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Corporate Taxes 2014/15

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All information in this book, unless otherwise stated, is up to date as of 1 June 2014.

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Portugal

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Significant developments

May 2014: Prorogation of the deadline for the issuance of licences to operate under the Madeira International Business Centre (MIBC)

The European Union (EU) Commission has authorised the prorogation, until 31 December 2014, of the issuance of licences to operate under the MIBC special tax regime. The regime provides for several tax benefits until 31 December 2020, including, among others, a reduced corporate income tax (CIT) rate of 5% applicable on income derived from transactions with non-residents, in case of companies licensed to operate in the international service centre.

January 2014: Developments in the tax law

The law that reformed the CIT was published on 16 January 2014 and applies to tax years or taxable events respectively starting or occurring on or after 1 January 2014.

Among others, the following measures are enacted:

CIT rate

The standard CIT rate was reduced from 25% to 23%. A further reduction to 21% in 2015 and to 19%/17% in 2016 shall be subject to analysis, also depending on the reform of the personal income tax (PIT) and value-added tax (VAT).

A reduced CIT rate of 17% applies to small and medium-sized companies on the first 15,000 euros (EUR) of taxable income (the standard CIT rate shall apply on the excess).

State surtax

State surtax applies at the following rates on the taxable profits (prior to the use of tax losses carried forward) related with tax years starting on or after 1 January 2014:

- 3% on the taxable income above EUR 1.5 million and up to EUR 7.5 million.
- 5% on the taxable income above EUR 7.5 million and up to EUR 35 million.
- 7% on the taxable income above EUR 35 million.

Carry forward of tax losses

The period to carry forward tax losses is extended from five to 12 years. The offset of tax losses carried forward is capped at 70% of the taxable profit (previously 75%). These measures apply to tax losses generated in the tax years starting on or after 1 January 2014.

Tax deductibility of financial expenses

The deduction of net financial expenses is capped at the higher of EUR 1 million (previously EUR 3 million) or 30% of the earnings before depreciation, amortisation, net financing expenses, and taxes (a transitional regime applies, being 60% in 2014, 50% in 2015, and 40% in 2016, until reaching 30% in 2017 and following years).

Special regime of group taxation

The minimum percentage of ownership under the special regime of group taxation is lowered from 90% to 75%. Additionally, tax resident Portuguese subsidiaries indirectly owned through an EU or European Economic Area (EEA) tax resident company are now eligible for this regime. Regarding the tax deductibility of financial expenses, the dominant company of a group taxed under the special tax regime can opt to apply the limitation (EUR 1 million or 30% of earnings before depreciation, amortisation, net financing expenses, and taxes) on the group's total net financial expenses (previously, the limitation was assessed on an individual basis).

Participation exemption regime for dividends and capital gains

A participation exemption regime applies on dividends received and capital gains realised by Portuguese tax resident companies. Dividends and capital gains are exempt from CIT in case of direct or indirect ownership of at least 5% of the share capital or of the voting rights of the subsidiary, which is held for at least 24 months (or maintained for that period). The regime also applies to capital gains and capital losses related to other equity instruments, such as additional capital contributions. Capital losses on the sale of participation are disallowed as tax deductible expenses.

The regime shall not apply in the following situations:

- The subsidiary is resident for tax purposes in a black-listed jurisdiction.
- The subsidiary is subject to tax at a rate lower than 60% of the standard CIT rate (meaning 13.8% in 2014).
- The capital gains are realised on the sale of participation in an entity whose assets are comprised of more than 50% immovable property (acquired on or after 1 January 2014).

Exemption from taxation of profits and losses of a foreign permanent establishment (PE)

Profits and losses of a foreign PE can be excluded from taxation in Portugal, provided that (i) the profit allocated to that PE is subject to and not exempt from a tax foreseen in Article 2 of the EU Parent/Subsidiary Directive (Council Directive 2011/96/EU, dated 30 November), or a tax similar to the Portuguese CIT where the legal rate is not lower than 60% of the standard CIT rate, and (ii) the PE is not located in a black-listed jurisdiction. The regime is not applicable to the profit allocated to the foreign PE up to the amount of the losses allocated to that PE that have been taken into account by the Portuguese taxpayer when computing the respective taxable income of the previous 12 tax years. This optional regime must cover, at least, all the PEs located in the same jurisdiction, and is mandatory for a minimum three-year period.

Exemption from withholding tax (WHT) on dividends paid to foreign shareholders

An exemption from WHT applies to dividends distributed by Portuguese tax resident subsidiaries to their foreign parent company, provided that the foreign parent company meets the following requirements:

- It is resident in a member state of the European Union, the European Economic Area (bounded to tax cooperation equivalent to the European Union's), or a state with which Portugal has concluded a tax treaty (that foresees tax cooperation equivalent to the European Union's).
- It is subject to and not exempt from a tax as foreseen in the Council Directive 2011/96, dated 30 November 2011 (EU Parent/Subsidiary Directive), or a tax similar to the Portuguese CIT.
- In the case of a tax treaty resident, the CIT rate cannot be lower than 60% of the standard Portuguese CIT rate (i.e. 13.8% in 2014).

- It directly or indirectly owns at least 5% of the share capital or voting rights of the Portuguese subsidiary in the 24 preceding months.

Amortisation of intangibles
The cost of acquisition of certain intangibles with unlimited life (i.e. trademarks, permits, production processes, models, and other industrial property rights) can be amortised for tax purposes over a period of 20 years.

Goodwill acquired as a result of a corporate restructuring can also be amortised for tax purposes over a 20-year period, except if related with shareholdings.

These rules do not apply to intangibles acquired under a tax-neutral corporate restructure (merger, split, or asset contribution) or from an entity in a black-listed jurisdiction.

Patent box regime
Income derived from the sale or granting of the temporary use of industrial property rights (i.e. patents and industrial drawings and models) is 50% exempt. The regime applies to industrial property rights derived from research and development (R&D) developed internally or contracted from third parties. Transactions with associated enterprises, including entities resident in black-listed jurisdictions, are excluded. The regime applies to the above-mentioned industrial property rights registered on or after 1 January 2014.

Draft legislation
Please note this information is current as of 1 June 2014. Typically, draft legislation is announced around mid-October. Please visit the Worldwide Tax Summaries website at *www.pwc.com/taxsummaries* to see any significant corporate tax developments that occurred after October 2014.

Taxes on corporate income

Resident companies in Portugal are taxed on their worldwide income.

As of 1 January 2014, there is an optional regime to exclude from taxation the profits and losses allocated to a foreign PE of a Portuguese company. The regime applies provided that (i) the profit allocated to that PE is subject to and not exempt from a tax foreseen in Article 2 of the EU Parent/Subsidiary Directive (Council Directive 2011/96/EU, dated 30 November), or a tax similar to the Portuguese CIT where the legal rate is not lower than 60% of the standard CIT rate, and (ii) the PE is not located in a black-listed jurisdiction. The regime is not applicable to the profit allocated to the foreign PE up to the amount of the losses allocated to that PE that have been taken into account by the Portuguese taxpayer when computing the respective taxable income of the previous 12 tax years. This is an optional regime that must cover, at least, all the PEs located in the same jurisdiction, and is mandatory for a minimum three-year period.

CIT is also applicable to Portugal-source income attributable to a PE of a non-resident company in Portugal. Special WHT rates apply to income generated in Portugal that is attributable to non-residents without a PE in Portugal (*see the Withholding taxes section for more information*).

A flat CIT rate of 23% applies on the global amount of taxable income realised by companies resident for tax purposes in Portugal mainland or in the Autonomous Region of Madeira (also applicable to Portuguese PEs of foreign entities).

A reduced CIT rate of 17% applies to small and medium-sized companies on the first EUR 15,000 of taxable income (the standard CIT rate shall apply on the excess). Reference is made to the concept of micro, small, and medium-sized companies as foreseen in the EU Commission Recommendation 2003/361, dated 6 May, concerning the definition of micro, small, and medium-sized enterprises.

Entities that do not carry out a commercial, industrial, or agricultural activity as their main activity are subject to a 21.5% CIT rate on the global amount of their taxable income.

A lower CIT rate of 18.4% applies to companies that are tax resident in the Autonomous Region of Azores, including PEs of foreign entities registered therein.

Surtaxes

The following surtaxes may also apply:

- A local surtax (*Derrama*) of up to 1.5% of taxable income, prior to the deduction of any available carryforward tax losses, is levied in certain municipalities. The local surcharge is assessed and paid when filing the CIT return.
- A state surtax (*Derrama Estadual*) applies (prior to the deduction of any available carryforward tax losses) at the following rates:
  - 3% applicable to the taxable profit exceeding EUR 1.5 million and up to EUR 7.5 million.
  - 5% applicable to the taxable profit exceeding EUR 7.5 million and up to EUR 35 million.
  - 7% applicable to the taxable profit exceeding EUR 35 million.

