

New incentives for investments and changes in matter of tax residence

A recent Decree establishes new incentives for investments – establishing tax benefits for different activities – and also modifications in relation to the concept of tax residence

Recently the Government issued Decree No. 330/016 by virtue of which certain rules are stated in order to promote investments related to the rendering of global services, to the scientific and technological innovation, and to the carrying out of international events. Furthermore, such Decree states certain adjustments to the concept of tax residence in relation to foreign investments.

See the text of the Decree in the following link: [\[CLICK HERE\]](#).

I. Extension of the regime applicable to Centers of Shared Services

1.1. Extension of the activities that can be rendered by Centers of Shared Services.

The Decree introduces modifications to the rules stated in Decree No. 251/014 which is the one that regulated in detail the regime applicable to Centers of Shared Services (hereinafter CSS).

CSS are entities belonging to a multinational group which its exclusive activity is the rendering of certain services in favor of their related parties. Such services are those referred in the regulation and make reference to activities developed, goods located or rights economically used abroad.

The Decree extends the scope of services to be rendered by CSS, including managing/direction activities (comprehending planning activities, business developing activities, advertising, administration and personnel training), logistic and storage, financial administration, and support of investigation and development operatives.

All the afore-mentioned services must be used abroad.

1.2. Extension of benefits in favor of a new category of Centers of Shared Services.

The Decree incorporates a new paragraph to section 2 of Decree No. 251/014, providing that tax benefits are also applicable to CSS which, without prejudice of complying with the rest of the requirements set forth in the regulation, generate at least 100 (one hundred) of new jobs (as a general rule, one hundred and fifty are required) and the expenses for training activities exceed UI 5.000.000 (five million Indexed Units – *Unidades Indexadas* –) (as a general rule, ten million are required).

1.3. Tax benefits for the new category of Centers of Shared Services.

The Decree exonerates from 70 % (seventy per cent) of the Tax on Income of Economic Activities (*Impuesto a las Rentas de las Actividades Económicas*, IRAE), and for a period of 5 (five) fiscal years, the income obtained through the activities developed by the referred CSS.

II. Extension of services rendered from Free Trade Zone

The Decree replaces letter b of section 1 of Decree No. 84/006 (according to the text given by section 1 of Decree No. 496/007), authorizing to Free Trade Zone users the rendering of certain services (management, administration, accounting, among others) in favor of related parties, providing that such services do not exceed 5% (five per cent) of the income obtained in the fiscal year.

III. Determination of the criterion applicable to tax residence in case of economic interests

The Decree incorporates a paragraph in section 5 of Decree No. 148/007 stating that, except for the case that the taxpayer proves its tax residence in other country, it should be considered that a person has the center of its economic interests in Uruguay – one of the criterions set forth in the current regulations in order to determine the tax residence – when it has within Uruguayan territory:

(i) an investment in (a) real estate(s) for a value that exceeds 15.000.000 UI (fifteen million Indexed Units – *Unidades Indexadas* –, aprox. USD 1.900.000), according to the calculation rules provided by the current regulations, or

(ii) direct or indirect investment in a company, for a value that exceeds 45.000.000 UI (fourty five million Indexed Units – *Unidades Indexadas* –, aprox. USD 5.700.000), which includes projects or activities that have been declared as

national interest in accordance to the Investment Act and its regulation. In order to determine the investment value it must be taken into consideration the criterion stated in the current regulations.

IV. Services of international events management

The Decree replaces subsection 8 of section 34 of Decree N ° 220/998 (according to the text given by section 1 of Decree 550/009, which regulates the export of services regime in relation to the Value Added Tax – VAT –), incorporating to the rental of convention halls the services related to the international events management rendered in such halls, and also the registration for the referred events, providing that the following conditions are met:

(i) the hired convention hall is used for international events and it is registered before the Ministry of Tourism,

(ii) the consideration for the services under analysis is clearly distinguishable of the payment for the rest of the services rendered,

(iii) the event must count with a declaration of tourist interest issued by the Ministry of Tourism.

V. Financing of innovative enterprises

V.1. Promotion of activities.

The Decree declares promoted, under the provisions of the Investments Act, the activities intended to promote the development of business project which count with the favorable opinion of the National Agency for the Investigation and Innovation (*Agencia Nacional de Investigación e Innovación*, ANII) and imply scientific and technological innovation.

In this sense, there are considered as financing activities the cash contributions in favor of entities that develop the referred projects.

V.2 Tax benefits and period for the exoneration.

There are exonerate from both Resident Income Tax (*Impuesto a la Renta de las Personas Físicas*, IRPF) and Non-Resident Income Tax (*Impuesto a las Rentas de los No Residentes*, IRNR) the income derived from the promoted activities previously referred.

The afore-mentioned exoneration will be applicable for a period of 5 (five) fiscal years.

Such period must be computed starting in the first fiscal year in which the entity obtains fiscal revenue, excluding such year in the referred calculation provided that 4 (four) fiscal years has

not elapsed since the notification of the ANII's opinion.

In such case the afore-mentioned term will be increased in 4 (four) years and will be calculated starting in fiscal year in which the referred approval was issued.

V.3. Deadline to make contributions.

It would be considered as promoted the contributions/payments made within 2 (two) years after the notification of ANII's opinion.

V.4. Subsidies granted by the National Agency of Investigation and Innovation.

Finally, the Decree introduces modifications to IRAE rules, stating that the amounts granted by the ANII as subsidies to IRAE taxpayers will not be taken as gross income in opportunity to calculate the tax.

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