



Accountants &
business advisers

Doing business in Portugal



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Foreword



This book is designed to provide potential foreign investors with an overview of the Portuguese business environment. The information given here is not intended to be exhaustive and is based on conditions existing at the date of publication. Readers are advised to consult with professionals before taking any formal action.

As one of the Portuguese leading firms of accountants and business advisers, we provide a comprehensive range of services to inward investors based on a broad range of business sector expertise.

PKF Portugal is a member of PKF International Limited, an association of legally independent member firms. This worldwide association comprises 230 legally independent firms in 400 locations in 120 countries.

We are therefore well positioned to service the needs of inward investors, whatever their location.

Please contact us. We look forward to helping you build your business and meet the challenges of the future.

José de Sousa Santos
Chairman, PKF



Introduction

People, politics and economy

Portugal, located in Western Europe, consists of continental Portugal, the Azores and the Madeira Islands. Its total area is about 94,000 square kilometres (36,000 square miles). Its only border is with Spain. The Azores and Madeira Islands are autonomous territories with a special tax regime (lower VAT and Corporate Income Tax). Above and beyond this special tax regime, Madeira also offers through its International Business Centre (IBC), a Free Trade Zone with a preferential tax regime which has not only been approved by Portugal but also by the European Union as a valid form of State Aid for regional development, providing the IBC of Madeira with credibility and transparency.

Since 1986 Portugal has been a member of the European Union (EU). The EU is now established as one trading area with no internal tariffs and with common standards applying to virtually the full range of commercial life. Portuguese currency is the Euro. The total population of Portugal is approximately 10 million. The working population is 5,4 million and the overall unemployment rate is 7 %.

Portugal has a constitutional republic and a parliamentary system. Members of Parliament are elected every four years. There is a semi-presidential regime. The government of the state is led by the Prime Minister, who is elected every four years. The President, who has the power of veto and of dismissing the Government, is elected every five years.

The Portuguese Government is committed to meet the Maastricht Convergence Criteria inter-alia by increasing the internal product. Foreign investment is most welcomed by the Government that has created the Business Development Agency (AICEP) to negotiate the terms and tax benefits available for investments exceeding 5 million euros considered of strategic interest for the national economy.

Advantages of Investing in Portugal

Investing in Portugal has several advantages, namely (i) the strategic access to markets; (ii) cost-competitive, qualified and flexible workforce; (iii) excellent environment to live and work and (iv) infrastructure.

(i) Strategic access to markets

The combination of Portugal's economic openness, strong ties with the EU and unique geo-strategic location, make it a natural gateway between the EU and world markets. The country's ties with the African continent, Brazil and transatlantic link with the USA, provide a cost-effective internationalization base.

(ii) Cost-competitive, qualified and flexible workforce

Portuguese employees are known for their versatility and commitment to work, with a positive attitude towards the adoption of new technologies and practices.

(iii) Excellent environment to live and work

The country has safe urban centres and suburbs that promote a freedom impression to anyone living in the Portugal. All major international studies put Portuguese cities on the top of almost every European cities ranking for conducting events and conferences.

(iv) Infrastructure

During the past decade, Portugal has invested heavily in modernizing its communications infrastructure: the result is an extensive network of land, air and maritime route facilities.

Regulatory environment

Business and investors coming to Portugal must comply with regulatory law governing how they operate, including the Commercial Companies Code, the Commercial Code, Competition legislation and Securities Code.

Financial services

The incorporation of financial entities and the offer of financial services is ruled under the “Credit Institutions and Financial Companies General Regime”. Banks and financial institutions are subject to the supervision of the Bank of Portugal.

The type of business that qualify as a Credit or Financial Institution include:

- banks
- leasing companies
- factoring companies
- stock exchange brokers
- investment funds management companies
- credit card issuers

- exchange agencies

Insurance companies

Business offering insurance services are subject to specific legislation and to the supervision of the Portuguese Insurance Institute.

Stock exchange market

The stock exchange market is ruled by the Securities Code and is controlled by the Securities Market Commission (CMVM).

Money laundering

Money laundering legislation extends to the proceeds of any illicit facts. Under Law 11/2004, regulating money laundering prevention and repression, a defined group of entities are required to disclose knowledge or suspicion of money laundering to the law-enforcement authorities. Entities subject to disclosure and collaboration duties include not only financial institutions, but also casino operators, real estate agents, statutory auditors, accountants, notaries and lawyers.

Data protection

The storage of personal data on computer or in an organised manual filing system is subject to Law 67/98, which transposed European Union Directive 95/46/CE into the national law. . Entities involved in processing such personal data are subject to previous communication procedures with the National Data Protection Commission. When processing data, it is necessary individuals give their consent and that the processing be for a necessary purpose, e.g. for example in connection with performance of a contract or to protect the vital interests of the individual. The business must have safeguards to

prevent unlawful or unauthorised processing of data and its loss or destruction.

Competition

Law 18/2003 is designed to maintain a competitive economy, disciplining restrictive competition practices. The law prohibits companies to enter into agreements that may affect, in a sensitive manner, the competition between economic agents in national territory. Likewise, companies are precluded to explore abusively a dominant position within the Portuguese market affecting or restricting the competition in such market.

The enforcement of the law is ensured by the Competition Authority. Corporate reorganisations resulting in an increase of 30% in the market share or involving companies with a turnover of 150 million euros or more, are subject to previous authorisation from the Competition Authority.

Exchange controls

There are currently no exchange controls in force in Portugal.

Common financial instruments

Portugal has a competitive banking and financial-services system, with numerous financial instruments available for those wishing to raise funds or manage financial risks.

Businesses are required to have, at least, a bank current account to manage its finances. Banks and other financial institutions offer opportunities for investment in the form of bank deposits or investment

accounts. The majority of individual retail transactions take place either in cash or by credit card or debit card.

The main sources of business finance are banks and financial institutions and most frequently takes the form either of an overdraft, a term loan or a leasing contract. Security is normally required by the lending institution. Bonds can be a vehicle for both investment and a source of long-term finance, with either fixed or floating interest rates.

Language and Currency

The main language spoken in Portugal is Portuguese. The currency used is Euro.

Legal System

Portugal is a democratic Republic ruled by the Constitution of 1976. The four main governing components are the President of the Republic (moderating power), the Assembly of the Republic (legislative power), the Government (executive power) and the Courts (judicial power).

The President of the Republic is the State-Chief, who is elected by universal suffrage every five years and has a supervising non executive role. The Assembly of the Republic is a unicameral parliament composed of 230 deputies elected every four years.

The Government is headed by the prime-minister, who appoints the ministers and, normally, is the leader or the party which won the legislative elections. The Courts are organized into categories, including judicial, administrative and fiscal. The Supreme Courts are the courts of last appeal. A Constitutional Court oversees the constitutionality of legislation.

Major Exports and Imports

Portugal has enjoyed considerable economic progress since it became a member of the European Community (now the European Union) in 1986. Clothing and footwear, machinery, chemicals, cork, paper products, and hides are major exports. Machinery and transportation equipment, chemicals, petroleum, textiles, and agricultural products are important imports. Spain, Germany, France, and Great Britain are the main trading partners.

Government Policy on Foreign Investment in Portugal

The agency leading Portugal's economic development policy is AICEP (the Portuguese Agency for Foreign Investment and Commerce). AICEP is a public company that was created in 2007 following the merger of API (the Portuguese Investment Agency) and ICEP (the Portuguese Foreign Business Institute). AICEP is responsible for the promotion of global Portuguese trademarks, exports of goods and services, and attracting foreign direct investment (FDI). It serves as the point of contact for investors with projects over 25 million euros or companies with a consolidated turnover of more than 75 million euros.

Import controls

Portugal being a country-member of European Union is subjected to European legislation in what concerns to the importation of certain goods, animals, plants, drugs, food, fire arms and motor vehicles. The free-commerce principle proceeds from E.U general rule, sets exceptional character to the emission of special documents for import operations. These documents are emitted by the Customs Authorities and can take the form of: licenses (in case of goods subjected to restrictions), declarations (for goods submitted to previous statistical supervision) and certificates (whenever the legislation demands it).

Business structure



The principal forms of commercial enterprise in Portugal are: Public Limited Company (Sociedade Anónima, or S.A.), Quota Company (Sociedade por Quotas, or Lda.) and branch of a foreign company.

Other forms include partnerships and cooperatives.

Companies

The two most common forms of companies are (i) Quota Company (Lda.) or (ii) S.A. company. In both cases the liability of the shareholders is limited. The minimum share capital amount is € 5 000 for an Lda. and € 50 000 for a S.A. company. At incorporation a S.A. company must have a minimum of 5 shareholders, while a Lda. can be incorporated with only 2 shareholders or even with a single shareholder (in this case the company will be designated as “Sociedade Unipessoal”). A S.A. company can have its shares quoted in an organised Stock Exchange Market.

