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Global Tax Alert

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Uruguay's Executive Power extends tax incentives for construction activities

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Uruguay's Executive Power has issued Decree No. 138/020, establishing tax incentives for the construction of private initiative urbanization developments and the construction of buildings intended to be leased or sold as offices or homes. The Executive Power also issued Decree No. 141/020, modifying some of the provisions of Decree No. 329/016 by incorporating the tax incentives established in Decree No. 138/020. Decree No. 141/020 also extended some of the tax incentives.

To qualify for the tax incentives, the construction projects must be considered "great economic projects." "Great economic projects" are civil works and movable assets that are: (1) intended for areas of common use; (2) valued at more than 60,000,000 Indexed Units (IU) (approximately US$6,420,000); and (3) registered with the Social Security Bank. "Great economic projects" also include projects that: (1) may or may not have already begun at the time Decree No. 141/020 entered into force; (2) are already registered with the Social Security Bank; and (3) have 60,000 IU (approximately US$6,420) remaining to be invested in the civil work and movable assets intended for areas of common use.

Additionally, the investments in these projects must be filed with the Executive Power for approval before 31 December 2021 and must be made by no later than 30 April 2025. The projects must meet other requirements for a construction company to obtain the tax incentives. Both the investments and common use areas must meet certain requirements.

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If the requirements are met, the following tax incentives apply:

a) Corporate income tax exemption for 10 years, not to exceed 90% of the tax, as follows:
   - 15% when the amount of the investment is from 60,000,000 IU (approximately US$6,420,000) to 90,000,000 IU (approximately US$9,627,910)
   - 20% when the amount of the investment is over 90,000,000 IU (approximately US$9,627,910) but less than or equal to 205,000,000 IU (approximately US$21,930,230)
   - 25% when the amount of the investment is over 205,000,000 IU (approximately US$21,930,230) but less than or equal to 287,000,000 IU (approximately US$30,702,330)
   - 30% when the amount of the investment is over 287,000,000 IU (approximately US$30,702,330) but less than or equal to 574,000,000 IU (approximately US$61,404,650)
   - 40% when the amount of the investment is greater than 574,000,000 IU (approximately US$61,404,650)

b) Net wealth tax exemption for:
   - Real estate properties included in the promoted construction projects for 8 years if the construction is performed in Montevideo and 10 years for everywhere else
   - Movable assets destined for common use areas during their useful life

c) Value-added tax credit for the local purchase of equipment, machines, materials and services for civil works and for movable assets destined for common use areas

d) Exemption from all import taxes on equipment, machines and materials destined for the civil works and movable assets destined for common areas, provided they are declared non-competitive with the national industry (i.e., similar items are not available in Uruguay)

The corporate income tax exemption only applies under the provisions of Decree No. 138/020. Decree No. 141/020 did not include the corporate income tax exemption when it extended the incentives. Decree No. 141/020 maintains the benefits of Decree No. 329/016.

Decree No. 138/020 entered into force on 7 May 2020 and Decree No. 141/020 entered into force on 21 May 2020.

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