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Allgemeines Treuunternehmen (ATU) has been represented in Montevideo, Uruguay for 18 years and would therefore like to give a detailed presentation of the country and the opportunities it offers. This article is intended mainly as support for financial intermediaries and to demonstrate how Uruguay can be considered an alternative for investments and trading activities.

1. Geography

Uruguay is one of the smallest countries in South America, bordering Brazil in the North and the Atlantic Ocean in the South East. The River Uruguay, which extends from the coast to the Río-de-la-Plata delta, forms the Southern and Western borders with Argentina. The landscape comprises hilly pas-



URUGUAY

Small country - big opportunities

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Strip of landscape 50 km from Punta del Este

tureland dissected by rivers, with numerous superb beaches along the coast. Around 70% of the country is used as pastureland for cattle and sheep. Montevideo, the capital, with a population of nearly 1.5 million, is located at the Southernmost point of the country. Some 90% of the country is suitable for agriculture but only 12% is currently used for this purpose. The government makes it easy for foreign investors to acquire land for agricultural use in Uruguay.

2. Population

2.1 Population distribution

In 2007 Uruguay had a population of approx. 3.5 million. The largest proportion of the population (92%) lives in cities, over 50% of this proportion in the capital Montevideo. In fact, around 75% of the total population lives in Montevideo and the Southern half of the country.

GDP per capita in 2005 was approx. US\$ 9'600 (spending power parity: approx. US\$ 16'000).

2.2 Language

The official language of Uruguay is Spanish, with the colloquial language known as the Río-de-la-Plata dialect. In the Eastern part of the country Portuguese has a strong influence on the Uruguayan Spanish.

2.3 Religion

Some 74% of the population worships the Catholic faith, 2% the Protestant faith, 2% Judaism, 21% a different or even no religion at all.

3. Politics

The constitution of 1967 established a **democratic, constitutional presidential republic**. The constitutional structure is centralistic with the 19 districts having only minimal self government. Uruguay is a parliamentary democracy in which party pluralism prevails.

3.1 Government

Since March 1, 2005 Uruguay has been governed by President Tabaré Vázquez Rosas, he is the first President for over 150 years not to be a member either of the Partido Nacional or the Partido Colorado (Red Party).

3.2 Party landscape

After the state of Uruguay was founded a **two party system** became established. On the one side the more conservative



Palacio Legislativo (Parliament building) in Montevideo

Partido Nacional and on the other the slightly more liberal Partido Colorado. The Communist Party was legalized in 1985. Since the early 1990s new parties have emerged and enriched the party landscape.

3.3 Domestic and foreign policy

The key themes of Uruguay's domestic policy are the reduction in and the stabilization of inflation, reduction in unemployment and foreign debt.

Uruguay is a member of numerous international organizations. The country is a founder member of the United Nations and since 1991 has been a member of **MERCOSUR**, the free-trade zone which also includes Argentina, Brazil, Venezuela and Paraguay.

4. Economy

4.1 MERCOSUR (Mercado Común del Sur)

In addition to Argentina, Brazil and Paraguay, Uruguay is a founder member of **MERCOSUR**, the single **South American market** whose headquarters are located in Montevideo. Uruguay is interested in **opening up** the markets of **MERCOSUR** and promotes **greater collaboration** with a single market. Uruguay advocates a reduction in the economic imbalances between its partners.

The political as well as the labor conditions in Uruguay are amongst the most liberal on the whole continent. The advantages of Uruguay's economy include the **good level of school education**, liberal tax legislation, no foreign currency controls, free movement of capital, free conversion of foreign currencies, free transfer of license



Montevideo Cathedral

rights, an open attitude to investment as well as an efficient financial sector. By Latin American standards Uruguay is a prosperous country.

4.2 Exports

The Government's strategy is to increase exports to the **MERCOSUR** countries, to the **USA** and to the **EU**. Uruguay is a very open country. There is no legal or other discrimination towards investments from whatever source, making investments in Uruguay very attractive. The activities of the Government extend across the entire country. It continues to oppose the privatization in the fuel, water supply and electricity sectors, as well as of roads or the national airline. By contrast the government makes it easy for foreign investors to invest in land and private ownership.

4.3 Main branches of industry

Uruguay's industry is founded primarily on agriculture, in particular **cattle rearing**. Although agricultural production only accounts for approx. 10% of GDP, more than half of Uruguay's exports comprise agriculture-dependent products. The industrial sector, which accounts for roughly 31% of GDP, is for the most part based on agricultural food processing. The main branches of industry are: **meat processing, agricultural industry, wool, leather production, leather clothing, textiles and chemicals**.



