

Uruguay is an alternative for the richest to ‘defend’ themselves from Brazilian taxation

The country offers a tax benefit called “tax holiday”.

Uruguay goes against the grain of countries that are moving towards taxing the superrich in order to cover budget deficits. Unlike Brazil, which approved via tax reform the taxation of resources held abroad via offshore companies or exclusive funds, Uruguay offers a benefit called “tax holiday” to attract foreigners.

In it, the person is exempt from taxes on profits from applications or investments abroad for a period of 11 years. After this period, interest and dividend income is taxed at a flat rate of 12%.

The benefit does not apply, however, to activities carried out in the country.

Another attractive point is the non-chargeability of tax on inheritance or donations of foreign assets, as well as those made in the country itself.

The measure is seen as an alternative for investors to “defend” themselves from Brazilian taxation, according to lawyer Juliana Bhering Cabral. The lawyer is supporting families, companies, financial institutions and multi and single family offices that seek alternatives for asset succession purposes.

With the processing of the Bill that aims to change the current rules of the Causa Mortis and Donation Transmission Tax (ITCMD) in Brazil – which also includes donations or inheritances from abroad –, the tendency is for there to be a rush for succession planning, according to Juliana, who has seen greater demand in her office.

Currently, São Paulo charges a fixed rate of 4% on the transfer of assets by donation or inheritance (each state charges a fee). But with the Tax Reform, this percentage will become progressive throughout the country, and may vary between 2% and 8%. The higher the value of an asset, the higher the tax. That’s why the ultra-rich are the most affected.

Regarding assets and inheritances from abroad, the reform could double the rate from 8% to 16%. And this could come into effect from 2025 if the Bill is approved later this year.

Still, the lawyer notes that even with the recent changes resulting from the tax reform, taxation on inheritances and donations in Brazil is lower when compared to other countries. In the United Kingdom, the rate is 40%.

Therefore, Uruguay can be a destination for millionaires who want to free their heirs from taxes. And this can be done by changing your tax residence.

Uruguayan law determines the concept of tax residence according to two hypotheses: one objective, based on permanence or physical presence in Uruguayan territory and a second subjective, based on the establishment in Uruguay of certain interests.

According to the firm Bhering Cabral Lawyers, to qualify for tax residency, foreigners can invest in a property for around US\$540,000 – but still have to spend at least 60 days a year in the country. Another option would be to buy a property worth US\$2.3 million (and not need to prove your stay in the country).

Another alternative would be to invest at least US\$2.3 million in a business. In this case, the foreign national is required to create at least 15 new full-time jobs during the calendar year.

With one of the requirements met, in addition to tax residency, there will be an exemption from tax on income from foreign investments for 11 years.

In addition to the tax advantage, the lawyer points out that security, better public services when compared to Brazil and a good banking system are offered by Uruguay.

With an eye on business and with the aim of opening the country for the first time as an option for the superrich, the president of Uruguay, Luis Lacalle Pou, was already talking even before taking office in 2020 about his plans to attract foreign investors and your families. Argentines were a big bet, given the proximity between the countries and the economic crisis in the country now governed by Javier Milei.

Source: InvestNews