The state surtax is levied on resident taxpayers carrying on commercial, industrial, or agricultural activity and by non-residents with a PE in Portugal. The state surtax is paid in three instalments.

A regional surtax (*Derrama Regional*) applies in the Autonomous Region of Madeira on the same terms as the state surtax. Companies licensed to operate in the MIBC are not subject to regional surtax.

Autonomous taxation

Autonomous taxation applies at different rates on certain expenses incurred by entities subject to CIT. It is self-assessed in addition to CIT (even if no CIT is due) at the following rates:

- Representation and entertainment expenses: 10%.
- Mileage allowance: 5%.
- *Per diem* allowance: 5%.
- Non-documented expenses: 50% (70% for partially or fully exempted taxpayers).
- Company car expenses (including depreciation, rentals, leasing, insurance, maintenance, repairs, fuel, and taxes), except full electric cars, vehicles allocated to public transport, or vehicles that are taxed as income in kind for PIT purposes, depending on the acquisition cost and regardless of the year of acquisition:
  - Acquisition cost lower than EUR 25,000: 10%.
  - Acquisition cost between EUR 25,000 and EUR 35,000: 27.5%.
  - Acquisition cost of EUR 35,000 or more: 35%.
- Dividends distributed to wholly or partially exempt taxpayers regarding participations held for less than one year: 23%.
- The total amount of the expenses incurred with any compensation paid as a result of the termination of functions of managers or board members if not related to the productivity targets previously established under the existing labour relation; or the amount that exceeds the remuneration that would be received by the manager or the

board member until the term of the labour agreement, in case of redundancy prior to that term; or, in all cases, if the liability for the payment is shifted to another entity: 35%.
- The total amount of the expenses incurred with bonuses paid to managers or board members if the respective amount corresponds to more than 25% of the annual salary and exceeds EUR 27,500: 35%.

All of the above-mentioned rates of autonomous taxation are increased by 10% if the taxpayer has tax losses in the tax year in which the expenses are incurred.

Corporate residence

A resident company is one whose head office or effective management is located in Portugal.

Permanent establishment (PE)
Under Portuguese tax law, any fixed place of business in Portugal through which the business of an enterprise is wholly or partly carried on is deemed to constitute a PE in Portugal.

A fixed place of business comprises, among others, a place of management, a branch, an office, a factory, a workshop, a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources, and also a building site or a construction or installation project if it lasts more than six months (time period may differ considering the applicable tax treaty).

A PE may also be deemed to exist in case of a person (a dependent agent), which is not an independent agent, acting, in the Portuguese territory on behalf of a company, with powers to intermediate and conclude binding contracts for that company, within the scope of its business activity.

No PE should exist where a fixed place of business in Portugal is used solely for carrying out ancillary or preparatory activities, or, in the case of a company, carries out its activities in Portugal through a broker, general commission agent, or other agent of an independent status, acting in the normal course of its business, bearing all related business risks.

Additionally, the term PE shall be deemed not to include the following actions:

- Use of facilities solely for the purpose of storage, display, or delivery of goods or merchandise belonging to the enterprise.
- Maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of storage, display, or delivery.
- Maintenance of a stock of goods or merchandise belonging to the enterprise solely for the purpose of processing by another enterprise.
- Maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise, or of collecting information, for the enterprise.
- Maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character.
- Maintenance of a fixed place of business solely for any combination of activities mentioned above, provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character.

Other taxes

Value-added tax (VAT)

VAT rates

There are three VAT rates: the standard rate of 23% (22% in the Autonomous Region of Madeira; 18% in the Autonomous Region of the Azores), the intermediate rate of 13% (12% in Madeira; 10% in the Azores), and the reduced rate of 6% (5% in Madeira and Azores).

The intermediate rate applies to supplies of some foodstuffs and to admissions to concerts, shows, theatre, cinemas, circus, and bullfighting. The reduced rate applies to the supplies of some basic foodstuffs, periodical publications, books, pharmaceutical products, hotel accommodation, agricultural goods, and passenger transport.

Exports and intra-EU supplies of goods are zero-rated.

Supplies of goods

Supplies of goods are subject to VAT in Portugal if the goods are located in Portugal at the moment their transport or dispatch to the customer begins. If the goods are located in Portugal and there is no transport or dispatch, then supplies of the goods are subject to VAT at the moment they are put at the disposal of the customer.

Supplies of services

Supplies of services are subject to VAT in Portugal whenever: (i) acquired by taxable persons that have their business, a fixed establishment, domicile, or residence in Portugal to which the services are provided (B2B rule) or (ii) supplied to non-taxable persons if the provider has established its business, a fixed establishment, domicile, or residence in Portugal from where these services are provided (B2C rule).

Regardless of the place where the service provider and the acquirer are established, and independent of the acquirer being a taxable person or not, the supply of the following services is subject to VAT in Portugal if physically carried out in Portugal:

- Services connected with immovable property.
- Passenger transport for the distances covered in Portugal.
- Admission to cultural, artistic, scientific, sporting, educational, entertainment, or similar events.
- Restaurant and catering services.
- Short-term hiring of a means of transport (up to 30 days, for boats up to 90 days) if the means of transport are put at the disposal of the customer in Portugal.

The supply of the following services is subject to VAT in Portugal if physically carried out in Portugal and if the acquirer is a non-taxable person:

- Transport of goods, other than intra-Community transport of goods, for the distances covered in Portugal.
- Intra-Community transport of goods, if the place of departure is Portugal.
- Valuations of and work on movable property.
- Services and ancillary services relating to cultural, artistic, sporting, scientific, educational, entertainment, or similar activities, such as fairs and exhibitions, including the supply of services of the organisers; and hiring of a means of transport, other than short-term hiring, when the acquirer is established, has one's permanent address, or usually resides in Portugal.

Customs duties
Customs duties are regulated by the Community Customs Code. Therefore, the rules foreseen for the import and export of goods in Portugal are similar to the rules applicable in other EU member states.

The customs duties' rates applied in Portugal vary according to the origin of the goods. There are several origin agreements that exempt from customs duties the importation of goods from certain countries or that determine reduced rates.

Excise duties
There are different types of excise duties, such as petroleum and energy products tax, alcohol and alcoholic beverages tax, tobacco tax, and vehicle tax.

The tax applicable to petroleum and energetic products depends on the goods supplied, and it varies between EUR 650 per 1,000 litres for leaded petrol and EUR 2.84/gJ for natural gas used as fuel.

As of 1 January 2014, the excise duty applies on the supply of natural gas to final consumers at the rate of EUR 0.30/gJ.

The tax applicable to alcohol and alcoholic beverages also depends on the type of good supplied, varying between EUR 7.53 per hectolitre for a certain type of beer and EUR 1,251.72 per hectolitre for spirits.

The tax applicable to tobacco also varies in accordance with the type of product supplied, namely it varies between 20% of the sale price for fine-cut tobacco for the rolling, 25% of the sale price for cigarettes, cigars, and cigarillos, and 50% of the sale price for tobacco used in a water pipe.

The tax applicable to vehicles varies in accordance with the type of vehicle, the fuel used, and the cylinder of the vehicle. The higher taxation is applicable for cars used for the transport of passengers using petrol as fuel and the lower taxation is applicable for motorcycles.

An excise duty on consumption of electricity is due by producers, traders, self-producers, and consumers that buy electricity in organised markets. The tax applicable to electricity varies between EUR 1/kw to EUR 1.1/kw.

Property tax (Imposto Municipal sobre Imóveis or IMI)
IMI is a municipal property tax upon which the taxable basis is calculated by reference to a formula based on objective criteria, such as the construction cost per square metre, area, age, construction quality, and comfort indexes. It is due by the real estate owner, the usufructuary, or the holder of the surface right of a real estate unit with reference to 31 December of the year that it concerns.

IMI is levied at the following rates, in addition to corporate or individual tax assessed on actual income generated by real estate:

Real estate type	IMI (%)
Urban real estate	0.3 to 0.5
Rural real estate	0.8
Real estate owned by residents in a black-listed jurisdiction (except individuals)	7.5

Note that the tax rate of IMI on properties owned by entities resident for tax purposes in a black-listed jurisdiction is 7.5%.