Cattle rearing on the land

4.4 Strong financial sector

Uruguay benefits from an **open economy, a free market policy** as well as a **stable political situation**. Thanks to a long-standing policy of the free movement of capital, the country has developed a **strong financial sector**.

Thanks to the strict observance of **banking secrecy**, guaranteed by law, Uruguay is an ideal location for conducting transactions in the area of fiduciary arrangements, companies and banking.

4.5 «Dollarization» of the banks

Uruguay's industry has flourished for a number of years now thanks to an **export-oriented agriculture, highly-skilled labour** and a high level of expenditure on social welfare. During the last 27 years there have also been periods of problems. The **deregulation of the banking sector** in the early Eighties (1980/1981) created uncertainty in the economy, one of the reasons being the **increasing «dollarization» of the banks**. When the foreign currency restrictions were lifted, US dollars flowed into Uruguay (primarily from Argentinean real estate). Many of Uruguay's banks lent US dollars to the country's private companies and ranchers. The exchange rate was at risk when the Government allowed exchange rates to float against the US dollar. The result was that Uruguay's loans suddenly tripled and during the early Eighties Uruguay suffered a recession as well as a national debt crisis. The first democratic government was elected in 1984. Uruguay recovered during the Nineties and in the years 1996-1998 GDP grew by an average 5% per annum. During the years 1999-2002 Uruguay suffered from the Argentinean crisis (particularly in 2001) when significant amounts of US dollars deposited with Uruguay's banks were withdrawn. At the end of 2002 GDP fell by 20% and the unemployment rate rose to approx. 20%. The collaboration with the IMF helped to limit the losses and restore public confidence. Finally, between 2004 and today GDP has continued to grow at an average rate of 6.5%. From 2004 Uruguay also benefited from high oil prices, the general growth in the region and low interest rates (inflation of approx. 5%). The international currency reserves in US dollars increased from US\$ 0.5 billion in 2002 to US\$ 4.0 billion in 2007. Uruguay's **timber industry** saw the strongest growth (+200% in 7 years up to end 2007).



Lighthouse in José Ignacio

4.6 Services sector

Within the Uruguayan services sector, which employs approx. 70% of the workforce (59% of GDP), **foreign transactions** represent an important source of revenue. This branch of industry is also being actively promoted. In 2006 most foreign visitors came from Argentina, followed by Brazil, Chile and the United States. The most popular destinations are located on the coast, including the largest and best known tourist resort **Punta del Este**.



Harbor entrance of Punta del Este

4.7 Residences

Many rich Argentinean and European families are buying attractive **Summer holiday homes** in Punta del Este where they spend December to February every year. Real estate prices here have soared since 2005.

Many of the country's natural resources (arable land, hydroelectric power, small mineral deposits, fishing industry) are untouched and make Uruguay an excellent and beautiful holiday destination.



Holiday homes in Punta del Este

5. Banking secrecy and duty of due diligence

5.1 Banking secrecy

Article 25 of Decree No. 15.322 states that financial intermediaries are forbidden from disclosing to third parties any information in respect of any funds or valuables which they manage or confidential information which they have received, unless they are expressly requested to do so by written authorization from the client. The only exemptions allowed by law are substantiated decisions by the criminal justice authorities or, in cases of family pension funds, decisions by the competent authorities in this area. Any financial companies that fail to comply with these obligations will be prosecuted under criminal law.

5.2 Duties of due diligence and money laundering

With regard to combating money laundering and the financing of terrorism it should be noted that the **banks** are obliged by law to **identify** their clients, **monitor** financial transactions and **notify the competent regulatory authority** in the case of suspicious transactions (STR: Suspicious Transaction Reporting). Uruguay was never on a list of uncooperative states in connection with the combating of money laundering and financing of terrorism (FATF: Financial Action Task Force).

6. Uruguayan Tax Regime

Uruguay recognizes a **territorial tax system** which is extremely attractive to **companies with registered offices in Uruguay which only conduct foreign transactions**. No taxes on earnings are levied on foreign profits with the exception of so-called «technical services». Foreign investors can utilize:

- Uruguayan companies limited by shares (S.A.U. - sociedad anónima uruguaya or compañía residente) or
- Financial investment companies (SAFI - sociedad financiera de inversión).

