PORTUGAL – A FAMILY AND BUSINESS FRIENDLY JURISDICTION

Background

Since 2009 over 5,000 high net worth individuals and their families have made Portugal their home, attracted by the lifestyle, the Non-Habitual Resident tax regime and the Golden Visa residency programme.

In 2014 the Portuguese Government made Portugal more attractive to companies by reforming its Corporate Tax Code to meet international standards. Since then Portuguese companies have enjoyed an internationally competitive tax framework that is also transparent, compliant and in-line with best international practice.

As an alternative to being registered on the mainland, Portuguese companies can, in the correct circumstances, be registered on the island of Madeira. The Madeira International Business Centre (MIBC) offers a number of attractive tax advantages.

Portugal Corporate Tax Structure

Overview

Portuguese companies are subject to tax on their worldwide income. Branches of non-resident companies are only taxed on Portuguese-source profits.

Corporate tax is charged on a company's profit, although some exemptions may apply in relation to passive income, under the Participation Exemption Method (details overleaf).

Rates

Entities	Portugal mainland	Madeira	Madeira Free Trade Zone	Azores
Resident entities and permanent establishments of non-resident entities	21%	21%	5%	16.8%
Resident entities and permanent establishments of non-resident entities,	17% (first €15,000 of taxable income) 21% (for the remaining	17% (first €15,000 of taxable income) 21% (for the remaining	5%	13.6% (first €15,000 of taxable income) 16.8% (for the

certified as small or medium companies	taxable income)	taxable income)		remaining taxable income)

1. Participation Exemption

Under Portugal's participation exemption regime, dividends received and capital gains realised by a Portuguese company from a domestic or foreign shareholding are exempt from tax, provided that:

i. The shareholder is not considered to be a transparent entity; AND
ii. The shareholder has held, directly or indirectly, at least 10% of the capital or voting rights of the company for at least 12 months;
iii. the subsidiary must not be resident in a listed tax haven; AND
iv. the subsidiary must be subject to a corporate tax rate listed in the EU Parent-Subsidiary Directive or a tax rate that is at minimum 60% of the Portuguese corporate tax rate.

The Participation Exemption also applies to dividends distributed to a non-resident company if this entity holds 10% of the capital for at least 12 months, and is resident in the EU/European Economic Area (EEA) or in a tax treaty jurisdiction.

Madeira Free Trade Zone companies can also take advantage of the Participation Exemption benefit relating to dividends, as long as the shareholder is an individual and the other criteria, detailed above, are met.

In all other cases, the dividend is subject to withholding tax at 25% (35% if paid to a resident of a Portuguese listed tax haven). The 25% rate may be reduced by a tax treaty.

Portugal grants a tax credit up to the amount of Portuguese tax payable on foreign income, which is calculated net of expenses on a per-country basis.

2. Interest and Royalties

Under the EU Interest and Royalties Directive, payments to qualifying EU recipients are exempt.

Interest and royalties paid to a non-resident company are subject to withholding tax at 25% (35% if paid to a resident of a Portuguese listed tax haven), unless reduced under a tax treaty or the payment is to a qualifying EU recipient.

3. R&D

The current Portuguese R&D benefit package is valid until 2020.

A tax credit is available, under certain conditions, for R&D expenses:

i. A corporate tax credit of 32.5% of qualifying R&D expenses is available in the relevant tax year and may be carried forward for eight years;
ii. 50% of the surplus of expenses suffered in the tax year over and above the average two previous tax years, capped at €1,500,000.

Up to a maximum 50% of the revenue earned from the licensing of patents, designs and industrial models is exempt from taxation.

4. Other Tax Benefits

i. Portuguese companies registered in the Madeira Free Trade Zone and known as MIBCs enjoy a number of tax benefits, in particular a reduced rate of corporate tax:
   - Corporate tax: 5%
   - The total tax benefit available to MIBC entities is capped at the highest of;
     a) 20.1% of annual gross added value OR
     b) 30.1% of annual staff costs OR
     c) 15.1% of annual turnover
   - Exemption from taxation on dividends received and capital gains under the Participation Exemption Regime (shareholder must own at least 10% of the shares which they must have held for a minimum of 12 months);
   - Exemption from withholding tax on dividend distributions and capital gains;
   - Exemption from withholding tax on interest, service fees and royalties paid to non-resident shareholders;
   - Exemption from stamp duty, property tax, property transfer tax, and regional and municipal surcharges (up to a maximum 80% per tax transaction, or per tax period);

ii. Portuguese Start-ups - the "*Semente*" Programme:
   - A tax benefit, is applicable to individual entrepreneurs; 25% of the eligible investment can be deducted from the entrepreneur's individual income tax payment.
   - Capital gains arising from the sale of shares are not taxable, as long as the investment is held for at least 48 months and the monies are reinvested that year or the year following the transaction.

Additional Relevant Tax Feature

Tax losses generated from 1 January 2017 onward can be carried forward for up to a maximum 5 year period.

How can Dixcart Help?