The list of countries, territories, and regions that provide a more favourable tax regime ('black-listed jurisdictions') is presented below:

- American Samoa
- Andorra (1)
- Anguilla (1)
- Antigua and Barbuda (1)
- Aruba
- Ascension Island
- Bahamas
- Bahrain
- Barbados
- Belize (1)
- Bermuda (1)
- Bolivia
- British Virgin Islands (1)
- Brunei
- Cayman Islands (1)
- Channel Islands (1, 2)
- Christmas Island
- Cocos (Keeling)
- Cook Islands
- Costa Rica
- Djibouti
- Dominica (1)
- Falkland Islands or Malvinas
- Fiji Islands
- French Polynesia
- Gambia
- Gibraltar (1)
- Grenada
- Guam
- Guyana
- Honduras
- Hong Kong
- Isle of Man (1)
- Jamaica
- Jordan
- Kingdom of Tonga
- Kiribati
- Kuwait
- Labuan
- Lebanon
- Liberia (1)
- Liechtenstein
- Marianas
- Marshall Islands
- Mauritius
- Monaco
- Montserrat
- Nauru
- Netherlands Antilles
- Niue Island
- Norfolk Island
- Pacific Islands
- Palau Islands
- Panama
- Pitcairn Island
- Puerto Rico
- Qatar
- Queshm Island
- Saint Helena
- Saint Kitts and Nevis (1)
- Saint Lucia (1)
- Saint Pierre and Miquelon
- San Marino
- Seychelles
- Solomon Islands
- St. Vicente and the Grenadines
- Sultanate of Oman
- Svalbard
- Swaziland
- The Maldives
- Tokelau
- Trinidad and Tobago
- Tristan da Cunha
- Turks and Caicos (1)
- Tuvalu
- United Arab Emirates
- United States Virgin Islands
- Uruguay
- Vanuatu
- Western Samoa
- Yemen Arab Republic

Notes

1. The Portuguese authorities have signed tax information exchange agreements (TIEAs) with these jurisdictions (in case of the Channel Islands, only with Guernsey and Jersey). The following TIEAs are in force: Andorra, Bermuda, Cayman Islands, Gibraltar, Isle of Man, Jersey, and Saint Lucia.
2. Alderney, Brechou, Great Sark, Guernsey, Herm, Jersey, Jethou, Lihou, and Little Sark.

IMI rates are annually increased three times when urban real estate is vacant or in ruins for a period of over one year.

Property transfer tax (Imposto Municipal sobre as Transmissões Onerosas de Imóveis or IMT)

IMT is a municipal tax payable in Portugal on the onerous transfer of local real estate. The tax is levied on the purchaser at the rates shown below, and the taxable basis is the same as for IMI or the price agreed upon by the contracting parties, whichever is higher. Note that the acquisition of more than 75% of the share capital of a company incorporated as a limited liability company (*Sociedade por quotas*), which owns real estate located in Portugal, is subject to IMT.

Real estate type	IMT (%)
Rural real estate	5
Urban real estate (for residential purposes)	up to 6
Other urban real estate and other acquisitions for consideration	6.5
The acquirer is a tax resident in a black-listed jurisdiction (except individuals)	10

Stamp duty

Stamp duty is payable on a wide variety of transactions and documents, at rates that may be set in specific amounts or on a percentage basis. Important examples include the following:

Item	Stamp duty (%)
Loans (on the principal):	
With determined term, over one year	0.5 to 0.6
Current account/overdraft/credit with undetermined term or determined term under one year	0.04 per month or fraction
Credit to consumers:	
With a term up to one year/current account, overdraft, or other form of credit with undetermined term	0.07 per month or fraction
With a term equal to or higher than one year	0.9
With a term equal to or higher than five years	1
Guarantees (1):	
Undetermined/five or more years	0.6
Over one year	0.5
Under one year or with undetermined term	0.04 per month or fraction
Bank interest and fees	4
Insurance premiums	3 to 9
Real estate purchases and sales	0.8
Donations and inheritances	10
Sale of business as a going concern	5
Social game prizes (on the amount exceeding EUR 5,000)	20
Ownership, usufruct, or surface right of urban housing buildings whose tax registration value is equal to or higher than EUR 1 million (2)	0.5/0.8/7.5

Notes

1. Guarantees provided in favour of the state or social security institutions upon the payment of debt by instalments under enforcement procedures or relating to the recovery of tax and social security credits are exempt from stamp duty in 2014.
2. The rates apply as follows:
   - 0.5% for buildings already evaluated according to the current rules of the IMI Code.
   - 0.8% for buildings that are not evaluated according to the current rules of the IMI Code.
   - 1% for urban housing buildings or building plots wherein house construction is authorised or intended, according to the current rules of the IMI Code.
   - 7.5% for buildings, regardless of their use, owned by companies resident in black-listed jurisdictions.

Financial sector contribution

Portuguese headquartered credit institutions, Portuguese subsidiaries of foreign credit institutions, as well as branches in Portugal of foreign credit institutions, except EU residents, are subject to a financial sector contribution, applicable on a taxable base composed as follows:

- Base I: Liabilities, defined as the set of elements accounted for in the balance sheet representing liabilities towards third parties, irrespective of their form or nature (excluding, amongst others, items accounted for as equity, liabilities for defined benefit retirement plans; provisions, liabilities concerning the revaluation of financial derivatives).
- Base II: The notional amount of off-balance sheet financial derivatives, excluding hedging derivatives and back-to-back derivatives.

The financial sector contribution is applicable at 0.05% on Base I and at 0.00015% on Base II.

Note that the 2014 State Budget foresees an amendment, which has not yet passed, that allows the maximum rate of the financial sector contribution to increase to 0.07% on Base I and 0.00030% on Base II.

Social security contributions

Employers are required to make monthly social security contributions at the standard rate of 23.75% on the monthly gross remuneration of their employees.

Social security contributions are deductible for CIT purposes.

Branch income

The profits of a Portuguese branch are taxed on the same basis as corporate profits. Income remitted by a Portuguese branch to the foreign head office is not subject to taxation in Portugal.

Income determination

Taxable profit is based on accounting income adjusted according to specific provisions of the tax legislation, when applicable.

Inventory valuation

Inventories are valued at the lower of the following values: cost or net realisable value. The first in first out (FIFO) and average-cost methods of valuation are accepted. The last in first out (LIFO) method is not allowed.

Inventory adjustments are deductible for tax purposes on the amount accounted for in the tax year, capped at the difference between the acquisition or production value and, if lower, the net realisable value (duly documented) with reference to the balance sheet.

Capital gains

Under the new participation exemption regime introduced in 2014, capital gains and capital losses realised on the transfer of shares can be exempt from taxation. This rule applies to all types of Portuguese companies (holdings and operational companies) and includes capital gains on the transfer of shares derived from a non-tax neutral merger, division, transfer of assets, or exchange of shares, and also in case of a transfer of supplementary capital entries. The regime applies provided that, at the date of the transaction, the following requirements are met:

- The shares are held for a consecutive period of at least 24 months.
- The taxpayer directly or indirectly holds at least 5% of the share capital or voting rights in the entity from which the shares are transferred.
- The taxpayer is not covered by the tax transparency regime (i.e. imputation of profits to individual or corporate shareholders, regardless of effective distribution).
- The entity from which shares are transferred is not resident in a black-listed jurisdiction.
- The assets of the entity from which shares are transferred are directly or indirectly comprised of more than 50% of real estate located in Portugal and acquired on or after 1 January 2014 (except real estate allocated to an agricultural, industrial, or commercial activity that does not consist of buying and selling real estate).

This regime also applies to capital gains and capital losses realised by a Portuguese PE of:

- An EU resident entity, which complies with the requirements foreseen in Article 2 of the EU Parent/Subsidiary Directive.
- An EEA resident entity, subject to tax cooperation obligations similar to the ones established within the European Union, provided that the entity complies with requirements that are comparable to those foreseen in Article 2 of the EU Parent/Subsidiary Directive.
- An entity resident in a state with which Portugal has concluded a double tax treaty (DTT) (except if resident in a black-listed jurisdiction) that foresees tax cooperation obligations similar to the ones established within the European Union and is subject and not exempt in its state of residence from an income tax similar to the Portuguese CIT.

Where the participation exemption regime on the transfer of shares does not apply, the positive net difference between capital gains and capital losses arising from the transfer of shares is taxed as part of normal income. The same applies on the disposal of tangible fixed assets, intangibles, biological assets, and investment properties. In certain circumstances, only 50% of the net gains on disposal of tangible fixed assets, intangibles, and biological assets is taxed as part of normal income, provided the sales proceeds are reinvested.

Capital gains and capital losses are determined by the difference between the sales proceeds, net of related costs, and the acquisition value, net of impairment losses and tax deductible depreciation or amortisation, adjusted by the inflation index (in the case of at least two years of ownership).

