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FREE TRADE ZONES IN URUGUAY

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1. DEFINITION

Free Trade Zones are public or private areas of national territory, authorized by the Executive Power to carry out any kind of industrial and commercial activities and to render any services, within a tax exemption legal regime and other benefits set forth by law.

2. MAIN ACTIVITIES THAT CAN BE DEVELOPED

- a. Commercialization, deposit, warehouse, fitting out, division, assembling, disassembling, manipulation or mixing up of any foreign or domestic merchandises or raw materials.
- b. Settlement and performance of factories.
- c. Rendering of financial services, IT services, repair and maintenance, professional and other required services in order to optimize the performance of the settled activities and the sales of these services to third parties.

3. ALREADY EXISTING FREE ZONES

There are two kinds of Free Zones in Uruguay:

a. Public Free Zones

At present there are two public Free Zones in Uruguay: Free Zone of Colonia and Free Zone of Nueva Palmira. These zones, created under protection of Law 7.593 in the year 1923, have great seniority and tradition in the country.

Free Zone of Nueva Palmira is directly operated by the State, whereas Free Zone of Colonia is operated by individuals according to the Government granting of January 1994, within the framework of Law 15.921 for Free Zones of 1987.

b. Private Free Zones

Private Free Zones are also established by the abovementioned Law 15.921 of 1987. At present there are seven private Free Zones operating under this system.

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

Zona Franca Libertad, (Lideral S.A.) located 50 kilometers away from Montevideo, next to Libertad city.

Zona Franca Colonia Suiza (Colonia Suiza S.A.) located in Colonia Department, very close to the city of Buenos Aires.

Zona Franca Floridasur (Florida S.A.) located in Florida Department.

Zona Franca Río Negro (Río Negro S.A.) located in the Fray Bentos International Bridge connecting with Puerto Unzué city in Argentina.

Aguada Park (Itsen S.A.) located in Montevideo downtown, facing the Montevideo Port.

WTC Free Zone (WTC Free Zone S.A.) is located in the “Pocitos” residential neighborhood.

- There are two more private free trade zones created with the purpose of developing certain specific industrial activities:

Zona Franca Botnia (Botnia Fray Bentos S.A.)

Punta Pereira (Punta Pereira S.A.) Ence

4. FREE ZONES OPERATIONS

Only users are allowed to act within a Free Zone fully enjoying the legal benefits by undersigning of contract. Such contracts must be registered with the General Commerce Authority - Free Zone Department.

There are two kinds of free zone users:

- a. Direct Users: are those who acquire the right to operate within a free zone by undersigning a contract with the Free Zone operator, this being the State (Public Free Zones) or a duly authorized private company (Private Free Zones).
- b. Indirect Users: are those who acquire the right to operate within a Free Zone by undersigning a contract with a direct user, operating from the facilities of such user.

5. PROPER LEGAL ORGANIZATION

Only legal entities may become Free Zone users.

Legal entities may adopt any type of legal corporations provided by Uruguayan legislation. The most recurrent are Corporations or subsidiaries of foreign companies. Whichever the case, the company object must clearly establish that their sole objective is to perform activities as a Free Zone user.

Regarding their operations within the Uruguayan territory, legal entities settled as public or private free zone users shall perform certain activities provided by Art. 2 of Law 15.921 (see issue 2) exclusively limited to free zones, with some exceptions such as services rendered from free zone to national territory which are:

- production of software, consulting and computer training
- management services, administration, accounting and similar provided to related entities engaged in the provision of shipping, logistics and port services, as long as such provisions do not exceed 20% of the total revenue for the yearend.

On the other hand, they can indeed perform any activity outside the national territory, or within any free zone in favor of direct or indirect users of any free zone without restrictions.

6. EXEMPTIONS AND BENEFITS

Free Zone users are exempted from all existing or to be created local taxes, including those that by law require specific exemption for the activities carried therein.

These exemptions are mainly the following taxes:

- Income Tax on Economic Activities (IRAE),
- Income Tax on Non-residents (IRNR),
- Capital Tax (IP)
- Value Added Tax (IVA)
- Excise Tax (IMESI)

7. TOTAL TAX EXEMPTION FOR INCOMING AND OUTGOING MERCHANDISE

Incoming and outgoing goods, raw materials, and finished products are totally exempt from taxes and tariffs.

It is not necessary to carry out procedures to obtain export or import licenses, previous deposits, foreign exchange granting or other requirements.

8. DIVIDENDS AND PROFITS

The shareholders, whether individuals or legal entities, residents or not, are not levied by any tax on dividends received from any Free Zone user.

9. PERSONNEL, SOCIAL SECURITY REGIME AND INCOME TAX

Free Zone users must employ a minimum of 75% domestic labor (natural or legal citizens) for the development of their activities.

Under extraordinary conditions, the mentioned percentage may be reduced upon authorization of the Executive Power.

The social security tax regime in force for Uruguayan free zones is the same as in the rest of the country. Social Security Contributions are not included in the tax exemptions that apply to the Free Zones.

Foreign personnel working in Free Zones (maximum 25% of total staff) may be exempted from social security contributions by a specific procedure.

Income received by free zones user's dependent staff is also levied by the Income Tax on Individuals (IRPF) or the Income Tax on Non-Residents (IRNR), whether being a Uruguayan resident or a non- resident.

Tax Reform Law No. 18.083 created the Income Tax on Individuals (IRPF) which levies through a Dual System the income from Uruguayan source received by resident individuals. Employment income is levied by this tax beginning with a non-taxable minimum, and progressively incorporating rates that range from 10% to 30%. Some expenses deductions may apply.

This law also created the Income Tax on Non Residents (IRNR) which is a tax that levies capital income and employment income from Uruguayan source received by non-residents at a basic rate of 12% and differential rates of 7,5% and 3%. Foreign personnel may choose to pay the IRPF tax or the IRNR tax.

10. ABSOLUTE FREEDOM IN FOREIGN EXCHANGE MANAGEMENT

There is a free exchange system in Uruguay which allows companies to carry out their business, buying or selling their products, in the most convenient or desired currency.

11. FREE REPATRIATION OF CAPITAL AND PROFITS

Companies have free use of its capital and profits, and may transfer them wherever desired.

12. STATE MONOPOLIES DO NOT PREVAIL

Costs may be reduced, buying fuel at worldwide market prices: insurance may be rendered from the companies fulfilling the most suitable requirements of the activity, and an own communication system may be installed if desired.

13. PROMOTIONAL CHARGES FOR CERTAIN ACTIVITIES

Promotional charges may be granted to free zone users by entities rendering port and electric power services or water supply.

14. LONG TERM CONTRACTS

The user and the Free Zone Administration may agree the convenient terms of the contract, according to the type of investment to be carried out.

15. EXPEDITION OF CERTIFICATES OF ORIGIN

Products elaborated within the Free Zone may acquire a Certificate of Origin if it complies with the demands required for the rest of the Uruguayan territory.

16. MERCOSUR

Goods leaving free trade zones and entering any of the Mercosur countries shall pay the common external tariff. This rule no longer applies when the product's origin belongs to another Mercosur country.

By decision number 33/2015 of the Common Market Council, products will not lose the Mercosur origin during transport and/or storage use of a Uruguayan Free Trade Zone as long as duty classifications or original nature are not altered.

As an example, goods manufactured in Argentina may be deposited in a Uruguayan Free Trade Zone without losing their Argentinian origin, and thus later access the Brazilian market without any import duties.

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