

Uruguayan Corporations for International Tax Planning

I. MAIN CHARACTERISTICS TO BE CONSIDERED

The main aspects that bring Uruguay into consideration at the time of planning offshore regional or international operations are: no limitations to move funds and currency exchange, good financial system and bank secrecy as well as corporations with bearer shares that allow the anonymity of shareholders.

II. CORPORATIONS

Three different types of corporations exist in Uruguay that can be used to develop different offshore operations, with excellent tax benefits.

1. The Sociedad Anónima Financiera de Inversión (SAFI)

SAFIs or usually referred to as offshore corporations, must have their business, activities or operations outside Uruguay, they can invest in securities or real estate as well as develop commercial activities. SAFIs pay an annual tax of 0,3% on their net worth, being exempt from any other tax on income, net worth, etc.

The Tax Reform Act prohibited the incorporation of new SAFI as of July 1st, 2007 and also established that SAFIs will maintain their specific tax regimen until December 31st, 2010. This means SAFI are not an option anymore, but the same tax benefits and operations can be achieved with a domestic corporation (see number 3 below).

2. Free Zone Corporations (FZC)

Free zones are free commerce and industrialization zones, controlled and looked after by Uruguayan authorities and administered by the State and/or private companies, who manage the premises.

Free Zone Corporations that become Free Zone Users, acquire the right to operate in the free zone by signing a contract with the operator of the zone.

They have total exemption of national taxes (net worth, income, VAT, etc.) on operations done by user entities, total exemption of import-export taxes on the entrance and exit of goods or services to and from the free zone.

The main operations that are usually performed by this type of corporation are: distribution and warehouse centers, call centers, shared services, financial services and professional services, software development, etc. The highly qualified workforce at low wages, give Uruguayan free trade zones a great advantage to develop these activities.

3. Domestic Corporation

The domestic corporation is the normal corporation that is used to develop business in Uruguay, but it can also be used to perform activities outside Uruguay without being subject to taxes since Uruguay only taxes income or assets in obtained or in Uruguay.

The advantage of the domestic corporation with relation to the SAFI is that the domestic corporation is not internationally considered an offshore corporation.

4. Main characteristics of Uruguayan Corporations

It is possible, and frequently done, to buy a company already incorporated and authorized by public authorities with no prior activity, which enables the company to start its activities immediately (off the shelf companies).

Once the company is incorporated, it can have only one shareholder. The shareholders may be individuals or legal entities, national or foreigners, residents or not residents of Uruguay. The shares can be nominative or bearer and must have par value. The shareholders can be represented by proxy letter, telex or any other written way. If the shares are bearer, their owners must be declared before the Central Bank of Uruguay.

According to what the articles of incorporation state, the board of directors can be made up of one or more members, who can be individuals or legal entities, Uruguayan residents or not. The board of directors can meet in Uruguay or abroad whenever it considers it necessary. Our firm can provide directors for specific operations.

The corporation must have at least one Shareholders Meeting during each year, in which the balance sheet should be approved. This Meeting will decide the destination of the profits and will appoint the new board of directors, unless the articles of incorporation establish a longer period of time for the director's offices. The Shareholders Meeting must take place in the country, but since shareholders can give proxies, this is not a problem.

5. Possible Uses of Uruguayan Corporations

They are useful to multinational companies to execute **trading operations**, in which these financial corporations can be used to mediate in international purchases between third countries. In such international commerce operations the corporation acts as buyer before the company of the exporter country and as seller before the company of the importer country. The merchandise is sent directly from the country of origin to its final destination, and there is no need to pass it through Uruguay.

Accomplishing **collections and payments abroad** originated in different types or operations, for example, rendering of services, counseling, commissions, etc. in order to concentrate earnings in the financial corporation and pay only a tax of 0,3%.

Concentration of the treasury with the consequent increase in efficiency in relation to the management of funds, which implies gathering and distributing them according to the global needs of a certain area or regional group, etc.

The property of a trademark or patent, may be licensed to different companies, concentrating the earnings in the corporation in order to decrease the tax to be paid for them.

With a previous capitalization or funding by means of indebtedness, it can serve as an appropriate vehicle for different types of investments, that is, in real estate in foreign countries or in stocks: risk investments, securities of different countries, securities, etc.

In order to evade inheritance regulations, the bearer shares allow the corporation to be owner of real estate for

instance, and freely transmit it.

The bearer shares also allow the owners of certain assets to maintain their anonymity; hence the foreign tax office has no knowledge of who are the owners. Therefore it is possible to decrease the income and wealth taxes of individuals and corporations. This is possible due to the bankers and the professional's duty of secrecy in our country and given that it is possible for the SAFI to have bearer shares.