Dividend income

Under the new participation exemption regime introduced in 2014, profits distributed to a Portuguese parent company are exempt from taxation, provided that the following requirements are met:

- The taxpayer directly or indirectly holds at least 5% of the share capital or voting rights in the subsidiary.
- The shares are held for a consecutive period of at least 24 months (or maintained for that period).
- The taxpayer is not covered by the tax transparency regime.
- The subsidiary is subject to and not exempt from CIT, an income tax mentioned in Article 2 of the EU Parent/Subsidiary Directive (Council Directive 2011/96/EU, dated 30 November), or a tax similar to CIT with a legal rate that is not lower than 60% of the standard CIT rate.
- The subsidiary is not resident in a black-listed jurisdiction.

This regime also applies to profits distributed to a Portuguese PE of:

- An EU resident entity, which complies with the requirements foreseen in Article 2 of the EU Parent/Subsidiary Directive.
- An EEA resident entity, subject to tax cooperation obligations similar to the ones established within the European Union, provided that the entity complies with requirements that are comparable to those foreseen in Article 2 of the EU Parent/Subsidiary Directive.
- An entity resident in a state with which Portugal has concluded a DTT (except if resident in a black-listed jurisdiction) that foresees tax cooperation obligations similar to the ones established within the European Union and is subject and not exempt in its state of residence from an income tax similar to the Portuguese CIT.

Interest income

Interest income obtained by Portuguese taxpayers is taxed as part of normal income and taxed at the standard CIT rate. Any WHT incurred in interest income received is treated as a payment on account of the final CIT liability, refundable even if no CIT is due.

Foreign income

A Portuguese company is taxed on all its foreign income; however, there is an optional regime to exclude from taxation the profits and losses allocated to a foreign PE (*see the Taxes on corporate income section for more information*).

Taxes paid abroad can be offset against corresponding Portuguese tax (*see Foreign tax credit in the Tax credits and incentives section for more information*).

There are no provisions concerning tax deferral of income earned abroad.

Deductions

Depreciation and amortisation

The qualifying cost of an asset for tax purposes is the acquisition or production cost.

Depreciation must be computed by using the straight-line method or the declining-balance method. The latter cannot be applied to buildings, passenger vehicles, furniture, social welfare equipment, or second-hand assets.

Straight-line rates of depreciation are normally consistent with rates privately used by business and industry and are increased, for the purposes of applying the declining-balance method, by coefficients of:

- 1.5 if assets have a useful life of less than five years.
- 2 if useful life is five or six years.
- 2.5 for useful lives in excess of six years.

Different depreciation methods may be applied without previous approval from the Portuguese Tax Authority (PTA) (annual depreciation cannot, however, exceed the depreciation resulting from using either the straight-line or declining-balance methods).

Some examples relating to the maximum straight-line depreciation rate are as follows:

Type of asset	Depreciation rate (%)
Office building	2
Industrial building	5
Electronic equipment	20
Computers	33.33
Ordinary tool and paintings	25
Engines and machine tools	12.5
Office equipment	20
Furniture	12.5
Software	33.33
Light passenger vehicles	25

Rates can be reduced by 50% in any one year at the taxpayer's option. If the reduction is more than 50%, the difference is allowed for tax purposes at a future date. Any depreciation in excess of the maximum allowed must be subsequently adjusted in the accounting records to be allowed for tax purposes in future years. A total of 60% of additional depreciation on revaluation of fixed assets, as permitted by law from time to time, is allowed for tax purposes.

Depreciation rates of tangible assets may be increased by 25% in the case of companies with a schedule of two shifts (for three shifts, 50%), given the faster deterioration of those assets.

Assets with an acquisition value lower than EUR 1,000 can be depreciated in the acquisition year, unless the assets are part of a set of elements that should be depreciated as a whole.

Depreciation of yachts and airplanes that are not essential for business activities is not allowed as a cost for tax purposes.

Depreciation of passenger cars and certain other vehicles on the part of their cost of acquisition that exceeds certain amounts (as defined by law), with reference to their acquisition value, is also disallowed as a cost for tax purposes. The following caps apply (i.e. disallowed cost above the values below):

- EUR 29,927.87 of acquisition cost, in the case of vehicles acquired until 31 December 2009.
- EUR 40,000 of acquisition cost, in the case of vehicles acquired between 1 January 2010 and 31 December 2010.
- EUR 30,000 of acquisition cost, in the case of vehicles acquired between 1 January 2011 and 31 December 2011 (EUR 45,000 in case of electric vehicles).
- EUR 25,000 of acquisition cost, in the case of vehicles acquired from 1 January 2012 onwards (EUR 50,000 in case of electric vehicles).

Development expenses, patents, trademarks, licences, and similar rights may be amortised for tax purposes if acquired for a limited period of time.

The cost of acquisition of certain intangibles with unlimited life (i.e. trademarks, permits, production processes, models, and other industrial property rights) can be amortised for tax purposes over a period of 20 years.

Depreciation of non-consumable biological assets is tax deductible.

Expenses relating to assets generated internally are deductible for tax purposes in the tax year in which the cost is incurred.

Goodwill
Goodwill acquired as a result of a corporate restructure or business combination can be amortised for tax purposes over a 20-year period, except if related with shareholdings.

Start-up expenses
Start-up and research expenses are deductible for tax purposes in the respective tax year. Transitional adjustments of remaining start-up expenses incurred prior to the adoption of the new accounting system in 2010 (*Sistema de Normalização Contabilística* or SNC) should be written off the balance sheet against equity and are deductible over a five-year period (ending in 2014).

Limitation on the deductibility of financing expenses
As of 1 January 2014, companies may only deduct net financing expenses up to the higher of the following limits:

- EUR 1 million or

- 30% of the earnings before depreciations, amortisation, taxes, and net financing expenses.

Under the transitional period foreseen, a 60% cap applies in 2014, 50% in 2015, and 40% in 2016, until reaching 30% in 2017 and following years. In the cases where the taxable year is less than a calendar year, the EUR 1 million limit is reduced proportionally to the duration of the taxable year.

Besides Portuguese tax resident entities, PEs of non-resident entities are also covered by the scope of this rule. Entities subject to the supervision of the Portuguese Central Bank (*Banco de Portugal*) and the Portuguese Insurance and Pension Fund Supervisory Authority (*Instituto de Seguros de Portugal*), as well as Portuguese branches of financial entities or insurance companies resident for tax purposes in the European Union, are excluded from this rule.

No distinction is made between bank and intra-group financing, domestic or foreign financing (EU or non-EU).

Financing expenses considered as excessive (not deductible) in a certain fiscal year may be deductible in the following five fiscal years, provided that, together with the net financing expenses of that year, the above-mentioned limits are not exceeded.

Additionally, where financing expenses do not exceed 30% (or the applicable percentage) of the earnings before depreciations, net financing expenses, and taxes, the unused difference is added to the maximum deductible amount in the following five tax years, until its total deduction.

For the purposes of the regime, net financing expenses consist of, among others, any amounts due in connection to the remuneration of financing, including interest on overdraft facilities, short-term loans, bonds, financial expenses related to financial leases, or exchange losses, deducted from the profits or gains of the same nature.

Where the special regime of group taxation applies, there is the option to make the calculation considering the net financial expenses of the group.

Interest on shareholder loans
If the rate applicable to interest and other compensation regarding loans provided by the shareholders to the company is higher than the Euro Interbank Offered Rate (EURIBOR) 12-month rate rounded up with a spread of 1.5% (at the date the loan was granted), the amount paid in excess is not tax deductible. This rule does not apply when the shareholder is a resident of a tax treaty country or when the interest rate is at arm's length under the transfer pricing provisions.

In the case of small and medium-sized companies, shareholders' loans with an interest rate of the EURIBOR 12-month rate plus a spread up to 6% are tax deductible.

Bad debt
Impairment losses on doubtful debts are deductible for tax purposes when an insolvency or recovery has been requested or the credits have been claimed in court.

The annual amount of accumulated impairment losses on doubtful debts due for more than six months, with evidence that measures towards its perception were taken, is capped at the following percentages of the debts:

- More than 6 and less than 12 months: 25%.
- More than 12 and less than 18 months: 50%.

- More than 18 and less than 24 months: 75%.
- More than 24 months: 100%.

Amounts guaranteed by insurance or mortgage, or due or secured by the state, autonomous regions, or municipalities, or due by related parties (e.g. 10% shareholding) are not considered as doubtful debts, and the respective impairment loss is disallowed for tax purposes.

The ageing of bills of exchange is calculated from the date when the respective payment is due.

Uncollectable debts are allowed as tax deductible costs if supported under insolvency, recovery enforcement, or in an out-of-court conciliation procedure for the viability of insolvent companies or companies in a difficult economic situation (mediated by the Institute for the Support of Small and Medium-Sized Enterprises or IAPMEI). This rule applies to the amount of the uncollectable debts that were not deducted for tax purposes as impairment losses (or for which the amount was insufficient).

