



FREE TRADE ZONES IN URUGUAY

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1. DEFINITION AND PERMITTED ACTIVITIES

Free Zones are areas of the national territory of public or private ownership authorized by the Executive Branch, in which it is possible to develop all types of industrial, commercial or service activities within a legal regime of tax exemptions and other very favorable benefits.

Any type of activity can be carried out in Free Zones: commercial, industrial or services. Commercial activity is understood as the sale and purchase of goods or merchandise that enter the free zone where the activity takes place or another free zone, and whose origin and destination are outside the national territory, or the national territory.

Offshore logistics activities are also considered commercial activities according to recently approved legislation.

For service activities, it is permitted to provide all types of services from a free zone, whether within the same zone, to users or developers from other free zones or to third countries.

Under the new law, users of free zones will also be able to provide services in the rest of the national territory to companies that pay Corporate Income Tax (IRAE).

2. EXSISTING FREE TRADE ZONES

There are currently 12 Free Zones in Uruguay:

Nueva Palmira Free Zone and directly exploited by the State.

Zonamerica (Zonamérica S.A.) is located 10 minutes from Carrasco International Airport and 25 minutes from the Port of Montevideo.



Zona Franca Libertad (Lideral S.A.) is located at kilometer 49 of national highway No. 1 in front of the round access point to the city of Libertad.

Zona Franca Colonia (Zona Franca Colonia S.A.) is located in the department of Colonia, 180 km away from Montevideo; in front of the city of Buenos Aires (Argentina).

Zona Franca Colonia Suiza (Colonia Suiza S.A.) is also located in the department of Colonia, 180 km away from Montevideo.

Zona Franca Floridasur (Florida S.A.) is located in the department of Florida, 100 km away from Montevideo.

Aguada Park (Itsen S.A.) is located in the center of Montevideo opposite the Port of Montevideo.



WTC Free Zone S.A.) is located in the neighborhood of Pocitos in Montevideo.

Parque de las Ciencias located in the department of Canelones, very close to Carrasco International Airport.

There are also two private free zones for specific industrial activities:

Botnia Free Zone / UPS (Botnia Fray Bentos S.A.)

Punta Pereira (Punta Pereira S.A.) Ence - Montes del Plata

3. WAYS TO OPERATE IN FREE ZONES

To operate in free zones, taking advantage of the tax benefits granted by law, it is necessary to be a Free Zone user. Contracts through which free zone user status is acquired must be registered with the Free Zones Directorate.

There are two types of free zone users:

- A. The direct user is the one who acquires the right to operate in a free zone through a contract signed with whoever operates it, whether the State (Public Free Zones) or a duly authorized individual (Private Free Zones).
- B. The indirect user is the one who acquires the right to operate in a free zone through a contract signed with the direct user, using or taking advantage of its facilities.

4. APPROPRIATE LEGAL FORMS

According to the law, legal and natural persons can operate in free zones.

Legal entities may adopt any of the social modalities provided for in Uruguayan legislation. The most common is to operate through public limited companies or through a branch of a foreign company. In any case, whether a company or branch, the corporate purpose to be developed in Uruguay must be restricted to acting as a user of the Free Trade Zone.

Legal entities that establish themselves as users of state or private free zones must, with regard to their activities within the national territory, aim to carry out some of the activities provided for in art. 2nd of Law 15,921 (see point 1) limited exclusively to free zones with some exceptions detailed below.

Companies located in free zones will not be able to develop other industrial, commercial and service activities outside these zones in Uruguayan territory (Law 15,921), with two exceptions.

They can develop services from a free zone to national territory not free from:

- software production, IT consultancy and training,
- management, administration, accounting and similar services provided to related entities, dedicated to the provision of maritime, logistics and port services, provided that these services do not exceed 20% of total revenue for the year.

On the other hand, they can carry out, without restrictions, all types of activities outside the national territory, or within any free zone, for the benefit of direct or indirect users of any free zone.

5. REQUIREMENTS – INVESTMENT PROJECT

As for the requirements, the exclusive purpose for carrying out any of the activities provided for in the Law is required, in addition to being required to present information about the company and the investment project (including the business plan). The objective is not only to assess feasibility, but also to measure the contribution to the objectives defined by the regulations. Likewise, minimums may be required for employed personnel, fixed assets or others.

In the case of industrial companies, the maximum term of authorizations for direct use contracts is set at 15 years, while for service or commercial companies the term is set at 10 years. For indirect users, the maximum period is 5 years to carry out any type of activity.

The substantial activity of the free zone user must be carried out within the free zone itself. Users will be considered to carry out their activity in the free zone when they employ full-time human resources in a number in accordance with the substantial activity, qualified and adequately remunerated, and using or taking advantage of the facilities available to the ZF promoter. Consequently, the concept of substantiality is linked to direct employment and the development of activity within the ZF itself.