Companies incorporated in Portugal have to comply with extensive filing and legal requirements, including the following:

- Accounts must be prepared in accordance with the Portuguese Chart of Accounts. In certain specified cases (Financial Institutions and Consolidated Accounts of quoted companies) the adoption of International Accounting Standards is required. All S.A. companies must have their accounts audited by a Statutory Auditor. Quota companies that do not exceed

specified limits (concerning the turnover, assets and employees) are exempt from this audit requirement;

- A general shareholders meeting must be held at least once a year, to approve the accounts prepared by the management and the distribution of profits;
- By the end of June, information regarding the previous financial year, such as the annual accounts and other elements, must be filed to the Tax Authorities and to the Commercial Register Entity.

Directors

In opposite to some countries the Portuguese law does not require all members of management or the board of directors to be independent. However, under the new “Corporate Governance Code”, beginning January 2009, a listed company will be required to disclose in its corporate governance annual report whether its management includes an adequate number of independent members corresponding to at least one-fourth of the entire board. Moreover, Portuguese law does provide that the majority of the members of the audit committee must be independent according to the criteria established in the Portuguese Companies Code, that all members of the audit committee fulfil the legal requirements concerning incompatibilities and expertise and that at least one of the independent members satisfy legal requirements concerning expertise in auditing or accounting.

These principles are designed to strengthen the supervision of the audit function, to avoid conflicts of interest and to establish procedures and standards for related party transactions. Members of the audit committee will be deemed independent if they are neither associated with any specific interest groups neither in the company nor under any influence that might affect the neutrality of their analysis or decisions. In

particular, Portuguese law will not deem independent any holder, or any person acting on behalf or for the account of, a holder of a qualifying holding equal or higher than 2% of the company's share capital, nor anyone being re-elected for more than two terms whether subsequent or not. A typical board of directors for a large listed Portuguese company is composed by a Chairman, a CEO, Executive board members and Non-executive board members.

Place of business or branch

An overseas company carrying out businesses in Portuguese territory may be required to incorporate a Portuguese Branch. The Portuguese Tax Law establishes in which situations the activities carried out by a non resident company in Portugal are deemed to constitute a Portuguese Permanent Establishment / Branch. When the non-resident company operating in Portuguese territory is a resident of a State with a Double Tax Treaty signed with Portugal, the provisions of the relevant treaty must be taken into consideration in determining if such operations should give rise, or not, to a Permanent Establishment in Portugal of that company. When a non-resident company is considered to have a Permanent establishment in Portugal, such Permanent establishment / branch is, in broad terms, treated as a Portuguese resident company, with the same reporting and tax obligations, in what respect to the activities carried out in Portugal.

The following situations do not give rise to a Permanent Establishment / Branch in Portugal:

- The use of facilities solely for the purpose of storage, display or delivery of goods or merchandise belonging to the non-resident company;

- The maintenance of a stock of goods or merchandise belonging to the non-resident enterprise solely for the purpose of storage, display or delivery;
- The maintenance of a stock of goods or merchandise belonging to the non-resident enterprise solely for the purpose of processing by another company;
- The maintenance of a fixed place of business solely for the purpose of purchasing goods or merchandise or of collecting information for the non-resident enterprise;
- The maintenance of a fixed place of business solely for the purpose of carrying out, for the non-resident enterprise, an activity of a preparatory or auxiliary character.

Registration requirements and filling procedures for public securities

Any listed company intending to register securities for public sale must follow certain procedures and rules contained in the Portuguese Securities Code (“Código dos Valores Mobiliários”).

The public offers related with securities which requires prospectus must be done with the intervention of a broker, who assures at least the assistance and disposition in the distribution of public offers, assistance from the date of the preliminary announcement, and reception of acceptance declarations in the public offers of acquisition.

The public offer prospectuses are subjected to approval of CMVM (Portuguese Securities Market Commission) as well as the public offer acquisition needs previous registration by this entity.

Partnerships

Partnerships are defined as associations between two or more parties conducting business in common with the objective of sharing profits and losses.

In Portugal there are special programs promoted by IAPMEI and Ministry of Economy with the purpose of stimulate partnerships focused specially in small and medium size companies. The PRIME Office is an internal department of Ministry of Economy responsible to assist, monitor and coordinate these programmes assuring the accomplishment of specific National and European legislation.

Joint ventures

A joint venture involves co-operation on a project between two or more parties, where they may agree to share expenses or income, or both, derived from the project. Different forms of joint ventures may operate in Portugal, such as participating (unincorporated) associations or consortia formed to carry out specific purposes. The Portuguese legislation also foresees the constitution of domestic groupings (ACE - Agrupamento Complementar de Empresas) and groupings between companies based in different EU member states (EEIG - European Economic Interest Grouping).

Establishing a corporation

As a result of the simplification program (named SIMPLEX) that has been introduced by Government in 2007, the time required to incorporate a company has been substantially reduced. Under the new procedures it is no longer necessary to have a notary deed to incorporate a new company; today it is possible to set up a company in one single day.

Business finance



Comprehensive planning is an essential ingredient for the success of any business. A factor that, without professional guidance, often causes considerable difficulty is raising adequate external finance. This issue is often most keenly felt by smaller businesses which may find securing appropriate (and affordable) funding both confusing and time consuming. Although sources of finance may appear to be scarce and inaccessible, with professional guidance, the problem of obtaining adequate funding for an initial investment, as well as for future growth and expansion, should not prove difficult.

The sources of funding will depend on the size of the business concerned and the level of funding required.

Equity finance

Business angels

For relatively low levels of equity, wealthy individuals, otherwise known as “business angels”, may provide the best source. Normally, business angels are private investors, either entrepreneurs or corporate directors, willing to invest, privately, their own capital, knowledge and experience in start-up projects promoted by entrepreneurs starting their business. The purpose of this investment is to obtain a gain in a medium term period, through the sale of the investment to other agent. The development of this market has lead to the creation of various business angels associations, seven of which have formed the National Federation of Business Angels Associations.

The Institute of Support of Small and Medium Industrial Companies (IAPMEI) has also introduced innovative finance instruments, providing the access to funding to small businesses.

Venture capital

For higher levels of investment, Venture Capital Companies (VCCs) provide a common source of equity funding, but never exceeding 49% of the issued capital. Currently, the amounts of money potentially available via this source are significant, but success in securing such funding may not be easy. VCCs typically demand a medium term return (in average 4 to seven years) on their investment and require evidence of a sound management track record, competitive products and a clear exit plan. In return, they may provide not only financial support but also, if they specialise in the business sector concerned, valuable relevant experience designed to assist rapid business growth.

This form of funding is normally available when one of the following conditions is met:

- Projects involving innovative ideas and technology, with high potential market;
- The entrepreneur is available to share the control of the company with external investors;
- The company is willing to enter in an IPO process.

Loan funding

Overdraft

Borrowing from a bank by way of overdraft remains the simplest form of external funding. However, as an overdraft can be called in at short notice, its use should generally be restricted to short-term cash flow funding, with long-term needs met by more-secure loans.

Term loans

Fixed-term loans may provide a better solution to fund start-up costs, since repayment schedules and interest rates can be agreed and budgeted for from the outset. Such loans are usually secured by personal guarantee or by a fixed charge over lands and buildings, or plant and machinery. For smaller companies, the lender may also require personal guarantees from the directors or controlling shareholders. Fixed or variable interest rates may be available, with more complex arrangements available for larger loans, including “caps”, “collars” and “floors”. These restrict fluctuation in the interest rate chargeable.

Leasing

Leasing contracts are widely used by companies to finance investments in industrial equipment, hardware, company cars and real estate. The normal duration of a leasing contract related to investments in real estate property is from 10 to 20 years while contracts to finance the acquisition of other type of assets have normally a duration from 3 to 5 years. The sale of an asset followed of the lease-back of the same asset is occasionally used as a source of finance, providing the lender with the ownership of an asset as security for the loan.

Financial reporting and auditing



Financial Statements

Portugal has implemented the provisions of the Fourth EC Directive, giving rise to the publication of an Official Chart of Accounts in 1989. However, the financial statements of Financial Institutions as well as the consolidated financial statements of quoted companies are required to adopt accounting practices according to IAS. For the remaining companies, new accounting rules in line with the IAS are expected to be introduced in the beginning of 2010.

Annual financial statements must be presented for each calendar year. However companies may opt to use a different accounting year. Financial statements must include a balance sheet, income statements, a cash flow statement and related notes.

Consolidated statements are required for companies in control of other companies. Consolidation rules and practices follow the Seventh EC Directive. Groups that do not exceed certain limits of assets, turnover and employees are exempt to present consolidated accounts.

Financial statements must be approved up to March 31 of the following year and must be submitted via internet to the Finance Ministry until the end of June.

The financial statements of a company as well as all corporate tax returns, including VAT returns, must be submitted via internet by a registered accountant.

Audit requirements

All S.A. companies must have their accounts audited by a registered Statutory Auditor. Likewise, Lda. companies that exceed two of the following three limits during two consecutive years are also required to appoint a registered auditor ("Revisor Oficial de Contas"). The mentioned limits are: income amount: 3 million euros; total net assets: 1,5 million euros; number of employees: 50.



Taxation

a) Overview of taxes within Portugal

The principal Portuguese taxes are Corporate Income Tax and Personal Income Tax.