Charitable contributions
Donations to authorised charitable institutions are allowable at up to 0.8% of turnover, with the possibility of the cost being raised up to 150%. Donations to authorised cultural institutions are allowable at up to 0.6% of turnover, with the possibility of the cost being raised up to 130%.

Donations to the state, municipalities, and foundations where the state or municipalities participate in the initial capital are fully deductible, with the possibility of the cost being raised up to 140%. Special application may be made by certain entities in order to be included under the referred regime.

Donations of computers, software equipment, training, and consultancy in the area of computers granted to the state, municipalities, foundations, museums as well as to authorised charitable and cultural institutions are allowable at up to 0.8% of turnover, with the possibility of the cost being raised up to 140%.

Vacation accrual
Vacation allowance is tax deductible in the year in which the benefit accrues, regardless of the year in which payment is made.

Pension expenses
Pension, invalidity, and health schemes are tax deductible up to a rate of 15% of annual staff expenses, provided they are available to all employees and the management and disposition of the benefits are outside the control of the taxpayer, such as under an insured scheme with vested benefits.

Fines and penalties
Fines and penalties for infractions that do not have a contractual nature, including late assessment interest, are disallowed for CIT purposes.

Taxes
All taxes other than CIT, autonomous taxation, state surtax (*Derrama Estadual*), and local surtax (*Derrama*) constitute a normal business expense.

Other significant items
The costs borne from the acquisition of social passes are regarded as tax-deductible costs to the extent the employer attributes them on a general basis.

Uninsured losses, including indemnities to third parties, are disallowed unless the risk could not be insured.

Non-documented expenses are not tax deductible and are subject to a 50% autonomous taxation for fully taxable entities.

Net operating losses

Tax losses generated in tax years starting on or after 1 January 2014 can be carried forward for 12 years. The deduction of carried forward tax losses is capped at 70% of the taxable income.

Carryback of losses is not allowed.

The tax losses carried forward are lost in case of a change in direct ownership of the company of at least 50% shareholding or voting rights (not applicable in case of changes within the same group of companies, under certain conditions).

In special cases of economical merits, the Ministry of Finance may authorise the use of tax losses upon a request filed by the taxpayer before those changes occur.

Payments to foreign affiliates

A Portuguese corporation is allowed to deduct royalties, interest, and other costs paid to foreign affiliates, provided the amounts are at arm's length. Service fees paid are allowed if there is adequate proof that the service was effectively rendered, has economic substance, and qualifies as indispensable for the generation of taxable revenue, as well as if the amount is at arm's length.

Payments to non-residents in a black-listed jurisdiction

Payments made or due, indirectly, to non-resident entities in a black-listed jurisdiction, when the taxable person has or should have had knowledge of the final purpose given to such payments, will be non-deductible for tax purposes, except if the taxpayer demonstrates that such charges relate to genuine transactions and are not of an abnormal or exaggerated amount. Such knowledge is presumed whenever there are special relations between the taxpayer and the entities in a black-listed jurisdiction or between the taxpayer and the legal representative, fiduciary, or intermediary.

Group taxation

Special regime for group taxation

Taxation under the special tax regime for groups of companies is available, upon the filing of a special form with the PTA, to companies with head office and effective management in Portugal.

The group taxation regime may apply, provided one of the companies directly or indirectly holds 75% or more of the statutory capital of the others and more than 50% of the voting rights.

Tax grouping generally enables the group companies to offset losses incurred by one company against profits of another company.

Tax losses obtained prior to the beginning of the tax grouping can be carried forward only against the particular company's taxable income (*for the carryforward of tax losses regime, see Net operating losses in the Deductions section*).

To be taxed under this regime, the group companies must meet the following conditions:

- Must be tax resident in Portugal (even if held through an EU or EEA group company).
- Must be subject to the normal regime of taxation at the highest corporate tax rate.
- Must maintain a minimum holding participation of 75%.
- All companies must be held by the parent company for more than one year (excluding newly incorporated companies).
- Cannot be dormant for more than one year.
- Cannot be dissolved or insolvent.
- Cannot have tax losses in the three years prior to the regime application, unless the companies have been held by the parent company for more than two years.
- Cannot have a tax period different from that of the parent company.

Additionally, the parent company:

- should not be controlled by any other Portuguese-resident company that fulfils the requirements to be the parent company and
- should not have renounced to the application of this regime in the three previous years.

When the regime comes to an end or when one company ceases to qualify for this regime, the tax losses obtained during the regime cannot be carried forward and deducted against future individual taxable income of the companies. The parent company is responsible for demonstrating that the requirements for the application of the group taxation regime are met.

Transfer pricing

The PTA is entitled to adjust taxable income if the taxpayer and another individual or entity, due to their special relationship, have established particular conditions that diverge from the conditions normally agreed upon between independent entities and distort the results that would arise if those relations were at arm's length. Portugal's transfer pricing legislation broadly follows the Organisation for Economic Cooperation and Development (OECD) guidelines.

Companies with sales and other profits higher than EUR 3 million are required to prepare transfer pricing documentation, which should be filed with the PTA if requested. Penalties arise from non-compliance with this obligation.

An advance pricing agreement (APA) mechanism allows taxpayers and the PTA to establish agreements on a taxpayer's future transfer pricing policy. This aims to guarantee compliance with the arm's-length principle. This regime applies to transactions carried out with related parties and between a PE and the respective head office.

The conclusion of an APA implies the payment of a charge calculated with reference to the taxpayer's turnover, capped at EUR 35,000. This charge is reduced by 50% in the case of a renewal or revision of an existing APA.

The assessment of an APA procedure takes 180 days for unilateral APAs, and 360 days for bilateral or multilateral APAs. This period is reduced to 100 business days for APAs concluded in connection with a relevant investment project in Portugal, as foreseen in the Tax Investment Code (*Código Fiscal do Investimento*).

For the PTA to confirm compliance of the transfer pricing method(s) with the terms and conditions set out in the APA, the taxpayer must prepare an annual report. The report must be made available to the PTA before the last business day of May in the year following that in which the transactions took place (i.e. when the tax year corresponds to the calendar year). Failure to comply invalidates the APA.

Thin capitalisation

Thin capitalisation rules have been revoked following the adoption of rules for the limitation on the deductibility of financing expenses. *See Limitation on the deductibility of financing expenses in the Deductions section for more information*.

Controlled foreign companies (CFCs)

Profits or income derived by an entity resident in a black-listed jurisdiction, or in a jurisdiction where it is subject to an effective tax rate equal to or lower than 60% of the Portuguese standard CIT rate, are imputed to the Portuguese taxpayer, provided it holds, directly or indirectly, at least 25% of the share capital (10% if more than 50% of the capital is held by Portuguese taxpayers), voting rights, or rights on income or assets of that entity. Upon distribution of the profits, a deduction is available for previously imputed income.

CFC rules also apply if the controlled entity (*as defined above*) is held by a Portuguese entity through a legal representative, fiduciary, or intermediary.

CFC rules do not apply if the CFC is resident in another EU country or in an EEA member state (bound to administrative cooperation on tax matters), provided that there are valid economic reasons underlying the incorporation and running of such company and it carries out agricultural, commercial, industrial, or services activities.

Upon a dividend distribution by the CFC, the tax credit of the tax paid abroad, which is not used, cannot be carried forward to subsequent tax years.

Tax credits and incentives

Foreign tax credit

International juridical double taxation

Taxes paid abroad can be offset against corresponding Portuguese tax, capped at the lower of (i) the tax liability corresponding to the foreign income, net of costs directly or indirectly incurred, or (ii) the foreign tax paid. In both cases, it is limited to the foreign tax as foreseen in the applicable DTT. This foreign tax credit can be carried forward for five years. The computation of the amount of the tax credit is now determined per jurisdiction, considering the total amount of the respective income, except in relation to income obtained by foreign PEs (the deduction in this case is assessed individually).

International economic double taxation

Taxpayers may opt to apply a tax credit (underlying tax credit) for international economic double taxation regarding profits or reserves received, to which the participation exemption regime on dividends does not apply, and provided that the taxpayer holds, (or becomes the holder of) at least 5% of the share capital of the subsidiary for a period of 24 months.

When choosing the abovementioned option, the taxpayer shall add to the taxable income the amount of the income tax related to the distributed profits or reserves that has been effectively paid abroad by the subsidiary.

General tax benefits and incentives

Contractual tax incentives

Relevant investment projects up to 2020 (minimum investment of EUR 3 million) that qualify for strategic economic interest and promote the creation of jobs are eligible for tax incentives, as foreseen in the Tax Benefits Code and the Investment Tax Code. These are granted on a case-by-case basis under a government contract for a period not exceeding ten years and include a tax credit of 10% to 20% of the investment and exemptions or reductions from property transfer tax, property tax, and stamp duty.