Hiring human resources not only becomes an essential requirement to act as a ZF user, but also requires a coherent relationship with the development of the activity. It is not enough to have quantitative compliance of the personnel employed, but from a qualitative point of view a reasonable correlation must be achieved.

Without prejudice to the above, the Law authorizes the collection, in non-free territory, of delinquent portfolios through third parties and the display of goods – in this case, only for companies with possible location disadvantages. To carry out this type of activities, or other auxiliary activities in the rest of the national territory, users must request prior authorization from the Executive Branch. It is also expected that users of free zones outside the Metropolitan Area can carry out activities outside them, in administrative offices made available by free zone promoters, as long as these are complementary to the substantive activity. Complementary activities include: public relations, management of auxiliary documentation, invoicing and collection of goods and services.

Under no circumstances will transactions involving the sale of goods and services be permitted.

Users, direct or indirect, must submit a sworn statement to the Free Area, every two years, with information on the degree of compliance with the approved investment project, in the form and conditions established by the Executive Branch.



6. STABILITY AND LEGAL SECURITY OF THE REGIME

The modern regulatory framework of the Free Zones has managed to attract investments, generate employment and diversify exports since it was updated 30 years ago. In any case, there was a need to adapt it to the new national and international context. The changes presented in this regulation cover several points that include: updating and specializing the objectives, changing the requirements to operate under the regime, expanding authorized activities in relation to the rest of the territory, changes in the minimum employment tax required nationally, tax changes - without affecting previously agreed rights - and expansion of activities provided for in the regime.

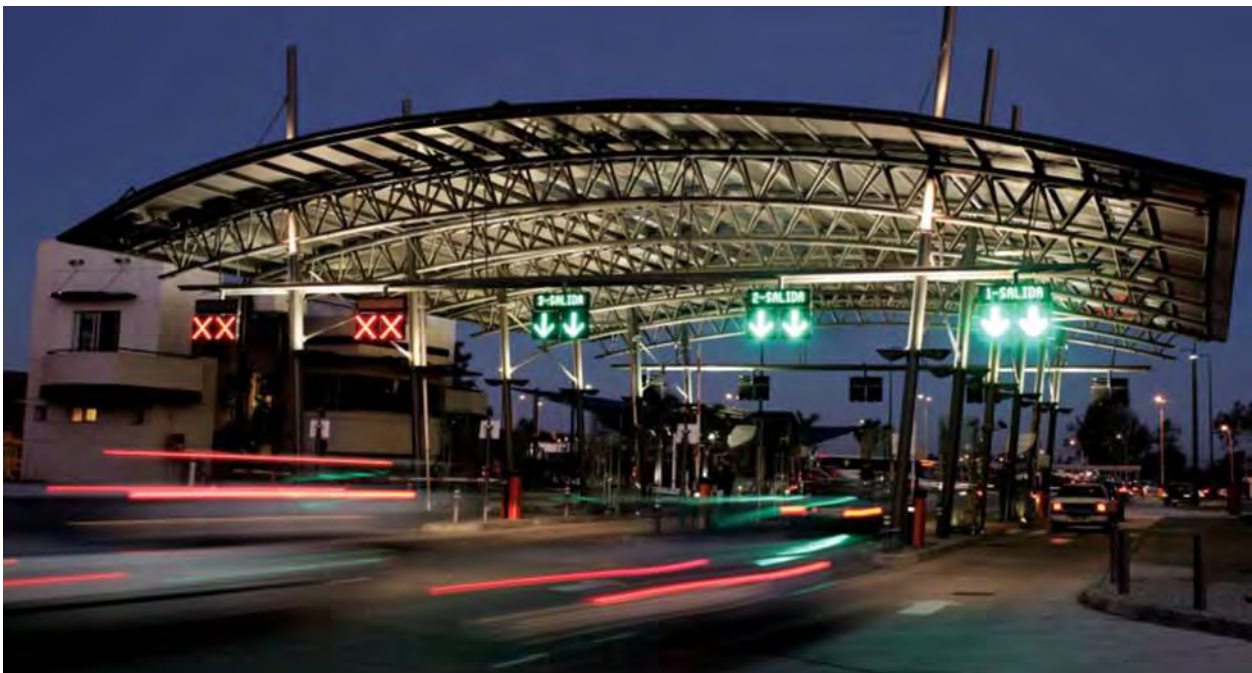
As for the objectives, these were deepened, adding areas such as diversification in the production matrix, the creation of jobs, the increase in national added value, the promotion of activities with high technological content and of innovation, and the promotion of decentralization of economic activities. Likewise, with regard to the national workforce, the aim is to increase capacities and not the utilization - as provided for in the previous law -, highlighting a motivation for progress in the quality of employment generated.

