

## **HOW TO BUY REAL ESTATE IN URUGUAY**

### **Introduction:**

Uruguayan economic policies and deregulation of the real estate market, which has been in place for over 20 years, have helped to make Uruguay an internationally known real estate market.

Uruguay has a legal regime which provides for the free entry and exit of foreign currency and also permits it to be freely converted into the local currency.

### **Currency for transactions:**

All real estate transactions are carried out in US Dollars, whatever the value of the transaction. As will be seen below, for certain tax aspects the value is recalculated in Uruguayan pesos and taxes are paid in pesos, but the transaction itself will always be in US dollars.

### **Who can buy?**

Anybody is free to purchase real estate in Uruguay and to that end they can purchase in the name of a physical person or a legal person. It makes no difference if the person – physical or legal - is Uruguayan or not, resident or not – all are treated the same. Uruguay has its own forms of company which can be used if desired and for over 10 years it has also been possible to establish Trusts specifically for investment in real estate.

### **Minor restrictions on purchases:**

There are two minor restrictions in the case of rural properties. These are:

- 1) Any purchase or acquisition of rural property must be in the name of a physical person (national or foreign, resident or not) or by a company with named partners or limited companies with named shareholders, who are physical persons and
- 2) the sale of rural property of over 500 hectares, must first be offered to the Instituto Nacional de Colonización (a public organism which is intended to promote the growth of

the rural population), who can purchase the land at the same price as the proposed purchaser.

### **Role of Estate Agents:**

Property can be purchased directly or through a real estate agent. In the case that an agent is used the standard fee is 3% + VAT.

### **Legal Requirements and Fees:**

As stated previously there are no restrictions on who can purchase property – except for those affecting rural property. However the purchaser must use a public notary to act for him in preparing the legal documents. The notary will advise the purchaser on the nature of the transaction and ensure the title deeds are all in order. The standard fee for a notary is 3% + VAT (plus taxes and expenses) on a purchase and 1% + VAT on a sale.

### **The purchase process:**

The process starts with the signing of a reservation contract – a “boleto de reserva” in Spanish. This is the formal acceptance of an offer to purchase and binds both parties to go ahead with the transaction. But unlike in other jurisdictions the title investigation is only carried out after the signing of the contract, so if any defects in title are found then the contract can be rescinded without penalty. A 10% deposit is normally paid on the signing of the contract and if one party defaults then it is usual to include a penalty clause equivalent to the deposit to be paid by the defaulting party. The deposit is held by the notary in an escrow account.

It is normal for the reservation contract to establish a period of between 30-60 days to proceed to closing.

As above the standard notarial fee is 3% +VAT. If one adds on the estate agents fee and all expenses and taxes in general one should expect transaction costs on a purchase to be around 8% of the purchase price.

## **Tax Regime.**

The following taxes are applicable on a transfer of property

### **1. Impuesto a las Transmisiones Patrimoniales (ITP) – Asset Transfer Tax**

This tax is payable at the time of purchase and also on any later sale, whoever the purchasing or selling party is. The rate of tax is 2% of the rateable value of the property (NB: Not the same as the real value and normally considerably less).

### **2. Impuesto a la Renta de las Personas Físicas (IRPF) or Impuesto a la Renta de No Residentes (IRNR) – Income Tax on Physical Persons or Income Tax on Non-Residents**

This tax is only payable by physical persons on the sale of the property and is the equivalent of a capital gains tax in other jurisdictions. It is payable at the rate of 12% on the difference between the original purchase price and the sale price – but this figure is adjusted to take into account inflation.

### **3. Impuesto al Patrimonio – Wealth Tax.**

This tax is paid annually as follows:

1) by physical persons – residents or not – whose assets in Uruguay are over approximately USD 130.000 and tax is paid annually on a sliding scale starting at 0,7% and topping at 2,8%, based in the case of physical persons on the rateable value of the property. Note that a person's principal residence is valued at 50% of its rateable value for the calculation of this tax.

2) by legal persons at the rate of 1,5% of the purchase value of the property (which price is adjusted for inflation).

### **4. Impuesto de Enseñanza Primaria – Primary Education Tax**

This is a minor tax payable annually at a rate of between 0,15% and 0,30% of the rateable value of the property.

## 5. Contribución Inmobiliaria - Rates

This is an annual tax payable to the local government at a rate of between 0,25% to 1,40% on the rateable value of the property.

### **Conclusion:**

For many years Uruguayan real estate has been a safe haven for Latin American investors, particularly those from Argentina. But over the last 10 years there has been a growing presence of Europeans and North Americans, due in part to large rises in the value of farmland particularly. These rises, whilst in part due to global factors, are also predicated on the stability of the Uruguayan economy and its legal regime in general.

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