Patent box regime

Income derived from the sale or granting of the temporary use of industrial property rights (i.e. patents and industrial drawings and models) is 50% exempt. The regime applies to industrial property rights derived from R&D developed internally or contracted from third parties. Transactions with associated enterprises, including entities resident in black-listed jurisdictions, are excluded. The regime applies to the above-mentioned industrial property rights registered on or after 1 January 2014.

Investment funds

Portfolio investment funds
Portfolio investment funds are taxable at the following final rates:

Portfolio investment fund activity	CIT rate (%)
Capital gains (net of capital losses) on shares held less than 12 months, realised by closed or mixed investment funds	25
Capital gains (net of capital losses) on shares held greater than 12 months, realised by open investment funds	25
Other income:	
Earned in Portugal	20/25
Earned abroad	20/25

Real estate investment funds
Real estate investment funds are subject to corporate tax at the following rates:

Real estate investment fund activity	CIT rate (%)
Rents (net of expenses)	25
Real estate capital gains (net of capital losses)	12.5
Capital gains (net of capital losses) on shares held less than 12 months, realised by closed or mixed real estate investment funds	20
Capital gains (net of capital losses) on shares held greater than 12 months, realised by open real estate investment funds	0
Other income:	
Earned in Portugal	20/25
Earned abroad	20/25

Income paid by portfolio and real estate investment funds to individuals is not subject to taxation. Income paid to companies is taxed as normal income, and taxes paid by the fund are considered as payment on account against the final CIT due.

Funds of funds

Income paid by investment funds of funds is exempt from CIT. Other income is subject to the same taxation as investment funds. Income received by individuals is not subject to further taxation. Income received by companies is taxed at the standard CIT rate on 40% of the respective amount as normal income.

Pension funds

Pension funds are exempt from CIT and IMT.

The CIT exemption is applicable to pension funds incorporated under the Portuguese law as well as to pension funds established in another EU country or in an EEA member state (bound to administrative cooperation on tax matters) that cumulatively fulfil the following requirements:

- Exclusively assure the payment of retirement pensions granted from elderly, handicapped, surviving, pre-retired, health, and post-employment benefits, as well as death benefits when complementary and ancillary to the previously mentioned.
- Are managed by pension funds professional institutions to which Directive 2003/41/EC, of the European Parliament and Council, dated 3 June 2003, applies.
- Are the effective beneficiaries of the income.
- In the case of dividend distributions, the related shareholding should have been held for a consecutive one-year period.

Contractors for North Atlantic Treaty Organization (NATO) infrastructures
Contractors for NATO infrastructures are exempt from CIT.

Net young employment creation
150% of the costs related to net increase job creation, under labour contracts without term, for employees up to 35 years (including) of age and for long-term unemployed individuals may be deducted from taxable income. For this purpose, the fixed remunerations paid and the contributions made by the employer to social security should be considered. The maximum amount of annual increase on deductible costs for each eligible employee is 14 times the national minimum retribution (EUR 485 in 2014).

The increase in 50% of the expenses incurred with the same employer is applicable to more than one employee, provided that there are no special relations.

This tax benefit is not cumulative with any tax benefits or other incentives (e.g. social security) concerning the same employee.

This deduction applies for a period of five years for each employee.

Research and development (R&D) (Sistema de Incentivos Fiscais em Investigação e Desenvolvimento Empresarial or SIFIDE II)
Portuguese tax resident companies carrying out commercial, industrial, or agricultural activities, and non-resident companies with a PE in the Portuguese territory, are allowed to deduct from the CIT due, up to the respective amount, the value of eligible expenses incurred with R&D, in a double percentage as follows:

- Base rate: 32.5% of the R&D expenses incurred; this rate is increased by 15% in case of small and medium-sized companies that do not benefit from the incremental rate of 50% (applicable to entities that had completed two years of activity).
- Incremental rate: 50% of the difference between the R&D expenses made in the tax year and the average amount of the R&D expenses made in the previous two years, up to the limit of EUR 1.5 million.

Expenses that, due to insufficient tax due, cannot be deducted in the tax year they were incurred can be carried forward for eight years.

Eligible expenses related to allowances paid to personnel directly involved with R&D tasks are capped at 55% of the operational expenses incurred.

Expenses incurred in connection with projects that include, exclusively, third parties, including contracts and R&D services, are not considered.

Expenses relating to staff with a minimum academic qualification of level 8 of the National Qualifications Framework are considered at 120% of their amount.

Expenses related to demonstrations are eligible for the SIFIDE II regime, provided they are notified up front.

Expenses incurred with the acquisition, registration, and maintenance of patents, essential for the performance of R&D activities and audits, are accepted only for micro, small, or medium-sized companies.

The deduction of R&D expenses requires that the entity develops agricultural, industrial, or commercial activities or services as its main business activity.

The applications should be submitted by the end of July of the year following the year in which the investment was made, and applications referring to years previous to that fiscal year will not be accepted.

The regime applies until 2020.

Incentives for the acquisition of companies in a difficult economic situation

The regime of incentives applicable to the acquisition of companies in a difficult economic situation may also apply to cases approved by IAPMEI within the scope of the Incentive System for the Revitalization and Modernization of Companies (SIRME). Under this regime, the acquiring company may deduct tax losses assessed but not yet used by the acquired company for a period of five years in proportion of its participation in the share capital of the acquired company, capped at 60% of the taxable income.

Tax regime for investment support (Regime Fiscal de Apoio Ao Investimento or RFAI)

RFAI, which establishes several tax incentives to investment realised within specific business sectors, is applicable until 2017.

Among other incentives, companies will benefit from a deduction against CIT otherwise payable (capped at 50% of the CIT due) of 20% (for qualified investments lower than EUR 5 million) or 10% (for qualified investments higher than EUR 5 million) of the qualified investment. Companies are also able to carry forward any unused credit for four years and may benefit from exemptions from property transfer tax (IMT), property tax (IMI), and stamp duty on the acquisition of real estate for investment purposes. IMT exemptions are subject to the approval of the municipality where the real estate is located and where the investment is made.

Loan interest and lease rentals on imported equipment

When paid by the state, regional authorities, and public services, loan interest and lease rentals on imported equipment can qualify for partial or full exemption from tax upon an appropriate application.

Real Estate Investment Fund for Residential Lease (REIFRL)

A regime is applicable: (i) both to REIFRL and to Real Estate Investment Companies for Residential Lease (REICRL) incorporated in accordance with the Portuguese law within a term of five years following the entering into force of the State Budget for 2009; and (ii) to the real estate properties acquired by those entities during that same term, i.e. from 1 January 2009 until 31 December 2014.

Incorporation of the REIFRL is in accordance with the provisions applicable to the Real Estate Investment Funds (REIFs) laid down in the Portuguese law. The REIFRL portfolio is required to be comprised of at least 75% real estate properties located in Portugal destined for the lease of permanent residences.

The following benefits are established for this tax regime:

- CIT exemption on income obtained by REIFRLs.
- CIT exemption for the income obtained by participation unit holders, except for the capital gains arising from the sale of such participation units.
- Local property tax exemption established for the real estate properties destined for the lease of permanent residences that integrate the REIFRL.
- Municipal property transfer tax exemption on real estate property acquisition made within this regime by the REIFRL, as well as the acquisitions arising from the option for the acquisition by the lessees, until 2020, of the real estate properties that integrate the assets of the REIFRL.
- Stamp duty exemption is established for the acts arising from the transfer of the real estate properties by means of the conversion of holdings rights in real estate properties into a lease right with the option of acquisition in respect of the same real estate property by the lessee.

The above-referred tax regime and respective exemptions are not applicable to entities resident in a black-listed jurisdiction.

Incentives to urban rehabilitation
Incentives are applicable to real estate property covered by rehabilitation projects undertaken between 1 January 2008 and 2020.

Real estate investment funds incorporated between 2008 and 31 December 2013 may benefit from:

- CIT: the income obtained by real estate investment funds is tax exempt when the funds are incorporated in accordance with the Portuguese law, and respective assets are comprised of at least 75% real estate subject to rehabilitation projects in qualifying areas.
- Property transfer tax: urban property (buildings or autonomous units) destined for permanent residence and located in a rehabilitation area may benefit from an IMT exemption on the first transfer of such urban property upon undertaking of rehabilitation works. The granting of this exemption depends on a decision in this respect of the municipality of the area of the real estate property.
- Property tax: the IMI exemption granted in respect of urban properties subject to rehabilitation works is extended from eight to ten years (it is granted for a five years term and renewable for an additional five-year period). Again, the granting of this exemption depends on a decision in this respect of the municipality of the area of the real estate property.

