

GMS Flash Alert

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Uruguay – New Legislation Brings Changes to Personal Income Tax

In April, Uruguay's Law No. 20.124 introduced some important changes to the Personal Income Tax (IRPF), which applies (among other taxable events) to labor income earned by individuals with tax residence in Uruguay.¹ Decree No. 118/023, published in the country's Official Gazette (*Diario Oficial*) on 20 April 2023, contains certain regulations which implement Law 20.124 and other amendments.

The new rules take effect from 31 December 2023.

WHY THIS MATTERS

The changes described in this newsletter could have a favorable impact on the tax liability of Uruguayan assignees abroad still subject to Uruguayan tax and Uruguay-inbound assignees subject to Uruguayan tax as of fiscal year 2023. Due to the modifications to the dependent child deduction, the enhanced credit around mortgage loans, and the increase in deductible amounts against annual income subject to the IRPF, in many cases, a taxpayer's tax liability may be lower and therefore employers' international assignment costs may be lower. Each taxpayer's liability under the new rules will depend on his particular facts and circumstances.

Details in Brief

The main changes introduced by the new law are the following:

1. **Increase in the deduction per child:** Taxpayers may deduct a notional annual amount for each dependent minor child, which the new law increased from 13 BPC² (approximately US\$1,840) to 20 BPC (approximately US\$2,830).

2. *Housing credit*: Taxpayers are granted a tax credit for the amounts paid for mortgage loans for the acquisition of their homes³, provided the property does not exceed a certain value. The new regulation changed the indicated value for the property, increasing it from 794,000 UI⁴ (approximately US\$115,000) to 1,000,000 UI (approximately US\$145,000).

3. *Deductions for taxpayers with annual income up to 180 BPC*: The new rule provides that those taxpayers with annual incomes not exceeding 180 BPC (currently approximately US\$25,470) can claim certain deductions (e.g., dependent child allowance and social contributions) up to a stipulated percentage of their value, which the new law increases from 10 percent to 14 percent (8 percent rate applies in all other cases).

4. *Tax credit for housing rental*: Under certain conditions, a credit is granted against Personal Income Tax for a percentage of a rental/lease that is destined to housing of the taxpayer (the taxpayer must be the tenant and pay rent to the landlord). The tax credit is set as a percentage of the rental, which is increased by the new law from 6 percent to 8 percent of the annual rental/lease price.

KPMG INSIGHTS

Should taxpayers have any concerns about how the changes may impact them, how they may avail of the changes to effect a more favorable tax outcome, and any related issues around compliance, they are advised to speak with their qualified tax professional or a member of the GMS team with KPMG in Uruguay (see the Contacts section).

FOOTNOTES:

1 See the law in the official website of the National Directorate of Official Printings and Publications (IMPO) and the Regulatory Decree published on the official webpage of the Presidency of the Republic (in Spanish) :

Ley N° 20124 : <https://www.impo.com.uy/bases/leyes-originales/20124-2023> .

Decreto 118/023 Reglamentación de la Ley N° 20.124 de 24 de marzo de 2023 :

<https://www.gub.uy/presidencia/institucional/normativa/decreto-118023-reglamentacion-ley-n-20124-24-marzo-2023> .

2 BPC is the benefits and contributions base (*Base Prestaciones y Contribuciones*), which varies every year. For 2023, 1 BPC = UYU 5,660.

3 Taxpayer has a credit for the mortgage loan amount (with a maximum annual amount allowed of 36 BPC = UYU 5,004).

4 UI is the indexed unit (*Unidad Indexada*). 1 UI = UYU 5.7422.

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[UYU 1 = USD 0.025 | UYU 1 = GBP 0.0205 | UYU 1 = -EUR 0.0236 | UYU 1 = ARS 5.88 (*Source*: www.xe.com)]

Contact us

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