

# HR & Tax Alert



## Uruguay: Proposed Bill to Establish an Individual Income Tax

April 2006

### Executive summary

The Uruguayan Executive Power sent to the Parliament for its consideration a bill that, if approved, will establish an individual income tax, among other important regulations that seek the reform of the Uruguayan tax system currently in force.

### Background

In Uruguay a personal income tax existed between years 1961 and 1973. This tax was abolished due to a very high rate of evasion, made possible by the fact that fiscal authorities did not have the resources (in personnel and in technology) to establish the necessary controls.

If the tax reform is approved, beginning January 2007, Uruguayan residents and non-residents will have to pay an annual income tax on Uruguayan source income.

### Important aspects of the new tax

Income subject to tax can be divided in two categories:

- **Category I - Income derived from capital:** This category includes rent and sale of immovable and movable property, interest on deposits and investments, royalties, and similar income. The rate applicable is 10%.

- **Category II - Income derived from work:** This category includes salaries and pensions as well as any other income derived from the performance of personal services, regardless of whether they are rendered as an employee or as an independent party. Only social security contributions and a fixed amount of health coverage for each dependent child can be deducted. Rates are progressive and vary from 10% to 25%.

### Next steps

Individuals and international assignees should take into consideration this proposed bill in order to analyze the possible impact of the tax when working in Uruguay.

For further information, please contact your local Ernst & Young Human Capital professional, or in Uruguay:

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