Tax benefits and incentives for non-resident corporate entities

Capital gains
Capital gains on the sale of shares and quotas held in a Portuguese company by a non-resident company may be tax exempt. However, there are some important exceptions, such as:

- Where the non-resident shareholder is owned more than 25%, directly or indirectly, by a Portuguese resident company.
- Where the non-resident shareholder is located in a black-listed jurisdiction.
- Where the assets of the company sold consist mainly of immovable property.

Government and corporate bonds
Interest and capital gains on government and corporate bonds are tax exempt (where held by entities not located in black-listed jurisdictions) under certain conditions.

Interest paid by resident credit institutions
Interest paid by resident credit institutions to non-resident financial companies deriving from loans as well as gains arising from swap transactions are tax exempt.

Tax regime applicable to external loans
Interest derived from *Schuldscheindarlehen* loan agreements signed by the Public Treasury Institute (IGCP), on behalf of the Portuguese Republic, is tax exempt, provided the creditor is not resident in Portugal and has no PE herein to which the loan can be allocated to.

Special tax regime applicable to debt securities issued by non-resident entities
Income from debt securities representing public and non-public debt issued by non-resident entities is tax exempt, provided that the income is considered to be obtained in Portugal, under Portuguese tax rules, and paid by the Portuguese state as a guarantor of the obligations undertaken by the entities in which it owns a participation, together with other EU member states.

Repo operations
Gains obtained by non-resident financial institutions on securities' repo operations undertaken with resident credit institution are exempt from CIT, provided that such gains are not attributable to Portuguese PEs of non-resident financial institutions.

Securities repos or similar rights exchanged in stock markets, as well as the repo and fiduciary sales in guarantee, performed by financial institutions intermediated by central counterparties, are also exempt from stamp duty.

Madeira International Business Centre (MIBC)
Entities licensed to operate in the MIBC benefit from a special tax regime, which is applicable until 31 December 2020. The European Commission (EC) has approved the prorogation of the deadline to issue licences until 31 December 2014. The MIBC is not available to entities pursuing financial/brokerage/insurance and/or intra-group activities (coordination, treasury, and distribution centres).

The MIBC special tax regime provides, besides full exemptions from taxation to non-resident shareholders (except for dividends and interest) and service providers, for a reduced CIT rate of 5% for these entities on their qualifying foreign-source income, based on thresholds of income and subject to job creation requirements.

MIBC-based companies generally benefit from Portugal's network of DTTs. EU laws and regulations apply to Madeira.

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Withholding taxes

General WHT rates

Recipient	Residents (%) (1)	Non-residents (%) (1)
Dividends	25 (2)	25 (3, 4)
Interest	25	0 (5)/25 (4)
Royalties	25	0 (5)/25
Banks deposits	25 (6)	25 (4, 6)
Property income	25	25
Service charges	0	25 (7)
Remuneration of board members	21.5	21.5
Other	25	25

Notes

1. For residents, tax withheld constitutes a payment on account of final corporate or individual income tax due. For non-residents, tax withheld is the final tax, except for property income, in which case it is a payment on account.
2. Not subject to WHT in the case of holdings of at least 10% owned for at least one year.
3. Not subject to WHT if the EU Parent/Subsidiary Directive 2011/96/EU applies.
4. WHT rate is increased to 35% when the income is paid or due to entities resident in black-listed jurisdictions.
5. Not subject to WHT if the EU Interest & Royalty Directive 2003/49 applies.
6. WHT rate is increased to 35% when the income is paid in bank accounts open in the name of one or more account holders but on behalf of non-identified third parties.
7. Not subject to WHT if a tax treaty is applicable.

Tax treaty rates

Tax treaties reduce the above-mentioned rates as follows:

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Algeria (3)	10/15	15	10
Austria (1, 2)	15	10	5/10
Barbados (3, 12)	5/15	10	5
Belgium (2)	15	15	10
Brazil (3)	10/15	15	15
Bulgaria (3)	10/15	10	10
Canada (3)	10/15	10	10
Cape Verde	10	10	10
Chile (3, 9, 10)	10/15	5/10/15	5/10
China, People's Republic of	10	10	10
Colombia (12)	10	10	10
Cuba (3)	5/10	10	5
Cyprus	10	10	10
Czech Republic (3)	10/15	10	10
Denmark (2)	10	10	10
East Timor (3, 12)	5/10	10	10
Estonia	10	10	10
Finland (2, 3)	10/15	15	10
France (2, 4, 5)	15	10/12	5
Germany (2, 6)	15	10/15	10
Greece (2)	15	15	10
Guinea Bissau	10	10	10
Hong Kong (13)	5/10	10	5
Hungary (3)	10/15	10	10
Iceland (3)	10/15	10	10
India (3)	10/15	10	10
Indonesia	10	10	10
Ireland, Republic of (2)	15	15	10
Israel (11)	5/10/15	10	10
Italy (2)	15	15	12
Japan (6, 13)	5/10	5/10	5
Korea, Republic of (3)	10/15	15	10
Kuwait (13)	5/10	10	10
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg (2, 6)	15	10/15	10
Macau	10	10	10

Recipient	Dividends (%)	Interest (%)	Royalties (%)
Malta (3)	10/15	10	10
Mexico	10	10	10
Moldova	5/10	10	8
Morocco (3)	10/15	12	10
Mozambique	10	10	10
Netherlands (2)	10	10	10
Norway (3)	10/15	15	10
Norway (14)	5/15	10	10
Pakistan	10/15	10	10
Panama (13)	10/15	10	10
Peru (12, 16, 17, 18)	10/15	10/15	10/15
Poland (3)	10/15	10	10
Qatar (12, 13)	5/10	10	10
Romania (3)	10/15	10	10
Russia (3)	10/15	10	10
Singapore	10	10	10
Slovakia (3)	10/15	10	10
Slovenia (3)	5/15	10	5
South Africa (3)	10/15	10	10
Spain (2, 3)	10/15	15	5
Sweden	10	10	10
Switzerland (3, 15)	5/15	10	5
Tunisia	15	15	10
Turkey (3, 8)	5/15	10/15	10
Ukraine (3)	10/15	10	10
United Arab Emirates (13)	5/15	10	5
United Kingdom (2, 3)	10/15	10	5
United States (3)	5/15	10	10
Uruguay (3)	5/10	10	10
Venezuela (7)	10	10	10/12

Notes

1. The lower of the listed rates applies to royalties when the beneficiary holds 50% or less of the paying company's share capital.
2. There is no WHT on dividends if the EU Parent/Subsidiary Directive applies.
3. The lower of the listed rates applies to dividends when the beneficiary directly holds 25% or more of share capital. Depending on each DTT, a two year holding period may be required.
4. The higher rate applies to interest on debentures raised in France after 1 January 1965 or on significant loans or debentures raised in Portugal or abroad under major development projects listed in the treaty annex.
5. The lower of the listed rates applies to bank loans, but if interest is payable from Portugal, the bank loans must qualify as being of economic or social interest or fall under an approved development plan.
6. The lower of the listed rates applies to interest received by financial institutions.
7. The lower of the listed rates applies to technical assistance.
8. The lower of the listed rates applies on interest related to loans with a minimum maturity of two years.
9. The rate of 5% regarding interest applies to bonds interest or other securities transacted in the stock market. The rate of 10% applies to loans from banks or insurance companies or credit selling of equipment.
10. The rate of 5% regarding royalties applies to equipment lease.
11. The rate of 10% applies if the company that is paying the dividends is a resident of Israel and the dividends derive from profits that are subject to tax in Israel at a rate that is lower than the normal rate of Israel company tax. The rate of 5% applies if the beneficial owner is a company that directly holds at least 25% of the capital of the company paying the dividends.
12. The treaty is signed but not yet in force.
13. The lower of the listed rates on dividends applies if the beneficial owner is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends. Depending on each DTT, a one year holding period may be required.

