charge VAT on any of their sales.

It can be used as a means of proving an income to gain access to credit.

For foreigners applying for residence, it can be used to complement other earnings to show a sufficient income for residence purposes.

### **How do you register?**

The registration process is straightforward. But it is still worthwhile to get an expert to do it--to avoid making mistakes and to save a lot of time queuing up at the different offices!

Separate registrations are still needed at the Tax Office (DGI), Social Security Office (BPS) and the Labour Ministry. Also one must contract work accident/illness insurance.

### **Conclusion:**

The monotributo law creates a generous regime for people wishing to set up a very small business.

For foreigners wishing to move to Uruguay it also represents an extremely inexpensive way of obtaining private healthcare. It can even be worthwhile without actually working!

It can also be used as evidence of part of the income needed to satisfy the requirement to obtain permanent residence.

Obviously, if the business takes off, it will be necessary to adapt to the regular regime, which will mean having to charge 22% VAT and pay income tax. But if the business is growing well then you should be in a position to take on these additional charges.

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