URUGUAY – TAXES AND OTHER STUFF

Introduction:

Historically Uruguay's tax and financial systems were based on three fundamental concepts:

1. Territoriality – meaning that only income generated within Uruguay was subject to tax. This has always been very important for foreigners coming to Uruguay to retire for example, as it meant their "foreign" income was not taxable.
2. Bank Secrecy – so that a bank could not give any information about an account without that person's consent - save for a judicial order, where there was prima facie evidence of a criminal offence.
3. Taxation was based on capital assets rather than income.

As of 2007 this changed as Uruguay brought in an income tax - without reducing any of the existing taxes! Bank secrecy has also ceased to exist as a result of international regulations to prevent money-laundering and tax evasion. The fundamental principle of territoriality remains in place though and, as will be seen, Uruguay still has no inheritance tax for example. Also there are double taxation provisions in place to prevent double payment of income tax, so it is not all bad news for people or companies looking at Uruguay to live or establish a business.

Description of main taxes:

1. Personal Income Tax – Impuesto a la Renta para Personas Físicas (IRPF)

As per the above, Uruguay has only had a personal income tax since 2007. Prior to that date there had been an attempt in the 1960's to have such a tax, but it failed miserably, due to it being too easy to avoid/evade.

IRPF has two bases of calculation: for income from employment, with progressive bands up to a top rate of 36% and a zero rate band ending at $25000 pesos (approx. U$S900 per month): for income from capital assets e.g. a house rental, taxable at between 3-12%, with no zero rate band.

Note that Uruguay has no specific capital gains tax, instead such are considered to fall within the definition of income from capital assets and thus taxed at the 12% rate referred to above.

The tax must be paid by all people living in Uruguay for more than 183 days per year (or those who have obtained fiscal resident status by showing that they have the centre of their economic activity here, even if they are physically present less than 183 days) and covers only their income from activities within Uruguay (i.e. Uruguayan source). So foreigners coming to Uruguay with for an example a pension or a rental income do not have to pay any income tax in Uruguay.

The only exception to the territoriality principle is regarding income from foreign “financial instruments”. These are specifically included within the tax in order to prevent Uruguayans just sending their savings abroad. Note that there is also a 5 year exemption from this aspect of the tax for new residents and even after 5 years if tax has already been paid in another country then that amount will be deducted from any amount due in Uruguay. So if the tax rate is higher in the country of origen then nothing will be paid here.

2. Income Tax on Commercial Activity – Impuesto a la Renta de las Actividades Económicas (IRAE)

This tax covers the net income from Uruguayan sources derived from economic activities of any kind. The current rate of this tax is 25%. Note that this tax also covers agricultural activities, although in some cases the taxpayer can choose to pay a different tax: Sales Tax on Agricultural and Livestock (“IMEBA”).

Sole traders or small businesses (“Monotributistas” and “Pequeñas empresas”) with a turnover of up to approx. U$S2000 per month for the former and U$S3300 for the latter can obtain exemption from this tax. In our next article we will cover this possibility in more detail. For people who want to earn a supplemental income this can be useful as it also entitles one to a discount on health care through the FONASA system.

Note that Capital Gains made by companies are also considered as income and come within this tax and thus are taxable at 25%.

3. Wealth Tax – Impuesto al Patrimonio (IP)

This is an annual tax on certain net assets in the country. The rate is 2.8% for banks and financial institutions and 1.5% for other legal persons. For physical persons the rate varies from 0.7% to 1.5%. The zero rated band is approximately U$S125000, which is doubled for married partners. The main family residence is also valued at the rateable value, rather than the real commercial value and since fiscal values are generally well below the commercial value the result is that this tax is paid by only a very few people.

In addition companies can discount a substantial amount of any tax paid from their annual IRAE bill.

4. Value Added Tax – Impuesto al Valor Agregado (IVA)

VAT is a tax applied to all sales of goods and services within Uruguay. Note that even if the good or service is sent abroad or provided to foreigners, VAT must still be paid. This is different to how VAT works in many other countries. The basic rate is 22%, but there is a minimum rate of 10% for some essential items and medicines; also, some goods, such as basic food items, are exempt from VAT.

VAT is the main source of government income – 50% of total tax revenue.

Sole traders and small businesses can also get exemption from VAT as mentioned above.

5. Asset Transfer Tax – Impuesto a las Transmisiones Patrimoniales (ITP)

This is a sort of stamp duty paid on the sale of real estate. Both parties must pay 2% of the fiscal value of the property (which is usually lower than the market value). In the case of an inheritance the heirs or beneficiaries have to pay this tax at a rate of 3%. Note that there is no specific inheritance tax in Uruguay, so this is the only tax payable on a death at least as regards Uruguayan assets.

6. Import Duty – Impuesto Especifico Interno (IMESI)

Traditionally South American countries have had high tariffs – a legacy of the protectionist policies which were intended to create and defend local industries. Uruguay is part of the Mercosur and as such has a common external tariff of 20%, but with numerous exceptions and limitations. The maximum is currently 35% for shoes, sugar and cars. This year (2017) Uruguay has introduced an additional Consular Duty – 2% extra (in an effort to protect government finances). But on the positive side many capital goods can be brought in tax free and there are also special terms for the IT and telecommunications industries.

Also on the positive side there is no duty on exports!!

7. Company Control Tax – Impuesto al Control de las Sociedades Anonimas (ICOSA)

This is a tax paid by corporations at the end of each tax year. The rates is 0.75% per annum based on the balance sheet assets of the company at the end of each tax year.

Other relevant taxes/local rates:

8. Primary Education Tax – Impuesta de Primaria

This is an annual tax payable on all real estate and which is specifically destined toward primary education. Rural properties used to be excluded, but have now been included as well. The amounts to be paid are not usually significant – this tax is more a nuisance than anything else, but it all adds to the total tax burden.

9. Municipal Property Tax – Contribución Inmobiliaria.

This is an annual tax on real estate paid to the municipality. The amount to be paid varies according to the value of the property and within each municipality. In Montevideo, where 50% of the population live, property taxes can now be several thousand US dollars per year for a 3 bedroom apartment in a nice part of the city.

10. Car Licence Tax – Patente

This is an annual tax per car on the road. Historically cars were viewed as a luxury item and hence only rich people had them and they were heavily taxed. As noted above there are still high import duties on cars and in addition one must pay each year to keep the car on the road. Just in the last couple of years the municipalities have agreed on a standard amount for each model of car. The amounts due are again not insignificant and are also progressive for newer and more expensive models of car.

11. Electricity, gas, water and petrol.

Technically these are not taxes, but they are all state monopolies and as such act as a source of revenue for the government and can be viewed as a form of indirect taxation. All utilities are expensive and petrol ("gas" for US readers!) is amongst the most expensive in the world at U$S1.64 per litre.

12. Social Security Contributions – Banco de Prevision Social (BPS)

In addition to the income taxes referred to both employers and employees must pay social security contributions. These vary depending on the activity being carried out, but in some sectors such as construction they are a very considerable burden – up to 100% of the nominal salary.

Conclusion:

The sum of the above taxes highlights the benefits of establishing a business in a Free Trade Zone (FTZ) for businesses not selling exclusively or principally within the Uruguayan market, as mentioned in a previous article.

For foreign physical persons the tax regime is still advantageous since the territoriality principle is applicable for foreign income and there is basically no inheritance tax.

For many middle class Uruguayans however the tax burden is becoming increasingly hard to bear, particularly with wage growth now static. It used to be said that more than football, the national sport in Uruguay was avoiding paying taxes, but for many it is now becoming almost a matter of survival - IMO!

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