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## **Recent developments in international taxation: Uruguay**

### **Overview of recent tax developments**

In the last 12 months, Uruguay has not implemented any major tax reforms.

On 1 March 2025, the newly elected president Yamandú Orsi took office. With respect to tax policy, he has stated that, under current conditions, there is no immediate need to increase taxes, affirming that economic growth is the preferred path to increasing revenue. He has also stressed the importance of maintaining macroeconomic stability and investor confidence, particularly in a volatile global environment. This approach aligns with that of Finance Minister Gabriel Oddone, who has indicated that, while some adjustments may be introduced, the aim is to maintain overall tax pressure stability.

On 21 May 2025, Minister Oddone indicated that changes to Uruguay's investment promotion regime and modifications to existing tax incentives are under consideration to comply with the requirements of Pillar Two and the global minimum tax. He emphasised that Uruguay has historically used its tax structure not only to collect revenue and promote social cohesion, but also as a means to attract foreign investment, noting that emerging global challenges – such as climate change, technological shifts, and new tax standards – require a review of the country's existing incentive schemes.

Uruguay continues to maintain an extensive network of over 30 taxation treaties, including agreements for the exchange of information and the avoidance of double taxation. Law No 20,351 was enacted in September 2024, approving the Agreement between Uruguay and the United States of America on the Exchange of Information in Tax Matters.

### **The overall structure of the Uruguayan tax system**

Uruguay has a centralised tax system where national taxes are predominant, while departments and municipalities retain more limited taxation powers, primarily related to local property and services. In this sense, the legal framework seeks to ensure coherence and coordination between the different levels of government.

The Uruguayan tax system is based on the source principle, meaning income earned from investments and activities outside Uruguay is generally exempt from local taxation. Nevertheless, since 2011, this principle has been modified, as certain foreign-source income earned by Uruguayan tax residents started to be taxed.

Likewise, under Law 20,095, effective for fiscal years starting on or after 1 January 2023, certain income earned by entities that are part of multinational groups is treated as Uruguayan-source income if the entity is classified as unqualified.<sup>1</sup> A multinational group includes two or more related<sup>2</sup> entities residing in different jurisdictions.

Income deemed to be of Uruguayan source under this rule, and thus subject to corporate income tax (IRAE), includes:

- certain income from intellectual property rights linked to patents or registered software used or sold outside Uruguay; and
- passive foreign income obtained by an unqualified multinational group entity, from assets located or rights used economically outside Uruguay, including income from real estate capital, dividends, interest, royalties, among others.

## **The main taxes within the Uruguayan tax system**

### *Corporate income tax*

For corporate taxpayers, IRAE is levied at an annual uniform rate of 25 per cent on income derived from industrial, commercial or agricultural activities of Uruguayan source. Income is deemed to be of Uruguayan source when it stems from activities carried out, assets located or rights economically utilised within Uruguay, irrespective of the parties' nationality, residence or the jurisdiction where the legal business occurs.

IRAE is calculated on net taxable income from any economic activity, determined in accordance with fiscal regulations. This generally aligns with accounting standards, although it includes specific adjustments and restrictions regarding the deduction of certain expenses.

Generally, all expenses that are necessary and properly documented to generate and maintain taxable income are deductible when calculating net income. However, under the so-called padlock rule, only expenses that produce taxable income for the counterparty – adjusted proportionally based on the counterparty's applicable tax rate relative to the 25 per cent IRAE rate – may be deducted. Certain expenses are exempt from this proportionality limitation.

### *Personal income tax (IRPF) and non-resident income tax (IRNR)*

Prior to Law No 18,083, personal income tax was limited to amounts withheld by employers from dependent employees, excluding independent individuals. Since the tax reform effective 1 July 2007, individuals have been taxed on two income categories: (1) pure capital income, which includes lease payments, equity growth, interest, royalties, dividends and others; and (2) labour or personal services income.

Tax rates for pure capital income vary depending on its nature. These rates generally range from 0.5 per cent to 12 per cent, although the applicable rate can reach 25 per cent in the case of IRNR applicable to payments to recipients in low-tax jurisdictions.<sup>3</sup>

While Uruguay has maintained the territorial tax principle since 1 January 2011, the scope extended to include certain foreign-source income. However, non-resident individuals who become tax residents in Uruguay may, once only, choose to be taxed under IRNR for the fiscal year they change residence and for the following five or ten years (depending on whether residency was acquired before or after 2020) or, alternatively, pay a lower flat rate of 7 per cent indefinitely. Choosing to be taxed under IRNR for such income means these earnings are

excluded from the IRPF tax base, as IRNR only taxes Uruguayan-source income and does not apply the broader sourcing rules of IRPF.