There are, in addition, certain indirect taxes levied on transactions entered into by individuals and businesses alike, such as value-added tax (VAT), real estate transfer tax and stamp duty.

Administration

The assessment and collection of direct taxes is administered by the Portuguese Tax Administration. All taxpayers subject to Portuguese tax are required to declare their own tax liabilities and make returns to the Tax Authorities on a timely basis.

Personal income tax

Personal income tax is charged on the different categories of income earned by individuals and unincorporated businesses in the tax year to 31 December.

In general Portuguese resident individuals are assessed on their worldwide income, whereas non-residents are assessed on Portuguese sources of income, subject to the terms of double taxation treaties.

The tax is levied at progressive rates, varying according to bands of income. Income tax is assessed on total income, after allowing for any relevant tax deductions and tax credits. Certain categories of income are subject to withholding taxes and in some cases the withholding tax

may be treated as the final tax due. Further information on income tax rates is summarised in Appendix I to this guide. Residents taxpayers are required to lodge returns annually.

Whenever the employer provides fringe benefits to their employees, the employee could be subject to tax at final rates of personal income tax and are not subject to withholding tax.

Corporation tax

Corporate income tax is levied on the taxable worldwide profits of Portuguese resident Companies including capital gains and on the Portuguese profits of branches and other permanent establishments located in the country. A company will be considered as a Portuguese tax resident if it is incorporated in this country or if it is centrally managed and controlled from this country. However, these tests are subject to modification in many of the Portuguese tax treaties. These decide the question of tax residence, where a company qualifies as Portuguese tax resident under the domestic law of this country and also as a resident of another country under the laws prevailing there. Taxable profit up to € 12.500,00 will be taxed at a reduced rate of 12.5%; the excess will be taxed at 25%. A local surcharge of up to 1.5% is levied on the taxable income amount.

The general tax rate for companies incorporated in Madeira is 20%. Companies incorporated in the Azores are taxed at a general rate of 17.5%.

A company's taxable profits are based on its annual published accounts subject to certain tax adjustments. In principle, the tax year corresponds to the calendar year. However, branches of foreign companies can opt for a different tax year; likewise, resident companies can request to the Finance Minister the adoption of a different tax year, based on economic reasons.

Corporation tax is declared and payable five months after the end of the tax year. A pre-payment of the final tax due must be made by the seventh, ninth and twelfth months of the tax year, based on the tax assessed in the precedent year.

We provide an overview of rules related to the computation of corporate taxable income in Appendix I to this guide.

The starting point for assessing a company's annual tax liability is the company's profit or loss, as shown in its published financial statements. Adjustments are made for non deductible or non taxable items to arrive at the company's taxable income. Such adjustments include non-deductible provisions, fines, depreciation over the officially published depreciation rates, undocumented expenses, deduction for profits distributed to employees and deduction for available tax benefits.

Certain types of expenses, such as representation expenses and passenger car expenses, are subject to an autonomous 10% tax charge. Travel allowances are subject to an autonomous 5% tax charge. Undocumented and confidential expenses are subject to a 50% surcharge (70% surcharge in case of exempt entities).

A company must self-assess its own tax liability and tax payments. Accounting records and related supporting documentation must be kept for a period of 10 years.

The Portuguese tax authorities reserve the right to raise enquiry questions in connection with the tax calculations or tax return. Specialist professional advice may well be required in this eventuality.

Research and Development

Taxpayers can choose to consider the expenses with R&D (e.g. fixed assets, maintenance, or patents) as deductible costs. The approval of SIFIDE (tax incentives system for R&D) comprehends a tax rate deduction of 32,5% of the total R&D expenses, in addition to the deduction of 50% of the rising of these expenses facing the average of the preceding two fiscal years (up to a limit of 1,5 million Euros).

Madeira International Business Centre

Companies licensed to operate in the International Business Centre of Portuguese island of Madeira are granted a special income tax regime (see below).

Provisions

Under Portuguese tax legislation, tax deductible provisions are limited to doubtful debts, court cases against the company and obsolete inventories. For financial institutions, the minimum levels of provisions imposed by the supervision authority (Bank of Portugal or Portuguese Insurance Institute) will, in general, be accepted as a tax deductible cost.

Doubtful debts provisions

Doubtful debts include credits claimed in court or with a delay of payment of 6 or more months. The full amount of provisions created to cover credits claimed in court is considered a tax deductible cost. For credits with a delay of payment exceeding 6 months, the following amount of provision is accepted:

| <u>Credit age (months)</u> | <u>%</u> |
|----------------------------|----------|
| 6 to 12 | 25 |
| 12 to 18 | 50 |
| 18 to 24 | 75 |
| Over 24 | 100 |

Provisions for obsolete inventories

This provision is computed as the difference between the acquisition price or production cost of the inventories and their market value, when lower. For such purposes the market value of a stock is the replacement price of a good, in case of raw materials, or the sales price of the good, in case of merchandises. No tax deduction is allowed when a taxpayer is not able to demonstrate the market value of the obsolete stock being provisioned.

Depreciation

Depreciation of fixed assets is computed based on the official rates prescribed by the Finance Ministry. The depreciation rate can vary between said official rates (maximum rate) and half of that rates (minimum rate). The straight-line method of depreciation is normally prescribed, but companies may elect to use the declining balance method, except for used goods, buildings, passenger cars and furniture.

Capital gains

Capital gains are included in the corporate taxable income. Taxable capital gains and deductible capital losses are computed as the difference between the sales proceeds of an asset and its acquisition value net of depreciation updated by the applicable official devaluation coefficient.

Except in specified situations, 50% of the positive difference between capital gains and losses can be excluded from taxation, provided the

sales proceed are reinvested in eligible assets until the end of the second year following the year of sale.

Capital losses with the sale of shares are only accepted as a tax deductible loss in 50% of their amount. Moreover, no deduction is allowed if the loss is generated with a sale of shares between related parties.

Dividend income

A participation exemption is available for domestic or EU sourced dividend income when the parent company has held a participation of no less than 10% in the share capital of the distributing company during one year. If said criteria are not met, only 50% of the dividend is excluded from tax.

Such deductions do not apply when the company distributing the dividends is not resident either in Portugal or in other EU member state.

Groups of companies

A group of companies where the parent company holds, directly or indirectly, 90% or more of it's subsidiaries share capital can opt to be taxed on the Group taxable income, which is computed as the sum of taxable income and taxable losses incurred by each company within the Group.

Mergers

Portugal has adopted the EU mergers Directive, which allows to carry out corporate reorganisations under a tax neutral regime.

Pension schemes

Many Portuguese employers currently operate a company pension scheme in order to increment the pension amount granted by the public Social Security System at retirement. This has always been a voluntary exercise by the employer, with two types of plans available: defined benefit plans, where the contributions are to be made are computed in accordance with the benefits that have been previously established in the plan, or defined contribution plans, where the employee pays an agreed amount into the scheme, eventually added by the employees' own contributions.

A wide range of conditions must be met in order that contributions made for such plans qualify as a tax deductible expense against the company's own profits. Moreover, changes introduced to a Plan that affect the fulfilment of such conditions would imply the payment of tax on previous year's deductions plus penalties. Adequate planning and professional guidance is therefore suggested before the introduction or modification of an Employee's Pension Scheme.

Tax losses

Tax losses can be carried forward and deducted against future taxable income for a period of six years. No carry back of losses is allowed.

Relief for losses carried forward will be denied if, in respect of the year(s) where the losses were incurred there has been a substantial change of the type of activities carried out by the company. Likewise, no deduction of losses will be allowed if there has been a change in the ownership of 50% or more of the shares or of the voting rights in the company. In special situations, of recognised economic interest, the Minister of Finance may authorise that these restrictions do not apply.

Transfer pricing and associated entities

Tax authorities have the power to make adjustments to taxable income, whenever transactions between related parties are not carried out under arms length terms. The concept of a related party includes a wide range of situations. The level of participation in the share capital or voting rights that determines that two entities qualify as related parties is 10%. Companies that have the same management will also be considered as related parties. The concept of related parties also includes companies that are based in black listed off-shore jurisdictions.

Companies whose total income is not less than 3 million euros are required to prepare extensive documentation supporting the operations carried with related entities. Such documentation must describe the transfer pricing policies and provide a demonstration that the transfer prices adopted in the operations carried out with related parties follow arms length terms.

There is a thin capitalisation provision, disallowing the deduction of interest on loans granted by an overseas related company, when the loan exceeds two times the participation held by the lender in the equity of the borrower company. As from 2007, this restriction does not apply when the lending entity is a tax resident in another EU member state.

CFC regulations impose a Portuguese holding participating in the share capital of a company based in a low tax jurisdiction to be taxed on its share of the profit of the subsidiary, irrespective of dividends distributions.

Double taxation relief

Companies are entitled to a tax credit for income tax suffered abroad, up to the limit of the income tax levied in Portugal on such income. When there is a double tax treaty signed with the country where the income is sourced, the amount of double taxation relief is limited to the tax rates foreseen in the applicable Treaty.