6.1 Uruguayan Companies Limited by Shares (S.A.U.)

The **S.A.U.** is used for corporate activities in Uruguay and abroad and is therefore an **onshore company**.

The advantage of the S.A.U. is that it is **not included on the blacklist for typical offshore structures**. However, because of its tax system, Uruguay, as a country, is included on

these lists in Venezuela and Mexico. The S.A.U. benefits from **favorable tax treatment for international transactions**. Since the normal tax on income of the S.A.U. is 25%, it does not come within the category of «low taxed» societies, consequently the so-called CFC provisions do not apply in foreign countries. If the S.A.U. is only dedicated to business activities outside Uruguay, i.e. goods are not transported through Uruguay nor services rendered in Uruguay (so-called triangular transactions) then the tax authorities consider this business activity in Uruguay as representing **non-taxable transactions**. For most of these business activities, however, a small amount of tax is levied on this foreign business activity for so-called «technical services». This means that a tax of 25% is levied on 3% of the gross earnings from this business activity. In addition, the non-resident withholding tax on dividend distribution to shareholders (IRNR) applies, calculated with 7% of the taxable income (3% of gross earnings minus IRAE). In total, this is 7% of 3% minus the IRAE = 0.15%. The tax charge is therefore 0.75% + 0.15% = 0.9% of the gross earnings. The «technical services» are based on a concept of «local business activities» of the S.A.U. (directors, senior management etc. who facilitate the foreign business).

The S.A.U. can also be used to receive **income from foreign investments**. Dividend payments from foreign investments do not count as income in Uruguay. Since mid 2007 a **liability to withholding tax** at the rate of 7% is introduced for dividend payments by a S.A.U. to its foreign shareholders providing these payments are derived from income which is subject to the IRAE (standard tax on income derived from sources in Uruguay).

For example, if a S.A.U. owns real estate in Spain, income and costs are processed via an account with a foreign bank and all corresponding purchase/sale agreements and rental agreements are signed outside Uruguay, then **no taxes on equity capital or on corporate profits or any withholding taxes** are levied on the distributions in favor of the shareholders. It is important to always have sufficient evidence available to enable the business activity in connection with the real estate to be processed **outside Uruguay**. It is therefore advantageous for either the directors of the company to be resident outside Uruguay or for lawyers to manage the foreign real estate. Under these circumstances a small amount of tax is levied, the so-called ICOSA (Impuesto de Control de las Sociedades Anónimas).

Interest received from foreign investments (foreign business) of the S.A.U. is **not subject to tax on income**, however, all interest credited or paid by the S.A.U. to foreign lenders (accounts payable) is taxed at 12% (**withholding tax**). However, providing at least 90% of the income is derived from foreign sources (and so is not subject to the IRAE) no withholding tax will be levied.

There is also an annual tax on capital in the sum of 1.5% of the equity (IP: «patrimonio sobre el saldo de la cuenta al cierre del ejercicio») which is only levied on the real estate and rights of the company in Uruguay. In all cases the so-called ICOSA will be levied in the approximate sum of US\$ 400.00 (fixed amount, expressed in pesos) per annum. This amount can be deducted from the corporate result.

Another advantage of the S.A.U. is that its shares are bearer shares, with the liability of the shareholders being limited to the company's capital stock and the company being able to be used for various purposes not restricted by any special laws (by contrast to the banking business where special licenses are required).

The total typical costs for establishing a S.A.U., together with shares and documents, incl. notarization, are approx. US\$ 4'000.00, the annual costs are dependent for the most part upon the business activity. It is also important to know that taxes have to be accounted for and paid on a monthly basis, irrespective of the business activity. The accounting costs are therefore normally between US\$ 800.00 and US\$ 1'500.00 per annum, plus local VAT. It is not compulsory for a director to be present at the company's registered offices although from the technical taxation aspect it can be advisable to deploy a director at the company's statutory head office. A local director in Uruguay ensures that the S.A.U. is not taxed additionally at the company's foreign administrative offices, i.e. at the place of domicile of foreign directors. Many tax laws make provision for a foreign company to also be taxed at the location where the key business decisions are taken and/or the operational management is conducted.

There is **no compulsory auditing** for the normal use of this type of company. Stamp duties apply for the submission of the balance sheet, this figure being 1/10'000 of the company's assets up to a maximum, however, of approx. US\$ 145.00.