In addition to assisting families and entrepreneurs to select the most appropriate legal route for a move to Portugal and a consideration as to how wealth and commercial interests may need to be restructured, Dixcart also provides;

- Assistance to entrepreneurs and their families in relocating to Portugal and in obtaining the necessary residence permits.

- A complete range of services related to the incorporation of a company and its day-to-day obligations; from bookkeeping through to tax compliance.

Additional Information

If you require additional information regarding this topic and the types of company and tax structures available in Portugal and/or the types of visa and residency options, please speak to your usual Dixcart contact, or to Carlos Santos at the Dixcart office in Portugal:
carlos.santos@dixcart.com - https://www.linkedin.com/in/carlosperdigaosantos.

Dixcart Management (Madeira) Lda is an independent member firm of MSI Global Alliance, one of the world's leading international associations of independent legal and accounting member firms.

Portugal's Double Taxation Treaties

	Rate(%)		
Country	Dividends	Interest	Royalties
Algeria	15/10	15	10
Austria	15	10	10/5
Barbados *	15/5	10	5
Belgium (Additional convention)	15	15	10
Brazil	15/10	15	15
Bulgaria	15/10	10	10
Canada	15/10	10	10
Cape Verde	10	10	10
Chile	15/10	15/10/5	10/5
China	10	10	10
Colombia	10	10	10
Croatia	10/5	10	10
Cuba	10/5	10	5
Cyprus	10	10	10
Czech Republic	15/10	10	10
Denmark	10	10	10
East Timor *	10/5	10	10
Estonia	10	10	10
Ethiopia	10/5	10	5
Finland	15/10	15	10
France	15	12/10	5
Georgia	10/5	10	10
Germany	15	15/10	10
Greece	15	15	10

Guinea-Bissau	10	10	10
Holland	10	10	10
Hong Kong	10/5	10	5
Hungary	15/5	10	10
Iceland	15/10	10	10
India	15/10	10	10
Indonesia	10	10	10
Ireland (Protocol revising the Convention)	15	15	10
Israel	15/10/5	10	10
Italy	15	15	12
Ivory Coast*	10	10	5
Japan	10/5	10/5	5
Kingdom of Bahrain *	15/10	10	5
Korea	15/10	15	10
Kuwait	10/5	10	10
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg (Additional convention)	15	15/10	10
Macau	10	10	10
Malta	15/10	10	10
Mexico	10	10	10
Moldova	10/5	10	8
Morocco	15/10	12	10
Mozambique (Protocol revising the Convention)	10	10	10
Norway	15/5	10	10
Pakistan	15/10	10	10
Panama	15/10	10	10
Peru	15/10	15/10	15/10
Poland	15/10	10	10
Qatar	10/5	10	10
Republic of San Marino	15/10	10	10
Republic of Senegal	10/5	10	10
Romania	15/10	10	10
Russia	15/10	10	10
São Tomé and Príncipe *	15/10	10	10
Saudi Arabia	10/5	10	8
Singapore (Protocol revising the Convention)	10	10	10
Slovakia	15/10	10	10
Slovenia	15/5	10	5
South Africa	15/10	10	10

Spain	15/10	15	5
Sultanate of Oman *	15/10/5	10	8
Sweden	10	10	10
Switzerland (Protocol revising the Convention)	15/5	10	5
Tunisia	15	15	10
Turkey	15/5	15/10	10
United Arab Emirates	15/5	10	5
United States of America	15/5	10	10
United Kingdom	15/10	10	5
Ukraine	15/10	10	10
Uruguay	10/5	10	10
Venezuela	10	10	12/10
Vietnam *	15/10/5	10	10 / 7.5

*Not yet enacted.

Portuguese List of Countries Regarded as Tax Havens

Countries, Territories and Regions	
American Samoa	Liechtenstein
Andorra	Maldive Islands
Anguilla	Marshall Islands
Antigua and Barbuda	Mauritius
Aruba	Monaco
Ascension Island	Monserrat
Bahamas	Nauru
Bahrain	Netherlands Antilles
Barbados	Northern Mariana Islands
Belize	Niue Island
Bermuda	Norfolk Island
Bolivia	Pacific Islands
British Virgin Islands	Palau Islands
Brunei	Panama
Cayman Islands	Pitcairn Island
Channel Islands	Porto Rico
Christmas Island	Qatar
Cocos (Keeling)	Queshm Island
Cook Islands	Saint Helena
Costa Rica	Saint Kitts and Nevis
Djibouti	Saint Lucia

Dominica	Saint Pierre and Miquelon
Falkland Islands or Malvinas	Samoa
Fiji Islands	San Marino
French Polynesia	Seychelles
Gambia	Solomon Islands
Gibraltar	St Vicente and the Grenadines
Grenada	Sultanate of Oman
Guam	Svalbard
Guyana	Swaziland
Honduras	Tokelau
Hong Kong	Trinidad and Tobago
Jamaica	Tristan da Cunha
Jordan	Turks and Caicos Islands
Kingdom of Tonga	Tuvalu
Kiribati	United Arab Emirates
Kuwait	United States Virgin Islands
Labuan	Vanuatu
Lebanon	Yemen Arab Republic
Liberia	