Payments to non-residents

Specified types of income obtained by non-resident entities – services, commissions, dividends, interest and royalties – are subject to withholding tax at rates varying from 15% to 20%. The withholding tax may be avoided or reduced under the terms of a EU Directive or of a Double Tax Treaty in force; however, under Portuguese tax law, the application of a Tax Treaty requires the fulfilment of certain formal requirements. Professional guidance is suggested when operations are carried out with non-resident entities giving rise to payments to non-resident entities.

Value-added tax

Value-added tax (VAT) is a sales tax charged on the supply of goods and services provided in the course of a business in Portugal. Consequently, the real burden of tax falls on the final consumer, with the intervening business effectively acting as a collecting agent for the government.

VAT is also charged on the importation of goods from non-EU countries into Portugal, receipt of some international services in Portugal, and acquisition in Portugal of goods from other EU Member States.

There are three rates of VAT in mainland Portugal; 5% generally applicable to various foodstuffs, public transport, medical products and hotel accommodation services; 12 for flowers, certain foodstuffs and for

restaurant services; the standard rate of 20%. Insurance, education, finance, and health services are all exempt from VAT.

If a business is registered with the tax authorities and required to charge VAT, it will be able to recover the whole or part of the VAT it has incurred on the purchases it has made. Its ability to do this, however, will be dependent on the nature of the supplies it makes. A business that makes fully taxable supplies, will be able to recover the maximum VAT on the cost it has suffered on its own purchases. This ability will be restricted depending on the amount, if any, of exempt supplies it makes.

The net amount of VAT charged by a registered business, after deducting recoverable VAT, must be paid over to the tax authorities on a regular basis in conjunction with the appropriate tax return. The interval of payments and returns is either monthly or quarterly, depending on the turnover amount.

The EU is a customs union and accordingly customs duties are payable on many goods at the point the goods are first imported and cleared.

Stamp duty

Stamp duty is a tax levied on a wide range of operations and documents, such as loans, bank interest, written contracts, insurance premiums, gifts and inheritances. The tax rates depend on the type of operation concerned; Some examples are: 4% on bank interest; 0.5% for loans granted for a period between 1 to 5 years (levied on the principle amount); 0.6% for loans granted for a period exceeding 5 years; € 5 on written contracts; 10% on gifts and inheritances.

There are certain exemptions available, such as in the case of inheritances where the heir is the husband, son or father of the deceased person as well as when the heiress is the spouse, daughter or mother of the deceased person.

Pay-roll taxes

The employee contributes 11% of monthly gross salary and employers contribute 23.75%. A different regime applies for board members.

b) Madeira International Business Centre (IBC) – Tax Regime

There is a special tax regime for companies licensed to operate in the Madeira International Business Centre. The applicable regime will depend on the year of license, with three relevant periods:

- Companies licensed in Madeira IBC before 2001
- Companies licensed in Madeira IBC between 2003 and 2006
- Companies licensed in Madeira IBC between 2007 and 2013

Companies licensed in Madeira IBC (before 2001 and incorporated before 2004)

Companies licensed to operate in Madeira (before 2001) and International Business Centre are exemption from income tax, except in respect of transactions carried out in mainland Portugal, or with Portuguese residents. These exemptions apply until 2011. As of 1 January 2012 the new regime (companies licensed as from 2007) will apply.

Pre 2001 licensed shelf companies are available.

Companies licensed in Madeira IBC between 2001 and 2006

Under this intermediate regime, approved by the EU, companies licensed between 2001 and 2006 are taxed at the following reduced income tax rates:

1 % between 2003 and 2004

2 % between 2005 and 2006

3 % between 2007 to 2011

Companies, however, have to meet certain conditions before they are eligible for the tax benefits.

The advantages depend on the number of jobs created within the first six months of activity and the level of company investment:

Companies creating between 1 to 5 jobs are eligible for tax benefits only if they make a minimum investment of € 75,000 in fixed assets during the first two years of business (note that this investment can be done anywhere in the world and does not need to be done in Madeira). In all cases, tax benefits are granted on taxable income limited to a ceiling ranging between € 1.5 million (where less than 3 jobs are created) to € 125 million (where more than 100 jobs are created).

Companies creating six or more jobs are eligible to benefit from the new tax regime without having to undertake a minimum investment in fixed assets.

Companies undertaking industrial activities may benefit from a 50% reduction in taxable income should certain further conditions be met (e.g. maintaining at least 15 employees for 5 years, undertaking a high value added activity, etc.)

Companies licensed prior to 31st December 2000 will continue to be exempt from taxation until 31st December 2011. Such companies are

not subject to any employment or investment requirements, but will automatically be subject to the new regime as of 1 January 2008.

Companies licensed in Madeira IBC between 2007 and 2013

The publication of Decree-Law 13/2008, of 18 January extended the tax regime applicable to companies that register to carry on business in the Madeira Free Trade Zone between 1st January 2007 and 31st December 2013.

The new regime maintains the structure of the previous regime, which ended on 31st December 2006, providing, on the one hand, that companies registered to conduct business in the Madeira Free Trade Zone may be eligible for a reduced corporation tax rate on income derived from activities which are actually and materially carried out in that region and, on the other hand, making provision for the exclusion of certain activities from such tax benefits - (i) financial intermediation, (ii) insurance, (iii) financial intermediation and insurance support institutions, and (iv) intra-group services (i.e. coordination, treasury and distribution centres).

In effect, companies which are registered in the Madeira Free Trade Zone to engage in industrial, commercial, shipping and other activities or services which are not excluded under the present regime may be eligible for a reduction in the applicable corporation tax rate, as follows:

- from 2007 to 2009 - 3% rate;
- from 2010 to 2012 - 4% rate;
- from 2013 to 2020 - 5% rate.

Eligibility for the tax benefit in question will, however, be conditional on job creation and a minimum level of investment in the acquisition of fixed assets (tangible and intangible) in the initial months / years of operations (again, this investment can be done anywhere in the world

and does not need to be done in Madeira), as well as being subject to maximum limits on the taxable income to which the reduced rate will apply, based on the number of jobs maintained each year. This ceiling may rise as high as 150 million euros in cases where more than a hundred jobs are created.

Madeira IBC is also an attractive platform for electronic business, such as telecommunications, television and other online services as the EU has approved that VAT be charged at local Madeira rate (currently 14%) at least until 2015, when VAT should be charged at the VAT rate where the service is acquired.

Furthermore, companies registered to carry on industrial activities in the Madeira Free Trade Zone may also be eligible for a 50% reduction in the income liable to corporation tax, provided that certain legal requirements are met. These include, among other things, contributing to the modernisation and diversification of the regional economy through innovative product technology and manufacturing processes or business models, the hiring of highly qualified human resources and the improvement of environmental conditions.

The income of holding companies (SGPS) registered between 1st January 2007 and 31st December 2013 may also be eligible for the above-mentioned reductions in corporation tax rates, except in respect of revenue deriving from Portuguese territory (with the exception of the free trade zones) or from other EU Member States, in which case they will be liable for tax in the usual manner.

The decree-law in question also makes provision for companies which have registered under previous regimes to take advantage of the new regime after 1st January 2012, when the previous regime comes to an end.

c) Taxation on property/land

Sale of property/land

Capital gains obtained by individuals with the sale of real estate are computed as the difference between the proceeds of the sale and the acquisition value of the property, up-dated by the applicable officially published devaluation coefficient. The tax authorities will deem that the proceeds of the sale are equal to the Patrimonial Taxable Value of the property (as determined by the municipal Tax Code) whenever this value is higher than the sales contractual amount.

In case of resident individuals, 50% of the capital gain amount must be included in taxable income, subject to progressive tax rates. For non-resident individuals, the full amount of the capital gain will be taxed, at a flat rate of 25%.

The tax treatment of profit made by a corporation from the sale of property will depend on both the tax residence of the company and/or the circumstances in which the property has been held (land for development/trade or investment).

Rental income

Profits from the rental of land and buildings in Portugal are taxable in Portugal, wherever the recipient is resident. For national individuals or companies, rents are included in taxable income and taxed at the general rates.

Non-resident corporations and individuals are required to declare rental income obtained in Portuguese territory, which is taxed at a 15% rate.

Real estate transfer tax

Real estate transfer tax is levied on the acquisition of real estate property. The rates of this tax are 5% on the acquisition of land for agriculture and 6.5% on other real estate. In case of real estate for habitation, the effective rate varies from 0 to 6%, depending on the taxable value of the premise.

An increased rate of 8% applies when the buyer of the real estate is a resident in one of the territories with a specially favourable low tax regime listed in a Finance Ministry Decree.

Municipal tax

Owners of real estate at 31 December must pay Municipal Tax on such real estate property at rates varying from 0.2% to 0.8% depending on the type and taxable value of the property.

An increased rate of 1% applies when the owner of the real estate is tax resident in a resident of one of the territories listed in a Decree of the Finance Ministry as jurisdictions with an especially favourable low tax regime.