Other costs can include the director's salary, the costs of the company's registered offices and disbursements for general secretarial work. A director can demand at least US\$ 3'000.00 per annum, the costs of the company registered offices are approx. US\$ 1'000.00 per annum, the secretarial work will be billed on the basis of the number of hours.

6.2 Financial Investment Company (SAFI)

The SAFI is a typical offshore company and is not liable to any tax on income. The SAFI corporate structure will only continue to exist up to 2010. In addition, no further new SAFIs can be established (since June 30, 2007).

A SAFI will have approximately the same annual costs as a S.A.U., apart from accounting costs and fees for the submission of tax returns. These costs can be lower because of the lower labor cost.

A tax on capital of 3‰ must be paid on the paid-up capital («capital integrado»), incl. reserves and financial liabilities which exceed a specific amount (twice the equity). A sample calculation is shown below:

«Capital integrado»	5'000
Reserves	95'000
Accounts payable	280'000
Taxes on:	
$[(280'000 - 2 \times (95'000 + 5'000)) + 5'000 + 95'000] \times 0.3\% =$	540.00

In order to optimize the tax situation, the SAFI's assets should be 1/3 financed through equity and 2/3 financial liabilities. Assets and liabilities held on a fiduciary basis are included in the calculation.

Assets purchased on the market are valued at acquisition costs or the lower market value. If the assets cannot be valued on the basis of the acquisition costs then they are calculated at their nominal value. If financial assets have no acquisition costs which can be proven by the market, the bank or based on a different source, the nominal value will be used as a basis. This also applies if the known effective purchase price exceeds the nominal value, but there is no documentation on the effective purchase price. Under certain circumstances this can have a positive effect if it results in the company reporting a loss and then having no taxes to pay.



Plaza Independencia, Montevideo

7. Allgemeines Treuunternehmen (ATU), Vaduz, Liechtenstein

Allgemeines Treuunternehmen (ATU) was founded in 1929 and, as one of the oldest fiduciary companies in Liechtenstein, has been engaged in the fiduciary business for almost 80 years. With approx. 100 employees, ATU offers domestic and foreign clients a wide choice of high quality, innovative services in the fiduciary area tailored to their individual needs.

Thanks to years of experience and the sound technical know-how of its employees, ATU can combine individual client needs with the diverse opportunities available in the international fiduciary and corporate business. The versatile range of services covers the following:

- Advice on the formation and management of foundations and trusteeships;
- Advice on, and law and taxation within the framework of financial services;
- Financial advice;
- Settlement of trading transactions;
- Advice on investment funds and captive insurance companies;
- Advice on inheritance and succession;
- Advice on and management of Uruguayan companies and corporate entities under other legal systems;
- Advice on international trading transactions and processing of every aspect of transactions.

ATU maintains a subsidiary on the British Virgin Islands (BVI) together with the VP Bank, Vaduz. ATU has been offering services in the areas of trusteeships, banking, establishment of investment funds and management through this co-operation since 1995.

8. Formation of the ATU subsidiary Surfida S.A. in Uruguay

Represented in Uruguay since 1990, Allgemeines Treuunternehmen (ATU), Vaduz, incorporated the structure within a new holding organization in 2005 and formed **Surfida, S.A.**, Montevideo, a 100% owned subsidiary of ATU.

Surfida S.A., which operates in accordance with Liechtenstein standards, offers professional services in the area of trusteeships and corporations and endeavors to precisely understand and meet the special needs of its clients. Surfida S.A. sees a **high level of technical expertise and an innovative, professional approach** as the key fundamentals for enabling it to develop and maintain the trust and loyalty of its clients.



Surfida S.A. building, Montevideo



Offices of Surfida S.A.

Surfida S.A. is strongly placed to provide support for the **formation and management of Uruguayan companies and corporate entities** within other areas of jurisdiction and for advising clients on new investment opportunities within the region as well as throughout the world.

Through its link with **ATU in Liechtenstein** as well as its **sister company on the British Virgin Islands (BVI)**, Surfida S.A. is in a position to offer a **wide range of quality services in the area of corporate management and trusteeships**, coordinated to meet the needs of its clients.

9. Additional addresses and links

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General information on Uruguay:

www.wikipedia.com

Website of the Uruguayan government:

www.presidencia.gub.uy

Website of the Uruguayan tax authorities:

www.dgi.gub.uy

Website of MERCOSUR (in Spanish and Portuguese):

www.mercosur.int

Website of the Uruguayan Ministry of Tourism:

www.turismo.gub.uy

Information for travelers:

www.uruguaynatural.com.uy

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