
Uruguay tax regulatory decree affects digital services

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In brief

The Uruguayan Ministry of Economy and Finance on May 29, 2018, published in the Official Gazette a decree (Decree 144/018) providing tax regulations on the provision of services through the internet, technological platforms, computer applications (apps), or similar means.

The decree explains the conditions that these services should meet for tax purposes and the criteria to locate the service supplier and user for determining the Uruguayan-source income subject to tax.

The regulations took effect on January 1, 2018, the date the law that introduced the new tax provisions affecting digital services (Law 19,535) came into force. However, the decree declares July 1, 2018, as the effective date for certain local taxpayers to start withholding the taxes on audio-visual service fee payments and the suspension of withholding obligations with regard to mediation and intermediation services.

In detail

Law 19,535, passed on September 25, 2017, introduces new rules that significantly affect the taxation of certain international internet-related services beginning January 1, 2018.

For prior coverage, see PwC Tax Insight, [*Uruguay's new Accountability Law includes tax provisions affecting internet services and software*](#), October 10, 2017.

Taxation of audio-visual services

Effective January 1, 2018, income from the following activities, to the extent the

service user is located in Uruguay, is considered entirely Uruguayan sourced and fully subject to corporate income tax (CIT) or non-resident income tax (NRIT):

- production, distribution, or intermediation of cinematographic films and tapes
- direct TV broadcasting, and
- transmission of any audio-visual content.

These activities include those performed through the internet, technological platforms, apps, or similar means.

The user is considered to be located in Uruguay when either the Internet Protocol (IP) address of the device used for hiring the service or the user billing address is located in Uruguay.

If neither of those locations can be verified, the user is deemed to be located in Uruguay, unless otherwise proven, when the service fee is paid through electronic means managed from Uruguay, such as bank accounts, debit/credit cards, or e-money.

For value-added tax (VAT) purposes, the aforementioned services are considered rendered entirely in Uruguay

and subject to VAT if they have Uruguay as the destination, or are consumed or economically used in Uruguay.

Taxation of mediation and intermediation activities through computerized means

Mediation and intermediation in the supply or demand of services provided through the internet, technology platforms, apps, or similar means are defined as those activities that:

- are basically automated, require minimal human intervention, and are not viable without information technology (i.e., use of telecommunication equipment or electronic devices for broadcasting, processing, or data warehousing), and
- intervene in the supply or demand of services.

For CIT and NRIT purposes, since January 1, 2018, income from these activities is considered entirely sourced in Uruguay when both the supplier and user of the service are located in Uruguay. Income from such activities are considered 50% Uruguayan sourced if either the supplier or the user is located outside Uruguay.

The location of the supplier and the user are determined when the services are hired.

The user is considered to be located in Uruguay when its billing address or the IP address of the device used for

hiring the mediation or intermediation service is placed in Uruguay. If neither of those locations can be verified, the user is deemed to be located in Uruguay, unless otherwise proven, when the service fee is paid through electronic means managed from Uruguay, such as bank accounts, debit/credit cards, or e-money.

The supplier is considered to be located in Uruguay when the service under mediation or intermediation is rendered within Uruguayan territory.

For VAT purposes, mediation and intermediation services are considered rendered entirely within Uruguay when both parties are located in the country. These services are considered 50% rendered in Uruguay if either the supplier or the user of the service under mediation or intermediation is located outside Uruguay.

The same criteria used for income tax purposes are used to locate the supplier and the user for VAT purposes.

Withholding agents, representatives, and documentation

The decree states that CIT taxpayers (among other entities designated as withholding agents under general NRIT provisions) that pay or credit audio-visual service fees must withhold NRIT and VAT beginning July 1, 2018. However, the obligation to withhold NRIT and VAT on

mediation and intermediate service fees has been suspended.

For non-residents whose income is not subject to withholding NRIT, the decree allows the Tax Office to release them from the obligation to appoint representatives in Uruguay to the extent their income is exclusively from audio-visual, mediation, and intermediation services rendered without physical presence in the country, and the non-residents register a domicile in Uruguay for tax purposes.

The Tax Office also is empowered to issue exceptions to the general documentation regime for these types of services.

Observation: We expect the Tax Office to set forth specific procedures for non-resident taxpayers whose income is not subject to withholding NRIT to comply with their Uruguayan tax payment obligations.

The takeaway

Domestic and multinational enterprises with a Uruguayan presence and non-residents that have transactions with Uruguayan entities or individuals should determine their obligations under these new tax regulations.

In particular, companies operating in the film, TV broadcasting, internet, and audio-visual sectors should analyze carefully the potential effect of these provisions on their transactions and monitor expected Tax Office developments.

Let's talk

For a deeper discussion of how this may affect your business, please contact:

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