VAT

The sale and lease of real estate property is normally exempt from VAT. However, when the purchaser or tenant is able to recover input VAT, it is possible for a vendor or landlord to elect to waive the exemption and charge VAT at the standard rate on the sale proceeds or rental payments. The major advantage of making such an election is that the vendor/landlord can recover VAT on costs related to elected property.

d) Tax implications of the form of business in Portugal

Many businesses intending to trade in Portugal do so either through a branch of their overseas company or through a separate Portuguese company. The next sections will cover the main tax issues to be borne in mind when contemplating either of these routes. However, in certain cases, the operations carried out by a non-resident company in Portuguese territory do not require the incorporation of a Portuguese branch / permanent establishment of that company in Portugal, for instance when it operates in Portugal merely as a warehousing function.

Operating through a Portuguese company

A company will be Portuguese tax resident if it is incorporated here or if its place of central management is in Portugal. Many other countries rely on a definition of tax residence based on the place of effective management and therefore it is not common for a Portuguese company to be a resident of more than one country. Most of Portugal's tax treaties cover this by having a series of "tie-breaker" clauses to resolve the position.

Portuguese resident companies are liable for corporate income tax on their worldwide income.

Operating through a branch in Portugal

The concept of a branch is more substantial than that of a place of business. It involves the operation of a management function at the Portuguese location and the ability of that function to deal with third parties.

A Portuguese branch will fall within normal Portuguese corporation tax regulations and in general is taxed in the same way as a Portuguese company. Accordingly, the Portuguese branch will be subject to Portuguese taxation on any trading income relating to its operations, whether that income arises in Portugal or elsewhere. In this respect there is no difference between the operations of a Portuguese branch or a Portuguese company.

Portuguese profits of a branch are taxed at the standard corporate income tax rate. The repatriation of the profits of the branch is not subject to taxation in Portugal.

Non-resident entities with no permanent establishment

On chapter “Business entities”, reference was made to situations where the activities carried out by a non-resident company in Portuguese territory would not imply the existence of a Portuguese branch / permanent establishment in this territory. In many cases, the Portuguese tax position will be further clarified under the terms of the relevant tax treaty. Portugal has concluded a series of over fifty tax treaties which, in most cases, define the kind of presence that amounts to a “permanent establishment” and indicate the activities which fall outside this classification. The operation of a warehousing function is therefore, of itself, unlikely to involve an exposure to Portuguese corporate income tax, unless it is an integral part of the trade of the overseas company. The overseas company should seek professional advice to check whether its Portuguese activities will constitute a taxable presence.

A non-resident company with no permanent establishment or branch in Portuguese territory is only liable for Portuguese income tax on specified types of income derived from Portuguese sources, such as capital gains, rental income, interest, dividends and royalties. In most cases the tax is levied by withholding tax as the final tax due; in the particular case of capital gains and rental income, the non-resident

company is required to present a tax return with the income obtained in Portugal.

e) Selling into Portugal

Direct selling from abroad

Taxation issues

Direct selling into Portugal can take place either from an overseas head office or via sales personnel based in Portugal. In this last case, in certain conditions such staff may constitute a permanent establishment and therefore create a taxable presence. In analysing the existence of a permanent establishment, reference should always be made to any relevant tax treaty signed with Portugal.

The VAT implications depend on whether the items being sold into Portugal are goods or services and whether or not the goods are being sourced from another EU member state or elsewhere.

In the case of goods, if the company selling into Portugal is responsible for the importation of the goods and delivering them to its customer, then that company will be required to be VAT registered in Portugal (subject to the registration threshold). This also applies when the company has “call-off” stocks based in Portuguese territory. For VAT registration purposes the physical presence of the seller, e.g. staff and offices, is not relevant. The goods themselves constitute a place of belonging for VAT purposes.

If the company is based in another EU member state and is selling to VAT registered businesses in Portugal, it is not required to VAT register in Portugal, provided it can obtain the customer’s VAT registration number and show it on the VAT invoice. For the supplier is not subject to VAT, but the customer will have to account for the VAT on acquisition by reverse charge. It is often possible to register for VAT on intra-EU trade in just one EU state.

Supplies between EU member states are not classed as imports or exports and, accordingly, no import duties are levied except in certain circumstances. Additionally, it is not necessary to make an import declaration on an acquisition of goods in Portugal from another EU member state.

If the customer is responsible for clearing the goods through Customs and paying any duties and VAT on importation, then the selling company is not regarded as making any supplies for VAT purposes and is not liable to be VAT registered in Portugal.

Normally, if a company supplying services does not have a physical presence in Portugal then it is not liable to be registered. Business customers in most cases will have to account for the VAT under the “reverse-charge procedure”. For example, this applies when a business buys certain services such as advertising or the advice of a solicitor or accountant.

Selling into Portugal through a Portuguese-based agent

Taxation issues

A Portuguese-based agent will typically fulfil the role of accepting sales orders and referring them back to the overseas principal. An agent is therefore different in nature from a distributor who purchases and resells goods on his own account. The agent could be an individual or a company and may be dependent on or independent of the overseas business.

A Portuguese-based company or Portuguese branch of a non-resident company will be liable to Portuguese tax on the profits earned on a worldwide basis. In addition, an employee of the foreign company could constitute a taxable presence in Portugal where he/she is operating

from a fixed place of business or his/her responsibilities entail concluding contracts here.

Where an independent Portuguese agent is being used in the normal course of his trade, the Portuguese's double tax treaties typically provide that such an arrangement will not constitute a taxable presence in Portugal for the overseas principal, provided the agent is acting in the ordinary course of his/her business. For VAT purposes, this is not always the case.

If a subsidiary company or branch is the agent, then the transactions between the Portuguese operation and the non-resident parent will be taxed based on arm's length terms.

The VAT implications again depend upon who is responsible for the importation of the goods. If it is the overseas company then it will be required to VAT register. However, if ownership of the goods passes first to the agent, who then imports and sells them to the ultimate customer, the overseas company will not be registerable for VAT.

If the customer is responsible for importation then the vendor does not become liable to register for VAT.

Selling into Portugal through a Portuguese-based distributor

Taxation issues

A distributor differs from an agent in that a distributor actually acquires goods from the non-resident company and resells them in its own name. A distributor is therefore effectively a customer of the overseas business.

Where the distributor is set up as a separate company, this should not create a Portuguese tax presence for the investing business.

However, many of the preceding remarks concerning agents apply equally to distributors. For instance, where a Portuguese branch of the overseas enterprise acts as a distributor, the branch will be taxed on its Portuguese profits. The mark-up made by a Portuguese distributor needs careful reviewing as profit on sales to overseas affiliates will be computed based on arm's length prices.

As stated above, if selling into Portugal through a Portuguese-based distributor, the call-off stocks create a place of establishment for VAT purposes and render the company liable to be VAT registered by virtue of the location of the call-off stocks.

Export Finance and Insurance

The risks related with the export of goods, services or capital can be covered with insurance policies of COSEC. With these policies the Portuguese exporter can cover the risks associated to the foreign importer, which might occur either in the preparing of the purchase order or after its final expedition.

f) Ceasing to have a presence in Portugal

An investor may cease to have a business presence in Portugal in a variety of ways including sales, winding-up or migration.

Disposal of a business or subsidiary

The disposal of a Portuguese business will involve various tax, legal and commercial issues.

Tax considerations

Any profit on the disposal of a Portuguese business will only be taxable in the hands of the seller if the seller is a Portuguese resident or has a Portuguese permanent establishment. If this is not the case, then the seller will only need to consider his own domestic tax laws in relation to the sale.

The sale of shares held by a non-resident shareholder in a Portuguese subsidiary will be exempt from Portuguese income tax, except in the following cases, where the related capital gains will be taxed at a 25% rate:

The seller is a non-resident company whose share capital is held, directly or indirectly, in more than 25% by Portuguese shareholders; or

The seller is included in the low tax jurisdictions list; or

50% or more of the assets of the Portuguese company whose shares are sold are formed of real estate property.

Reference should always be made to any relevant tax treaty signed with Portugal in analysing the taxation of capital gains with the sale of shares.

Legal and commercial considerations

Legal agreements drafted to cover the sale of a business can be very complicated and typically include provisions for indemnifying the purchaser, should any unforeseen liabilities arise. It is therefore vitally important when selling a business in Portugal that specialised legal, accounting and taxation advice is obtained.

Liquidation

When a company is liquidated there are two levels of taxation to consider: the taxation of the company being liquidated and the taxation of its shareholders.

At the level of the company being dissolved and liquidated, in case there are assets to be distributed by the shareholders, it will be deemed that such assets are transferred at their arms length value (market value).

The shareholders of the company will be taxed on the difference between the proceeds of the liquidation and the acquisition value of the shares.

Company migration

It is possible for a company to become non-resident for Portuguese tax purposes, namely by transferring the seat and management of the company to another country. In such cases, the difference between the market value and the net book value of the assets of the company being transferred will be included in the taxable income to be declared when the company ceases its activities in Portugal.

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Foreign personnel in Portugal



Business immigration to Portugal

Citizens of the European Union have the right to live and work in Portugal, including setting up a business.

Other individuals moving to Portugal must obtain a residence authorisation.

Employment rights

The rights that an employee enjoys under Portuguese law are fairly extensive and should be given due attention to avoid involvement in expensive and time-consuming disputes and litigation.

