



INFOTAX November 2018





DOUBLE TAXATION  
AGREEMENT  
BETWEEN  
URUGUAY AND  
PARAGUAY

**H&H**

## **Ratification of the Agreement.**

As it was informed in our InfoTax of November 2017 (see the report in the following link: [\[CLICK HERE\]](#)), on September 8, 2017 the authorities of the Paraguayan Ministry of Foreign Affairs and the Uruguayan Ministry of Economy **signed a Double Taxation Agreement on Income and Capital, and for the prevention of Tax Evasion and Tax Avoidance** (hereinafter the “Agreement”) with its Protocol.

In the recent days and through Act No. 19.697 dated October 24, 2018 (see the document in the following link: [\[CLICK HERE\]](#)) **the Agreement was ratified by Uruguay.**

In Paraguay the Bill for the ratification of the Agreement is still being discussed within the Parliament.

## **Purpose.**

The Agreement states its aim to ensure *"the avoidance of double taxation in relation with the taxes covered by this Agreement without giving place to both non-taxation or low-taxation scenarios, including the searching of the most favorable agreement – treaty shopping – pursuing the obtaining of benefits granted by this Agreement for the benefit of residents of other jurisdictions"*(\*).

In this sense, the Agreement state rules in order **to avoid non-taxation of income** ("double non-taxation"), and also **to prevent tax avoidance** (rejection of benefits) **and/or the unduly obtaining of benefits granted by the Agreement** (LOB clause).

(\*) Free translation.



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Double Taxation Agreement between  
Uruguay and Paraguay



## Persons and taxes covered.

The Agreement shall apply, in principle, **to Persons (individuals and entities) who are residents in Uruguay or Paraguay.**

Notwithstanding, **the Agreement includes a LOB clause**, establishing the conditions to be met in order to obtain the rights or benefits granted by the Agreement.

The Agreement **shall apply to taxes on income and capital imposed within each State** (and also to any identical or substantially similar taxes that are imposed after the Agreement's entry into force, in addition to, or in place of, the existing taxes), disregarding the manner in which they are levied.

## **Taxation of income.**

The Agreement states **the tax treatment for different categories of income** (income from immovable property, business profits, dividends, interests, royalties, capital gains, fees in respect of technical services, income from employment, among others), and also rules for taxation of wealth.

In general terms, the Agreement grants to the State of the Source the right to tax certain categories of income (dividends, interests, royalties), **provided that taxation shall not exceed 15% (fifteen percent) of the gross amount in case that beneficial owner is a resident of the other State.**

In addition and in which makes relation to fees for technical services, the Agreement grants the right to tax to both States (i.e., where both provider and debtor have their residence), but in the last case provided that **taxation shall not exceed 15% (fifteen percent) of the gross amount in case that beneficial owner is a resident of the other State.**

## **Avoidance of double taxation and exchange of information.**

In order to prevent double taxation the Agreement provides for a tax credit method, which entails **the granting of a credit for taxes paid in one State that could be used against taxes to be paid in the other State.**

In the other hand, the Agreement includes a provision related to the exchange of tax information between the States, comprehending information that is foreseeably relevant and which includes banking information as well as information regarding the ownership of entities.

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