Residents' labour income, whether from dependent or independent work, is taxed at progressive IRPF rates, ranging from 0 per cent to 36 per cent, with a non-taxable minimum and limited deductions based on income levels. The tax regime for employment income includes mandatory social security contributions shared between employers and employees, calculated on a capped monthly salary for retirement purposes, while other contributions apply to total income. Employers contribute 7.5 per cent for retirement, 5 per cent for health, and small percentages for guarantee and reconversion funds. Meanwhile, employees contribute 15 per cent for retirement, 3 per cent to 8 per cent for health, and 0.1 per cent to the reconversion fund.

#### *VAT*

VAT is imposed on the domestic circulation of goods, the provision of services within Uruguayan territory, the importation of goods, and the value increase from construction on real estate.

Exports of goods and services benefit from a zero-rate VAT regime, allowing exporters to recover VAT credits incurred in the acquisition of inputs related to those exports. Such VAT credits can be refunded or used to offset other tax liabilities. The Executive Branch has established a limited and specific list of services that qualify as exported services under this zero-rate regime. These include consultancy, software development and licensing, international call centre services, and freight and insurance related to exports, among other services.

All entities subject to income tax are also liable for VAT. Additionally, VAT applies to professionals, self-employed individuals and associations providing professional services. The standard VAT rate is 22 per cent. However, a reduced rate of 10 per cent applies to certain goods and services, including essential items such as family basket products, medications and travel packages, among others.

VAT is calculated on the net invoiced amounts for sales and services, which must be clearly stated on the invoice. VAT paid on purchases directly or indirectly included in the cost of goods sold or services rendered can be credited against VAT charged on sales.

Certain transactions are exempt from VAT, including but not limited to real estate rentals, most banking operations and specific hotel services during specific seasons, among others.

#### *Net worth tax*

For legal entities, net worth tax is calculated at a flat annual rate of 1.5 per cent on the net value of assets located in Uruguay,<sup>4</sup> calculated as the difference between taxable assets and deductible liabilities. For banks and financial institutions, the rate is 2.8 per cent, applied over net equity. Individuals are also subject to a net worth tax on Uruguayan-located assets, with a fixed rate of 0.1 per cent for residents and a progressive rate up to 1.5 per cent for certain non-residents.

### *Trading companies tax*

Offshore trading activities can be conducted through regular Uruguayan corporations under a special regime, where taxable income is calculated on a notional basis. Under this system, taxable income is deemed to be 3 per cent of the company's gross margin (sales minus cost of goods sold) and is taxed at the standard corporate rate of 25 per cent. The same calculation is applied for taxing the dividends resulting from such income.

### *Corporations control tax (ICOSA)*

ICOSA is a mandatory tax for all domestic corporations in Uruguay, as well as for foreign companies that have redomiciled in the country. The tax is based on values established annually by the government. Currently, it applies: (1) at incorporation, charged at 1.5 per cent on a legally defined base (approximately US\$1,286, according to 2025 values); and (2) at the end of each fiscal year, charged at 0.75 per cent on a legally defined base (approximately US\$643 for 2025). Amounts paid under ICOSA can be deducted when calculating the net worth tax.

### *Excise tax or domestic specific tax (IMESI)*

IMESI applies to the first transfer of certain goods (such as vehicles, tobacco, alcohol, cosmetics and fuel) by local manufacturers or importers. It also applies when these goods are imported by non-taxpayers or used for personal purposes. Exports and further transfers are exempt; rates – based on real or fixed values tied to consumer sale prices – vary by product and are set within legal limits by the Executive Branch.

## **General aspects of the Uruguayan customs regime**

Uruguay has a free and open economy with no restrictions on imports and exports, and the foreign exchange market is fully liberalised. Customs duties have been significantly reduced, especially following Uruguay's participation in MERCOSUR, which promotes the free movement of goods, services and production factors among member countries. The ordinary import regime applies to goods permanently entering Uruguay, requiring full payment of duties and VAT.

## **The free trade zone regime**

Companies operating in free trade zones benefit from broad tax exemptions, including customs duties, withholdings and taxes on income from research and development. Activities allowed include trading, storage, transformation and provision of services within and beyond the zone. Some complementary activities may be performed outside the zone with authorisation, within specific areas.

## **Investment incentives**

Uruguay promotes investment through a combination of general and specific tax incentives. Under Law 16,906, investment projects approved by the Executive Branch may qualify for broad exemptions, including relief from VAT, net wealth tax and import duties.

In addition, all taxpayers subject to IRAE may benefit from an automatic deduction of up to 40 per cent of their income tax liability based on qualifying investments, such as machinery, software or infrastructure enhancements.

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<sup>1</sup>An entity is qualified – and thus exempt from this extended source rule – if it demonstrates adequate economic

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substance during the fiscal year, for which a series of conditions must be met.

<sup>2</sup> Entities are considered related if they are included, or should be included, in the group's consolidated financial statements. They are also considered related if they are excluded from the group's consolidated financial statements solely due to size or materiality.

<sup>3</sup> Only certain jurisdictions are considered low-tax jurisdictions by the National Tax Administration (DGI), and these are strictly listed in the latest DGI Resolution for this purpose (3034/2024).

<sup>4</sup> Assets held abroad are not subject to this tax.