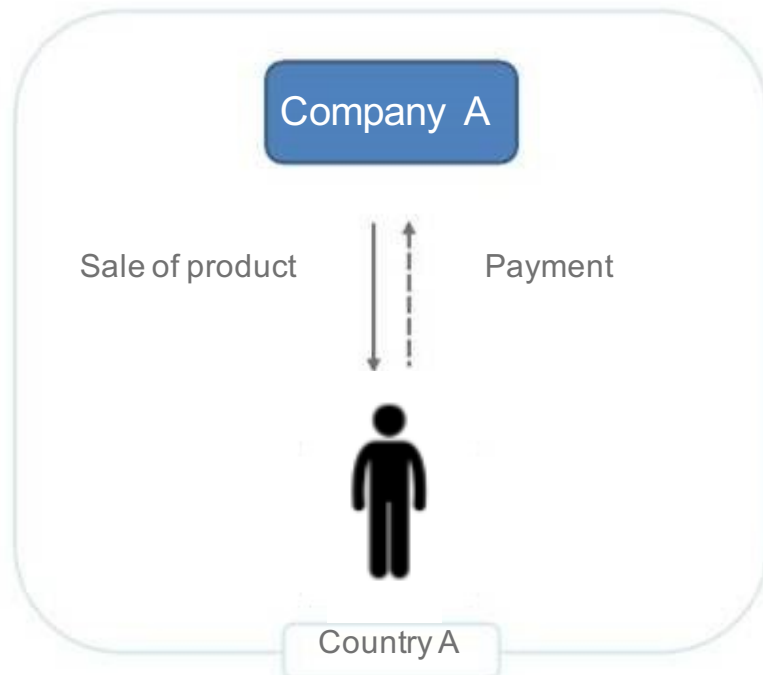


DIGITAL ECONOMY THE SOURCING RULE

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BACKGROUNDS



UNDER DOMESTIC RULES:

Company A (resident in Country A) is a retailer of branded consumer goods. This Company sells directly to consumers who are also resident in Country A.

The activity of Company A is entirely performed in Country A. The revenue which arise in Country A will be subject to tax in this country.

Income Tax is levied on income from activities performed, assets located in, or rights used in Uruguayan territory (a source principle).

Due to the adoption of the source principle, there are some particular international activities in which it is necessary to divide the income between Uruguayan and foreign source income.

CROSS BORDER DIGITAL TRANSACTIONS

Country A



Sale of products
or services



Payment

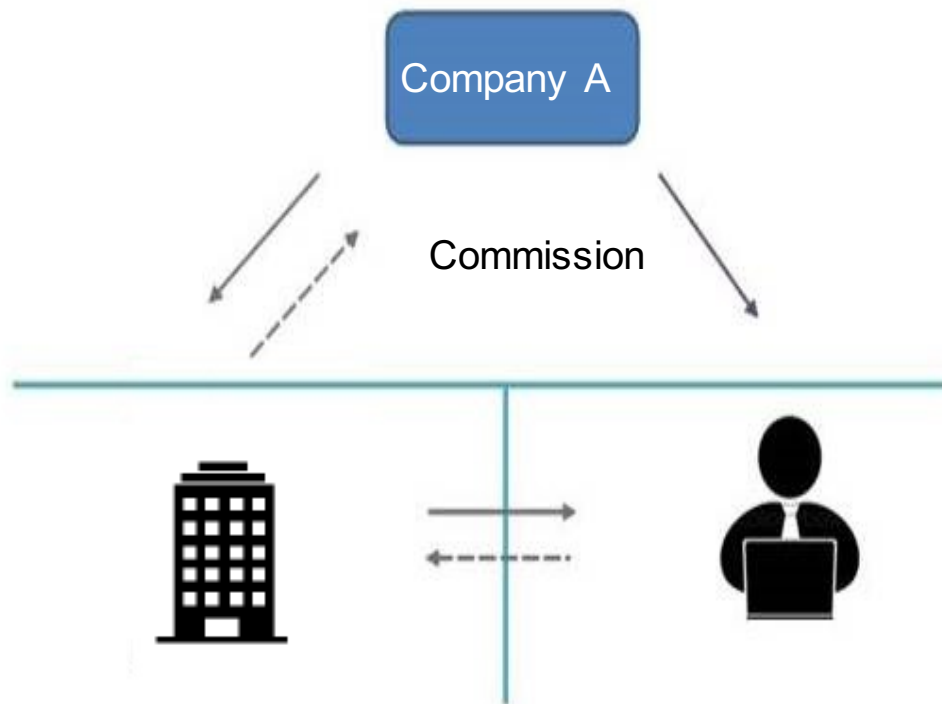
Country U



- Company A sells in Uruguay without physical presence in this country. In order to be taxed by the Income Tax, the income under analysis have to classify as **“Uruguayan source income”**.
- It will be considered as Uruguayan source, among others cases, the following income:
 - Services rendered through internet, digital platforms, APPs, or similars (transmission of any audiovisual content).
 - Intermediation and mediation through internet, digital platforms, APPs , or similars.