Although not exhaustive, the following list indicates some of the most important areas to be considered:

- period of the contract (term contract or contract without term)
- unfair dismissal
- redundancy
- working time

- holidays

Social security

Mandatory contributions to the Social Security system are deducted from salaries in order to provide a pension at retirement and access to the health system.

Private pensions schemes are also widely used by companies and individuals.

Residency in Portugal

Entering in Portugal

All foreign nationals entering Portugal must have a travel document that is valid for three months beyond the length of intended stay, a visa if applicable, sufficient financial means and not be included on the national list of non-admissible persons.

Visa Requirements for Portugal

EU citizens and residents of some countries do not need a visa to enter Portugal (however they must hold passports that are valid for three months longer than their length of stay). Visas should be obtained before the foreign national leaves for Portugal, from the local Portuguese embassy or consulate.

Residency Permits (Autorização de Residência)

The Portuguese Immigration Service (Serviço de Estrangeiros e Fronteiras, SEF) is the administrative body responsible for issuing residence permits.

Authorisation for Residence and Residence Permits

The residence card (Autorização de Residência) is necessary for anyone who moves to Portugal, or for anyone who is planning to stay for longer than six months. This includes those who work, the self-employed, students, those intending to live off savings, retired people and family members of any of the above.

Applications for a residency permit should be made at the regional directorate or the Delegation of the SEF in the area of residence. Residence permits can be temporary or permanent.

- Temporary permits are valid for two years and are renewable for three-year periods. Applications to renew a permit must be sent 30 days before the expiry date.
- Permanent residence is available to nationals from countries where Portuguese is the official language who have lived legally in Portugal for five years, and citizens from other countries who have lived legally in Portugal for at least eight years. Permanent residence permits should be renewed every five years or whenever the person's personal information changes.

Personal taxation

Residence

An individual's liability to tax in Portugal is dependent on his residence. Resident individuals are subject to personal income tax on their worldwide income, while non-resident individuals are liable for this tax only on Portuguese-sourced income.

In general, an individual is treated as being resident in Portugal for any fiscal year if:

- he is present in Portugal for 183 or more days (continuously or not; or
- he owns a dwelling in Portugal at the end of the year with the intention to be occupied and maintained as his usual residence).

Marriage and children

In case of resident individuals, a husband and wife living together and their dependent children are taxed on their joint income. The progressive income tax rates are levied on their joint income divided by 2. The result is subsequently doubled to arrive at the final tax assessed.

Tax rates

The progressive income tax rates are shown in appendix I. Income obtained by non-resident individuals is normally taxed at final withholding tax rates (for instance salaries are subject to a 25% rate and interest or dividends to a 20% rate).

Taxable income

The aggregate taxable income results from the following income categories:

Category A – Employment income;
Category B – Business income;
Category E – Investment income;
Category F – Real estate income;
Category G – Capital gains and other patrimonial increases;
Category H – Pension income.

Deductions and tax credits

The most common deductions available in computing taxable income and tax credits are listed on Appendix I.

Other forms of personal taxation

Inheritance tax

The Inheritance and Gifts Tax Code has been revoked and replaced by a 10% stamp duty that is levied on all donations and inheritances. However a tax exemption applies when the recipient of an inheritance is a husband, wife, son or daughter of the deceased person.

Social security

Employees pay non-refundable national insurance contributions of 11% on their salary income.



Protection of Intellectual and Industrial Property

The Intellectual Property law is divided into two main branches – industrial property law and copyright law. Industrial property law governs the legal protection of inventions, creations and trademarks. Copyright law covers the legal protection of intellectual creations in the literary sphere.

Copyright

A governmental office for author's rights (Office for the Rights of Authors) was established in 1997 (Decree-Law 57/97) to provide information to the public and official support for new legislative initiatives by the government in copyright matters.

There are also private institutions for the management of copyright and related rights in terms of the national legislation: the Portuguese Authors Society (SPA, founded in 1925), the Management of Artists Rights (GDA, founded in 1995) and the Association for the Management of Private Copies (AGECOP, founded in 1998).

Trade Marks

The registration of the trade mark gives the company the exclusive right to use the mark for the goods and/or services that it covers in Portugal. A registered trade mark must be renewed every 10 years to keep it in force. Portuguese legislation governing the legal protection of rights pertaining to trademarks is contained in the Industrial Property Code (CPI).

After a request to register a trademark is presented, it is published in the Official Industrial Property Bulletin. There then follows a two-month period in which the application may be challenged by any interested party. If this happens, the applicant has a further two months in which to contest the challenge.

Only after the two or four-month period has elapsed will INPI start examining the application. The purpose of the examination period is for INPI to ascertain and confirm whether the application is unique and cannot be confused with an already existing registered trademark. The application is only approved following this examination, after which it is registered and published in the Official Bulletin.

Patents

In Portugal, it takes an average of 24 months from the time an application for a patent is made for it to be registered. This timeframe applies to both national and European patent applications and includes all the legal steps: presentation of the application, publication, examination of its eligibility by the relevant authority (INPI – The National Institute of Industrial Property) and any claims against its registration.

Portugal is a member of the WTO and the European Union, and as such enforces all the rules and regulations stipulated by international patent protection agreements. The applicable Portuguese legislation is Decree-Law no. 36/2003 of 5 March, amended by Decree-Law no. 318/2007 of 26 September, and Decree-Law no. 143/2008 of 25 July.



Appendix I: Tax rates and allowances in Portugal

Corporation tax

| PORTUGUESE RESIDENT COMPANIES | RATES | MUNICIPAL SURCHARGE (NOTE 1) |
|---|--------------------|------------------------------|
| Companies with head office or effective place of management in Portugal that undertake a commercial, industrial or agricultural activity as main business. | 25%(a) / 12,5% (b) | 0% - 1,5% |
| Entities with head office or effective place of management in Portugal that do not undertake a commercial, industrial or agricultural activity as main business | 20% | N/A |
| Entities subject to the simplified taxation regime | 20% (c) | 0% - 1,5% |

a) Madeira: 20%; Azores: 17,5%

b) Taxable profit up to € 12.500,00 will be taxed at a reduced rate of 12.5%; the excess will be taxed at the current 25% rate.

c) As of January 1, 2009, is not possible for companies to elect for taxation under the simplified regime. Taxpayers currently taxed under this regime have the option to remain on it until the current expiration date or be taxed under the general regime.

| NON-RESIDENTS ENTITIES WITH A PERMANENT ESTABLISHMENT IN PORTUGAL | RATES | MUNICIPAL SURCHARGE (NOTE 1) |
|--|-------|------------------------------------|
| | | |
| Permanent establishments in Portugal of non-resident entities that undertake a commercial, industrial or agricultural activity as main business. | 25% | 0% - 1,5% |

Notes: The Municipal surcharge is levied on the taxable income assessed before the deduction of taxable losses from previous years, which results in a rate between 25% and 26,5%.

Dividends paid to non-resident shareholders are normally subject to a withholding tax at 20% (or at the treaty rate, if applicable). When the parent company is resident of a EU member state and has held a participation of at least 15% and the related shares have been held for a period of two years, no withholding tax shall apply, provided the company paying the dividend obtains a tax certificate proving that the conditions of the directive are met.

Personal Income tax

| DESCRIPTION | INCIDENCE |
|---|--|
| Residents in Portuguese Territory | Worldwide income, including income obtained abroad |
| Non - Residents in Portuguese Territory | Portuguese source income |
| INCOME CATEGORIES: | |
| A - Employment income | |
| B - Business and professional income | |
| E - Investment income | |
| F - Income from real estate | |
| G - Capital Gains | |
| H - Pensions | |

Progressive rates (residents)

| BANDS OF INCOME | TAX RATES |
|-----------------------|-----------|
| Progressive tax rates | |
| First 4.755 | 10,5% |
| Next 2.437 | 13,0% |
| Next 10.644 | 23,5% |
| Next 23.185 | 34,0% |
| Next 18.429 | 36,5% |
| Next 4.660 | 40,0% |
| Over 64.110 | 42,0% |

Note: In relation to taxable person who are married and not legally separated, the applicable rates are levied on the combined taxable income divided by 2. This result should then be multiplied by 2 to obtain the gross tax due.

| SPECIAL RATES | FLAT RATES |
|--|------------|
| Dividend income and bank interest | 20,0% |
| Capital gains obtained from the disposal of shares | 10,0% |

Non-residents

| TYPE OF INCOME | FLAT RATES |
|---|------------|
| Salaries and pensions | 25,0% |
| Dividend income | 20,0% |
| Interest on deposits | 20,0% |
| Royalties and technical assistance fees | 15,0% |
| Rental income | 15,0% |
| Capital gains | 25,0% |
| Interest and exchange rate swaps | 20,0% |
| Services (non DDT countries) | 15,0% |