14. Treaty signed in 2011 that will replace the treaty currently in force. The rate of 5% on dividends applies if the beneficial owner is a company (other than a partnership) that for an uninterrupted period of at least 12 months prior to the payment of the dividends or if the company paying the dividends has existed for less than 12 months, during the lifetime of the company, directly holds at least 10% of the capital of the company paying the dividends, or if the beneficial owner of the dividends is: (i) in the case of Portugal, the state, a political or administrative subdivision, or a local authority thereof, or the Bank of Portugal; and, (ii) in the case of Norway, the government of Norway, a political or administrative subdivision, or a local authority thereof, or the Central Bank of Norway.
15. A WHT rate of 5% on dividends applies in case of shareholdings of at least 25% on the company distributing the dividends, as well as for an exemption on dividends, in case of shareholdings of at least 25% held for at least two years. An exemption from WHT is also foreseen regarding interest and royalties, when paid between associated companies (shareholdings of at least 25% held for at least two years), in line with the Agreement between the European Community and the Swiss Confederation.
16. The lower of the listed rates applies to dividends if the beneficial owner is a company (other than a partnership) that (i) directly holds at least 10% of the capital of the Portuguese company paying the dividends or (ii) directly controls at least 10% of the voting rights of the Peruvian company paying the dividends.
17. The lower of the listed rates applies to interest related to credits of any nature granted by a financial institution.
18. The lower of the listed rates applies to royalties paid for technical assistance provided in connection with the use of, or the right to use of author's rights, or information concerning industrial, commercial, or scientific experience.

Tax administration

Taxable period

The tax year is, as a general rule, the calendar year. A different tax year is allowed in the case of companies obligated to accounting consolidation and of PEs of non-resident entities, which can adopt the tax period of the non-resident company. If this option is taken, the new tax period must be maintained for a minimum of five years. The five year minimum period is not applicable if the taxpayer is transferred to a group of companies that are subject to consolidation of financial statements and the holding company has a fiscal year different from the one that was being adopted by the taxpayer.

Tax returns

The annual CIT return must be submitted by electronic data transmission by the last day of May of the year following the year of income. Whenever the tax year ends on a date other than 31 December, the annual CIT return shall be submitted by electronic data transmission by the last day of the fifth month following the year end. The system is one of self-assessment.

Payment of tax

Tax is paid in instalments. Three payments on account due in July, September, and up to 15 December of the year in which taxable income arises corresponding to 95% of the previous year's corporate tax assessment (for taxpayers with a turnover above EUR 500,000; 80% if below this amount). Payments on account are not required if the previous year's corporate tax assessment is less than EUR 200. The third payment may be suspended upon declaring that no further tax is due in respect of the current year. However, interest is assessed at a rate of 4% if this results in postponing more than 20% of the tax that would otherwise have been paid.

A last instalment is paid (or received) through self-assessment upon filing the annual tax return in May of the following year. If the tax year ends on a date other than 31 December, interim payments take place in the seventh, ninth, and up to the 15th of the 12th month of the tax year.

Filing of the annual tax return together with the final payment is in the fifth month following the close of the tax year.

Given the introduction of a state surtax (*Derrama Estadual*) three additional payments on account are due on the same dates as the interim payments mentioned above. The additional payments on account correspond to 2.5% of the taxable profit above EUR 1.5 million and up to EUR 7.5 million, 4.5% of the taxable profit above EUR 7.5 million and up to EUR 35 million, and 6.5% of the taxable profit above EUR 35 million, assessed in the previous year.

In particular situations, a special payment on account is due of a minimum of EUR 1,000 up to EUR 70,000, paid in March, or in March and October (the third or the third and tenth month of the tax year if it ends on a date other than 31 December).

Interest and penalties

Late assessment interest is due in case of delay on the assessment of taxes due. Late assessment interest is computed on a daily basis. The current rate of late assessment interest is 4% (year).

Late penalty interest is due in case of delay in the payment of the tax assessed. The current rate is 5.525%. Late penalty interest is computed on a daily basis. Tax penalties for companies are capped at EUR 165,000 in the case of intention and EUR 45,000 in the case of negligence. In general, in case of failure or late payment of CIT, companies are liable to a penalty varying between 30% and 100% of the tax due, capped at EUR 45,000 (in case of negligence).

Specific tax penalties apply regarding transfer pricing documentation and the CFC regime (between EUR 1,000 and EUR 10,000 for companies) and regarding omissions or inaccuracies regarding ruling requests (between EUR 750 and EUR 22,500 for companies in the case of urgent rulings or 25% of the previous amounts in the case of non-urgent rulings).

There is the possibility of applying for penalty reduction, provided certain requirements are met (e.g. regularisation of the tax situation/payment of the tax due; situation where there was no damage to the Revenue).

Tax audit process

Taxpayers are audited by the PTA based on several criteria, as detailed in a specific document prepared by the PTA.

The PTA must notify the taxpayers of the preliminary conclusions reached in cases where these may lead to tax assessment acts unfavourable to the taxpayers, further to which taxpayers may present their argumentation.

The PTA must then prepare a final report of the tax audit performed, identifying the facts detected.

Tax audits may be initiated within the statute of limitation (*see below*).

Tax audits must be concluded within six months. A prorogation of the deadline to one year may apply under certain conditions (e.g. complexity of the facts involved, necessity to make use of mechanisms of mutual assistance on tax matters).

The PTA releases, on a periodical basis, a list of taxpayers that, due to the nature of their activities, their turnover, or other criteria, are subject to regular monitorisation. Very recently, a specific department for major taxpayers has been created.

Statute of limitations

The statute of limitation period is four years, but can be extended in case of tax losses. Regarding facts involving black-listed jurisdictions, the statute of limitation for the right to assess taxes is extended to 12 years while the time period allowed to collect taxes is extended to 15 years. The statute of limitation period is also increased from four to 12 years in case of facts related to deposit and securities accounts in financial institutions outside the European Union.

Topics of focus for tax authorities

Currently and mainly further to the Memorandum of Understanding between the Portuguese Republic, the European Commission, the European Central Bank, and the International Monetary Fund (IMF), the PTA has been exhibiting a more aggressive approach, especially with regards to the fight against tax fraud and evasion, mainly by aggravating taxation in fields where tax avoidance is significant and by introducing additional compliance and reporting obligations.

Increased focus has also been verified on transfer pricing matters, mainly on the transfer pricing policies in transactions with non-resident entities and especially in case of payments made to entities that are resident in black-listed jurisdictions. In this regard, cooperation on transfer pricing matters with other tax administrations has been strengthened.

Situations of recognition of PEs in Portugal, usually triggered by inspections to VAT registers, are now recurrent.

Anti-avoidance

A general anti-avoidance provision is in force, pursuant to which contracts and other acts are ineffective whenever it is demonstrated that they were tax driven to reduce taxation that would be due under contracts bearing a similar economic effect, in which case taxation would be based on the latter.

The anti-avoidance procedure is initiated within the general term foreseen (statute of limitation) and is now more flexible in terms of proof by the PTA.

Anti-avoidance rules are not applicable in cases where a request for obtaining binding information is not answered by the PTA within 150 days.

Binding rulings

Binding rulings can be:

- Urgent: A decision should be taken in 90 days; these are subject to the payment of a fee ranging between EUR 2,500 and EUR 25,500, depending on the complexity of the matter; if no decision is taken within the deadline established, there is a tacit approval of the taxpayer’s understanding of the tax matter.
- Non-urgent: A decision should be taken in 150 days; no fees are charged; a decision is required (no tacit approval, as in case of an urgent ruling).

Fight against tax fraud and evasion

It is mandatory that payments above EUR 1,000 are made by a means that allows the identification of the recipient of the income (e.g. bank transfer, nominative cheque, or direct debit).

Council Directive 2011/16/EU, dated 15 February 2011, on matter of administrative cooperation in the field of taxation, has been transposed to the Portuguese legislation, reviewing the exchange information mechanisms between tax authorities and aiming at a more effective action against tax evasion and fraud at an international level.

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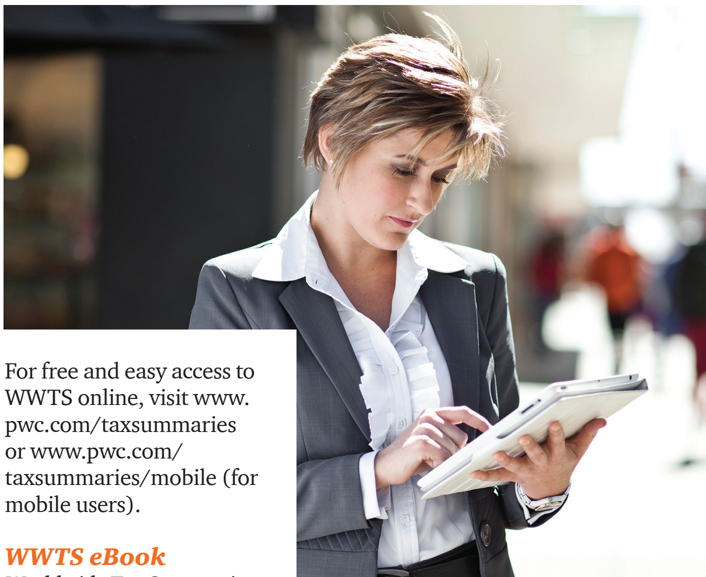

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