Who should tax this income? The Country A where the Company A is resident, or Country U where the products are sold and the consumers are located?

MULTISIDE ACCOMODATION PLATFORMS



Company A (resident in Country A) is an online platform that lists accommodation providers for a commission. This Company wins a commission from the hosts and the users.

The revenue under consideration is A's commission from accommodation provider and also from the users (consumers).

In order to define if this income is an "Uruguayan" source income, the Uruguayan approach takes into account where the consumer is located and also where the service is provided.

THE SITUATION OF NON RESIDENT ENTITIES

- When the Digital Entity has no physical presence in Uruguay, the Uruguayan source income will be subject to the Non Resident Income Tax (IRNR) at the rate of 12%, regardless the profitability of the MNE Group (profit or loss situation are treated on an equal footing).
- If the Non Resident Entity has low or nil taxation regime, the Income Tax Rate arises to 25%.
- Under a Double Tax Treaty, as there is no a Permanent Establishment, there is no taxing right to tax this income in the sourcing country under the current model.
- This Uruguayan source gross income is also subject to VAT at the rate of 22%. In that case, the destiny of these services, the place of its consumption or its economic use, is in Uruguay.
- Uruguay adopts a simplification measure:
 - 100% Uruguayan source: when both parties (demand/offer) are located in Uruguay (e.g. host & user).
 - 50% Uruguayan source: only when one of them is located in Uruguay.

SOURCING RULES

Some assumptions have to be adopted in order to determine the location of the consumer and the provider of the service under analysis.

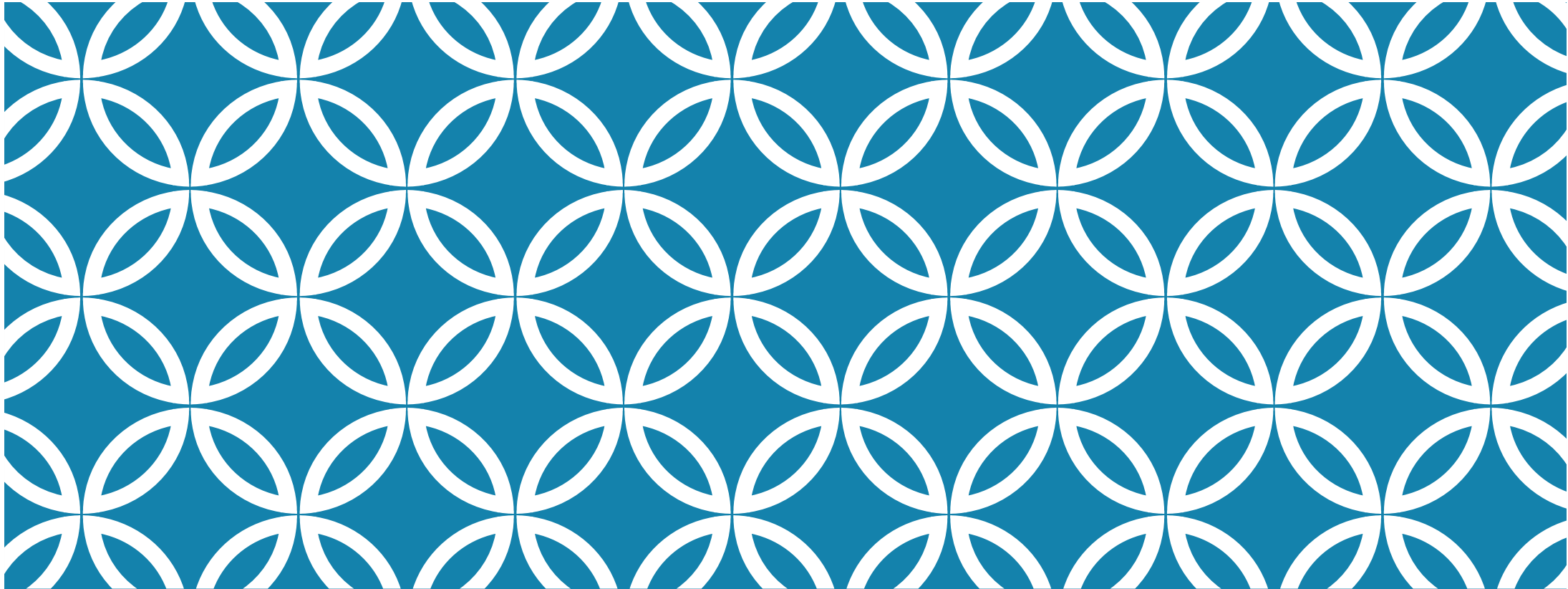
Form the perspective of the demand

Where is located:

- IP Address
- Billing address
- Rebuttable presumption: payment done from Uruguay.

Form the perspective of the offer

Where the service is provided (example, where the hosting house is located, where the hotel is located, the the taxi service if provided).



**ASANTE SANA
THANK YOU
MUCHAS GRACIAS**

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