Deduction to tax payable – Applicable only to residents

| INCOME DEDUCTIONS - APPLICABLE ONLY TO RESIDENTS | |
|--|---|
| A - Employment income | <p>The greater of the following amounts: 72% of 12 times the highest national minimum wage 75% of 12 times the highest national minimum wage in certain conditions.</p> <p>If, however, any compulsory social security contributions exceed any of those amounts (mention above), the whole amount of such contributions shall be allowed as a deduction.</p> |
| E - Investment income | 50% of the profits distributed to Portuguese resident taxpayers by entities resident in EU as well as liquidation proceeds when qualified as investment income. |
| F - Income from real estate | <p>Maintenance and conservation expenses documented.</p> <p>Municipal Property Tax (IMI) paid by the taxpayer regarding to immovable property or part thereof that generates rental income.</p> <p>Conservation expenses and other expenses that, in under the civil law, shall be paid by the condominium, in respect of property in horizontal proprietorship regime.</p> |
| H - Pensions | <p>The first € 6,100 is deductible from the taxable income of each taxpayer, although the deduction can not exceed the gross pension income.</p> <p>Category H gross income exceeding € 35,000 is entitled to the same deduction but reduced by 15% of the portion that exceeds that annual limit.</p> |

| DEDUCTION TO TAX PAYABLE - APPLICABLE ONLY TO RESIDENTS | |
|---|---|
| DESCRIPTION | COMMENTS |
| Personal tax credits | Depending on the family status of the individual and the number of dependent family members. |
| Interest and capital amortizations on the purchase of permanent residence | Up to 30% for a permanent place of residence with limit |
| Educational costs | Up to 30% of the cost with limit |
| Medical expenses | 30% of the cost subject to certain conditions with no limit |
| Insurance & Pension | Up to 25% with limit |
| Alimony Payment | If paid by court ruling |
| International double tax credit | <p>Foreign source income included in the taxpayer's tax return</p> <p>Deduction of the lower of:</p> <ul style="list-style-type: none"> - Income tax paid abroad - IRS due on such income - Tax payable in accordance with a Double Tax Treaty |

| CATEGORY B - BUSINESS AND PROFESSIONAL INCOME IN THE ORGANIZED ACCOUNTING METHOD | |
|--|---|
| NON-DEDUCTIBLE EXPENSES | <p>Expenses related to travel and accommodation of the taxpayer or any member of his family unit who works with him, which exceed 10% of the registered revenue.</p> <p>Employment income of the taxpayer, as well as that of any member of his family unit who works with him, including daily allowances and other employment income.</p> |
| USE OF HOME FOR BUSINESS PURPOSE | Expenses related to housing can not exceed 25% of the duly documented total expenses. |

Value added tax

| RATES | MAINLAND | MADEIRA AND AZORES |
|--|----------|--------------------|
| REDUCED Applied in general to: Foodstuff (cereals, meat, fish and shellfish, milk, etc) Water Pharmaceuticals Electricity Transport of passengers Hotel accommodation Goods in connection with agriculture Shows and public entertainment | 5% | 4% |
| INTERMEDIATE Applied in general to: Cheese Wine Flowers and decorative plants Comestible oils Canned meat Fish and shellfish Fruit and dried fruit Coffee Mineral waters Services of restaurants (meals and beverages) | 12% | 8% |
| NORMAL Applied to all supplies of goods and services not covered by the reduced or intermediate rates | 21% | 15% |

Stamp duty

| MAIN TRANSACTIONS AND EVENTS SUBJECT TO STAMP DUTY | RATES |
|--|-------|
| FINANCING OPERATIONS | |
| <u>Use of credit in the form of funds, goods and other values, as a consequence of a credit concession of any nature:</u> | |
| Credit with a duration of less than 1 year - per month or part thereof | 0,04% |
| Credit with a duration of 1 year or more | 0,5% |
| Credit with a duration of five years or more | 0,6% |
| Credit used in the form of current account, overdraft or any other form, where the term is not determined or determinable - over the monthly average | 0,04% |
| <u>Operations carried out by, or with the intermediation of, credit institutions, financial companies or other legally equivalent entities and any other financial institutions, namely:</u> | |
| Interest paid, namely, on the discount of bills of exchange and Treasury bills, loans, credit accounts and liquidation credit on the amount thereof | 4% |
| Premiums and interest on drawn bills of exchange, bills of exchange receivable on behalf of another entity, withdrawals issued in domestic markets or any other type of transfer | 4% |
| Commissions in respect of guarantees granted on the amount thereof | 3% |
| Other commissions and counter services for financial services | 4% |
| CONTRIBUTIONS OF CAPITAL | |
| Contributions of capital, namely transforming, setting up and increasing the share capital or assets of companies | 0,4% |
| Transfer of a corporate entity's head office | 0,4% |
| OTHER MAIN TRANSACTIONS AND EVENTS SUBJECT TO STAMP DUTY | |
| Onerous acquisition or donation of ownership rights or of limited rights over real estate | 0,8% |
| Gratuitous acquisitions of assets by individuals, including by usucapion | 10% |
| Lease and sub-lease of buildings - on one month's rent or its increase | 10% |

MAIN EXEMPTIONS

FINANCING OPERATIONS

Financial operations, including respective interest, for a period which does not exceed one year, as long as these are exclusively destined to meet treasury needs and are made by SCR (Portuguese venture capital companies) in favour of companies in which they participate, as well as those made by SGPS (Holdings) to their subsidiaries or by other

Operations, including respective interest, mentioned in the previous exemption, when made by shareholders in favour of entities in which they hold a direct share capital participation of at least 10%, held for one consecutive year or since the company's incorporation, provided that, in the latter case, the participation is maintained for that period.

The rules mention above are not applicable whenever:

- i) One of the parties does not have head office or effective place of management in Portugal, another EU Member-state or a State with whom a DTT is applicable;
- ii) The creditor previously obtained financing via operations with credit institutions or financial companies located

Shareholder loans, including interest, whenever an initial period of more than one year is agreed and provided that no

CONTRIBUTIONS OF CAPITAL

Incorporation and share capital increase of SGPS and SCR (venture capital companies)

Incorporation and share capital increase deriving from the transfer of all the assets and liabilities of one or more companies, or of one or more of its branches of activity to one or more existing companies or to be incorporated.

OTHER MAIN TRANSACTIONS AND EVENTS EXEMPT OF STAMPY DUTY

Interest charged on loans granted for the purchase, construction, reconstruction or improvement of the owner's residence

Municipal Tax

| Description of the Property | Annual Tax Rates |
|---|------------------|
| Urban property | 0,4% - 0,7% |
| No-urban property | 0,8% |
| Urban property assessed under the terms of the Property Transfer Tax Coc | 0,2% - 0,4% |
| Real estate property owned by a resident in a tax privileged jurisdiction | 1% |

Exemptions: Applied to the owners of the urban property use for residential or rental purposes whenever requested to the tax authorities

| Exemption period (years) | Taxable Patrimonial Amount |
|--------------------------|----------------------------|
| 8 | Until 157.500 |
| 4 | 157.500 - 236.250 |

Real estate transfer tax

| Bands | Tax Rates | |
|------------------------------|-----------------------------|-------------------------------------|
| Urban property for | Permanent dwelling purposes | Acquisition of secondary habitation |
| <u>Progressive tax rates</u> | | |
| First 87.500 | 0% | 1% |
| Next 35.200 | 2% | 2% |
| Next 44.600 | 5% | 5% |
| Next 115.600 | 7% | 7% |
| Next 278.700 | 8% | - |
| Next 255.900 | | 8% |
| <u>Flat tax rate</u> | | |
| Over 557.500 | 6% | - |
| Over 534.700 | | 6% |

Example: Property acquisition for permanent dwelling purposes on the amount of € 160.000

$$\text{IMT} = 87.500 * 0\% + 35.200 * 2\% + 37.300 * 5\% = 2.569$$

Other Property

| Description | Tax Rates |
|---|-----------|
| No-urban property | 5% |
| Other urban property (not for residential purposes) and other onerous acquisitions | 6,5% |
| Urban and no urban property purchased by a resident in a tax privileged jurisdiction. | 8% |