Likewise, and as detailed in art. 25 of the Law: The State, in its responsibility for damages, guarantees to the user, during the term of their contract, the tax exemptions, benefits and rights that are conferred on them.â€ Consequently, in the In terms of liability for damages, the State is the guarantor of the benefits arising from contracts already approved and authorized, providing legal security to those who settle in the Free Zone.

7. EXEMPTIONS AND BENEFITS

The activities of users of Free Zones are exempt from all national taxes, created or to be created. In particular, they have the following benefits:

- Exemption from Income Tax on Economic Activities (IRAE), Wealth Tax (IP) and any other national tax.
- Tax exemption for dividends paid to shareholders.
- Option for foreign staff (up to 25% of the total employed, with possible special requests to extend the percentage for a specified period) not to contribute to social security in Uruguay.
- Sales and purchases of goods and services abroad are not subject to Value Added Tax (VAT), nor are sales and services provided within the Free Zone.
- Goods exchanged through Free Zones with the rest of the world are exempt from customs taxes.



8. TOTAL EXEMPTION OF TAXES IN ENTRY AND EXIT OF GOODS

Both the introduction and exit of raw materials, goods or finished products are exempt from all fiscal charges (exempt from taxes and fees).

It is not necessary to process an export or import license, prior deposits, granting of foreign currency or other requirements.

Sales from the rest of the country to the respective Free Zones are considered exports from Uruguay and sales from the Free Zones to the rest of Uruguayan territory are considered imports, subject to the corresponding customs duties and national taxes.

Sales from Free Zones to MERCOSUR are subject to the bloc's Common External Tariff (TEC), which governs goods from third countries. This is because goods originating from the Free Zone do not have preferential access, except for exceptions strictly established in bilateral agreements negotiated by Uruguay.

However, decision 33/15 of July 2015 of the Mercosur Common Market Council (CMC) introduced changes to the previous decision 8/94.

Specifies that all merchandise originating from a State Party to Mercosur (or from a third country with the same rules of origin, according to an agreement with Mercosur) will not lose its original character when transiting through a Free Zone, as long as such areas are under state control .

9. DIVIDENDS OR PROFITS

Shareholders, whether individuals or legal entities, resident or not, are not subject to any tax for dividends received from a company that uses a Free Zone.



10. PERSONNEL, CONTRIBUTION SCHEME TO SOCIAL SECURITY AND INCOME TAX

Users of Free Zones must employ a minimum of 75% of personnel made up of Uruguayan citizens, natural or legal, in the activities they carry out there.

In exceptional cases, this percentage may be reduced with prior authorization from the Executive Branch.

In Free Zones, the same contributory regime applies to the social security system that applies to the rest of the national territory. Pension contributions are not included in the tax exemptions applicable in Free Zones. Foreign personnel working in Free Zones (maximum 25% of total personnel) may be exempt from social security contributions through a specific procedure to be carried out for this purpose.

Likewise, personnel dependent on free zone users are taxed by Personal Income Tax (IRPF) or Non-Resident Income Tax (IRNR) depending on whether they are residents or non-residents of Uruguay, respectively.

Law No. 18,083 on Tax Reform created the Personal Income Tax (IRPF) which taxes the income of Uruguayan origin of individuals residing in Uruguay through a Dual System. Income earned is taxed by this tax based on a non-taxable minimum and at progressive rates that vary between 10% and 36%, with some deductions possible.

Likewise, this law also created the Non-Resident Income Tax (IRNR) which taxes capital income and labor income from non-resident Uruguayan sources at the basic rate of 12%.

Foreign personnel can choose between paying personal income tax or IRNR.

11. ABSOLUTE FREEDOM IN OPERATIONS WITH FOREIGN CURRENCY

Uruguay has a free exchange system that allows you to sell or buy your products and do business in the currency you most desire or suit you.

12. FREE REPATRIATION OF CAPITAL AND PROFITS

At any time, capital and profits can be freely disposed of, sending them wherever you want.

13. DO NOT RIGIM STATE MONOPOLIES

Costs can be reduced by purchasing fuel at world market prices: insurance can be taken out from the company that best suits your needs; If you want to have your own communications system, just install it.

14. PROMOTIONAL RATES FOR CERTAIN SERVICES

Organizations that provide services such as ports, energy or water supply may grant preferential rates to users of free zones, with the limitations established by law.

15. EXTENDED CONTRACTING DEADLINES

Considerando o tipo de investimento a realizar, o usuário e a Administração de Zonas Francas poderão acordar prazos que resultem benéficos.

16. ISSUANCE OF CERTIFICATES OF ORIGIN

By meeting the requirements required for the rest of the national territory, a product produced in free zones can obtain its certificate of origin.