Appendix II: Double tax treaties



| COUNTRIES | DIVIDENDS | INTEREST | ROYALTIES |
|-----------------|---------------------------|-------------------|------------------|
| Algeria | 10% m) or 15% b) | 15% | 10% |
| Austria | 15% | 10% | 5% b) or 10% (c) |
| Belgium | 15% | 15% | 10% |
| Brazil (d) | 10% m) or 15% b) | 15% | 15% |
| Bulgaria | 10% e) or 15% b) | 10% | 10% |
| Canada | 10% m) or 15% b) | 10% | 10% |
| Cape Verde | 10% | 10% | 10% |
| Chile | 10% f) or 15% b) | 5% r) or 10% r) | 5% r) or 10% r) |
| China | 10% | 10% | 10% |
| Cuba | 5% f) or 10% b) | 10% | 5% |
| Czech Republic | 10% e) or 15% b) | 10% | 10% |
| Denmark | 10% | 10% | 10% |
| Estonia | 10% | 10% | 10% |
| Finland | 10% f) or 15% b) | 15% | 10% |
| France | 15% | 10% h) or 12% b) | 5% |
| Germany | 15% | 10% a) or 15% (b) | 10% |
| Greece | 15% | 15% | 10% |
| Hungary | 10% e) or 15% b) | 10% | 10% |
| Iceland | 10% m) or 15% b) | 10% | 10% |
| India | 10% m) or 15% b) | 10% | 10% |
| Indonesia | 10% | 10% | 10% |
| Ireland | 15% | 15% | 10% |
| Italy | 15% | 15% | 12% |
| Latvia | 10% | 10% | 10% |
| Lithuania | 10% | 10% | 10% |
| Luxembourg | 15% | 10% n) or 15% b) | 10% |
| Macau | 10% | 10% | 10% |
| Malta | 10% m) or 15% b) | 10% | 10% |
| Mexico | 10% | 10% | 10% |
| Morocco | 10% e) or 15% b) | 12% | 10% |
| Mozambique | 15% | 10% | 10% |
| The Netherlands | 10% | 10% | 10% |
| Norway | 10% f) or 15% b) | 15% | 10% |
| Pakistan | 10% m) or 15% b) | 10% o) | 10% p) |
| Poland | 10% e) or 15% b) | 10% | 10% |
| Romania | 10% m) or 15% b) | 10% | 10% |
| Russia | 10% m) or 15% b) | 10% | 10% |
| Singapore | 10% | 10% | 10% |
| Slovakia | 10% m) or 15% b) | 10% | 10% |
| Slovenia | 5% f) or 15% b) | 10% | 5% |
| South Korea | 10% e) or 15% b) | 15% | 10% |
| Spain | 10% f) or 15% b) | 15% | 5% |
| Sweden | 10% | 10% q) | 10% |
| Switzerland | 10% f) or 15% b) | | 5% |
| Tunisia | 15% | 15% | 10% |
| Turkey | 5% m) or 15% b) | 10% p) or 15% b) | 10% |
| Ukraine | 10% m) or 15% b) | 10% | 10% |
| United Kingdom | 10% f) or 15% b) | 10% | 5% |
| USA | 5% g) or 10% g) or 15% b) | 10% (o) | 10% |
| Venezuela | 10% i) or 15% j) | 10% | 10% k) or 12% l) |

Notes:

a) When paid by bank institutions

b) When paid by non bank institutions

c) Whenever the parent company controls more than 50% of the subsidiary's share capital

d) The previous DTT signed with Brazil was denounced in 1999. However, this new agreement was signed between the parties in 2000, and entered into force retroactively as from 1 January 2000

e) whenever the effective beneficiary is a company that holds at least 25% of the subsidiary's share capital, during two consecutive years. However, as regards the DTT entered into force with Bulgaria, Czech Republic, Hungary, Morocco, Poland and South Korea, the above rule only applies to gross dividends paid after 31/12/1996

f) Whenever the parent company controls more than 25% of the subsidiary's share capital

g) Whenever the income beneficiary holds at least 25% of the subsidiary's share capital during two consecutive years, 10% rate is levied from 1/1/1997 to 31/12/1999 and 5% in the remaining cases

h) Applies to bonds issued by France after 01.01.1965

i) Since 01.01.1997. However as foreseen in article 29 number 2 paragraph a) of the Convention signed with Venezuela, this reduced tax rate is only applicable to withholding tax arising from taxable events occurred on or after 01.01.1999

j) Until 31.12.1996 as foreseen in article 10 number 2 of the Convention signed with Venezuela. Nevertheless, due the fact that this Convention only entered into force after 08.01.1998, this reduced tax rate of 15% never was, neither will be, applicable

k) 10% for royalties derived from technical assistance

l) 12% for other types of royalties

m) whenever the income beneficiary is a company that holds directly at least 25% of the subsidiary's share capital during two consecutive years

n) if paid by companies resident in a Contracting State, where interest paid is considered as deductible cost, to a financial establishment resident in the other Contracting State

o) Interest are tax exempt if the conditions established in article 11 of the applicable DTT are foreseen

p) The 10% reduced rate is also applicable to technical services

q) However, interest can only be taxed in the Contracting State in which the effective beneficiary is resident if any of one conditions foreseen in the article 11 number 3 paragraph a) and b) of the DTT with Sweden are fulfilled

r) Consult the respective article

Appendix III: Useful contacts



ACCOUNTANCY BODIES

Bar of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas")

Rua do Salitre, n.º 51/53 (head-office)
1250-198 Lisboa

Tel: + 351 21 353 61 58
Email: secgeral@oroc.pt
Web: www.oroc.pt

Accounting Standards Commission ("Comissão de Normalização Contabilística")

Rua Angelina Vidal, 41
1199-005 Lisboa

Tel: + 351 21 811 35 00
Email: cecnc@igf.min-financas.pt
Web: webmastercnc@igf.min-financas.pt

Accountants Institute ("Câmara dos Técnicos Oficiais de Contas")

Avenida Barbosa du Bocage nº 45
1049-013 Lisboa

Tel: + 351 21 799 97 00
Email: geral@ctoc.pt
Web: ctoc.pt

DEVELOPMENT AGENCIES

Invest in Portugal Agency ("Associação Portuguesa para o Investimento")

Edifício Península Praça do Bom Sucesso n.º 127/131, 7.º, S.702
4150-146 Porto

Tel: +351 22 605 53 00

E-mail: api@apinvest.pt

Web: www.investinportugal.pt

AICEP PORTUGAL ("Agência para o Investimento e Comércio Externo de Portugal")

Avenida 5 de Outubro n.º 101
1050-051 Lisboa

Tel: + 351 21 790 95 00

E-mail: icep@icep.pt

Web: www.icep.pt

Portuguese Tourism Board ("Instituto de Turismo de Portugal")

Rua Ivone Silva Lote 6
1050-124 Lisboa

Tel: +351 21 781 00 00

E-mail: info@turismodeportugal.pt

Web: www.iturismo.pt

Institute of Support to the Small and Medium-Sized Enterprises and to the Investment ("IAPMEI")

Rua Rodrigo da Fonseca 73

1269-158 Lisboa

Tel: +351 21 383 60 00

Web: www.iapmei.pt

National Association of Young Businessmen ("Associação Nacional de Jovens Empresários")

Casa do Farol - Rua Paulo da Gama

4169 - 006 Porto

Tel: +351 22 010 80 72

E-mail: academia@anje.pt

Web: www.anje.pt

GOVERNMENT BODIES

Foreign Office ("Ministério dos Negócios Estrangeiros")

Palácio das Necessidades

Largo do Rielvas

1399 - 030 Lisboa

Tel: +351 21 394 60 00

Web: www.min-nestrangeiros.pt

Ministry of Finance ("Ministério das Finanças")

Av. Infante D. Henrique, 1

1149-009 Lisboa

Telf: +351 21 881 68 00

Web: www.min-financas.pt

Ministry of Health ("Ministério da Saúde")

Alameda D. Afonso Henriques, 45
1049-005 Lisboa
Telf: +351 21 843 05 00
Web: www.min-saude.pt

Ministry of Social Security and Work ("Ministério do Trabalho e da Solidariedade Social")

Praça de Londres n.º 2 - 16.º
1049-056 LISBOA

Telf: +351 21 842 41 00
Web: www.mts.gov.pt

REGULATORY & SUPERVISORY BODIES

CMVM - Portuguese Securities Market Commission ("Comissão do Mercado de Valores Mobiliários")

Av. Liberdade n.º 252
1056-801 Lisboa

Telf: +351 21 317 70 00
E-mail: cmvm@cmvm.pt
Web: www.cmvm.pt

Bank of Portugal ("Banco de Portugal")

Rua do Ouro, 27 (head-office)
1100-150 Lisboa

Telf: +351 21 321 32 00
Web: www.bportugal.pt/

ANACOM - National Communications Authority ("Autoridade Nacional de Comunicações")

Av. José Malhoa, 12

1099-017 Lisboa

Telf: +351 21 721 10 00

Web: www.anacom.pt

TAXATION

Directorate General for Taxation ("Direcção Geral das Contribuições e Impostos - DGCI")

Avenida Doutor Miguel Bombarda 27-A-r/c

2745-175 QUELUZ

Telf: +351 21 434 03 20

E-mail: ers1565@dgci.min-financas.pt

Web: www.dgci.min-financas.pt

Directorate General of Customs and Excise ("Direcção-Geral das Alfândegas e dos Impostos Especiais sobre o Consumo - DGAIEC")

Rua da Alfândega, n.º 5, r/c

1149-006 LISBOA

Telf: +351 21 881 37 00

E-mail: dgaiec@dgaiec.min-financas.pt

Web: www.dgaiec.min-financas.pt

TRADE ASSOCIATIONS & ADVISORY SERVICES

CFE - Business Formalities Centre ("Centro de Formalidades das Empresas")

Av. Columbano Bordalo Pinheiro, 86
1099-063 Lisboa

Telf: +351 21 723 23 00

E-mail: cfelisboa@iapmei.pt

Web: www.cfe.iapmei.pt

Lisbon Trade Association ("Associação Comercial de Lisboa")

Rua das Portas de Stº Antão, 89
1169-022 Lisboa

Telf: +351 21 322 40 50

E-mail: geral@port-chambers.com

Web: www.port-chambers.com

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