Key tax factors for efficient cross-border business and investment involving Portugal

**EU Member State**
Yes

**Double Tax Treaties**
With:

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*Note: (a) Treaties signed, but not yet in force.*

**Forms of doing business**

**Legal entity capital requirements**
The minimum capital required will depend on the legal form of the entity:

- Private Limited Liability Company: EUR 1;
- Public Limited Liability Company: EUR 50,000;
- Partnership Limited by Shares: EUR 50,000.
Residence and tax system

Companies are deemed resident in Portugal for tax purposes if the head office or place of effective management (regardless of the head office’s jurisdiction) is located there. These two requirements often occur simultaneously, providing consistency within tax law. Nonetheless, where this is not the case, the place of effective management is the decisive argument in the equation.

Resident companies are taxed on their worldwide income. Non-resident companies are taxed on their Portuguese source income only.

Compliance requirements for CIT purposes

- Generally, the tax year corresponds to the calendar year, but companies may opt for a different tax year.
- Filing the CIT return (Modelo 22) annually by the last day of May or the fifth month subsequent to the end of the tax year.
- Filing the Annual Return of Simplified Corporate Information (IES) until July 15 or the 15th of the seventh month subsequent to the end of the tax year;
- Statement returns regarding the beginning, change or termination of activity within 15 days after the request for the initial commercial registry information that is relevant for the tax authorities, or 30 days after the termination of activity;
- Filing a form regarding the income subject to withholding tax paid or placed at the disposal of non-resident taxpayers (Modelo 30) until the end of the second month following the date of payment.

Tax rate

The standard corporate income tax rate is 21 percent (plus: municipal surcharge up to 1.5 percent, state surcharge 3 percent on profits between EUR 1,500,000 - 7,500,000, 5 percent on profits between EUR 7,500,000 - 35,000,000; and 7 percent on profits exceeding EUR 35,000,000).

In the Autonomous Region of the Azores, the corporate income tax is 16.8 percent.

Additionally, an autonomous flat-rate tax targeting certain expenses is levied depending on their nature (e.g. undocumented expenses, light passenger vehicles, compensations/bonuses payable to board members or managers).

Withholding tax rates

On dividends paid to non-resident companies

25 percent, unless the EU Parent-Subsidiary Directive or a relevant DTT applies.

On interest paid to non-resident companies

25 percent, unless the EU Interest and Royalties Directive or a relevant DTT applies.

However, 35 percent is applicable if the entity obtaining the royalties is resident in a tax haven.
On patent royalties and certain copyright royalties paid to non-resident companies
25 percent, unless the EU Interest and Royalties Directive applies. However, 35 percent is applicable if the entity obtaining the royalties is resident in a tax haven.

On fees for technical services
25 percent, unless a relevant DTT applies.

On other payments
25 percent, unless a relevant DTT applies.

Branch withholding taxes
25 percent, unless a relevant DTT applies.

Holding rules

Dividend received from resident/non-resident subsidiaries
In the case of a dividend distribution by EU subsidiaries and non-EU subsidiaries (resident in countries with which Portugal has entered into a DTT, which foresees an administrative cooperation mechanism regarding taxation similar to the one established within the EU), the exemption method can be applied if the following requirements are met:

- Participation requirement: 10 percent;
- Minimum holding period: one year uninterruptedly or commitment.

In order to apply the dividends exemption regime, proof of fulfillment of the requirements must be obtained. This regime does not apply to entities established in tax havens.

Capital gains obtained from resident/non-resident subsidiaries
The participation exemption regime applies (participation requirement: 10 percent, minimum holding period: one year uninterruptedly, subject to tax requirement). The participation exemption regime on capital gains does not apply in case the assets of the company consist as to more than 50 percent of real estate (some exceptions apply).

Tax losses
Losses may be carried forward for 6 years until 2010, 4 years in 2010 and 2011, 5 years for tax losses assessed in 2012 and 2013, 12 years for tax losses assessed in 2014, 2015 and 2016 and 5 years for tax losses assessed in 2017 onwards (small and medium-sized enterprises may still benefit from the 12-year period from 2017 onwards). However, the deduction of tax losses assessed in prior years cannot exceed 70 percent of the taxable profit of the current year.

Restrictions apply when more than 50 percent or the majority of the voting rights of the loss carrying company's ownership changes in the year in which the losses are to be deducted compared to that in which they were generated. A request may be submitted to the Minister of Finance, prior to the change in ownership, asking for authorization to maintain such tax losses. Capital losses
are no longer deductible for tax purposes in respect of that part corresponding to profits distributed in the previous 4 years covered by the participation exemption.

**Tax consolidation rules/Group relief rules**
Yes. The parent must hold, directly or indirectly, for a minimum 1 year period, at least 75 percent of the subsidiaries' share capital and 50 percent of the voting rights. All companies must be tax resident in Portugal and subject to Portuguese CIT on their worldwide income at the standard CIT rate. However, should any company benefitting from a reduced tax rate enter the group, it must renounce such a reduced rate for a period of 3 years. Entities with tax losses in the previous 3 years are not eligible for this regime, except if their share capital has been held by the parent for more than 2 years.

**Registration duties**
N/A

**Transfer duties**

On the transfer of shares
Real Estate Transfer Tax is due on the acquisition of companies limited by "quotas", when the company owns real estate and any of the "quota holders" will hold at least 75 percent of the “quota” capital or, whenever the number of quota holders is reduced to two married individuals.

Thus, if 75 percent (or more) of the “quotas” of a company that owns Real Estate are transferred, RETT will be due and must be paid by the acquirer of the “quotas” at a rate of 6.5 percent.

On the transfer of land and buildings
As a general rule, all onerous transfers of ownership rights or parts thereof on real estate located within the Portuguese territory, regardless of how such transfers are carried out, are subject to Real Estate Transfer Tax.

Real Estate Transfer Tax is due by any individual or legal person to whom the property is transferred and is levied on the amount shown in the respective deed or agreement or, on the property tax value, depending on which is higher, at a rate depending on the nature of the property.

**Stamp duties**
Stamp duty is due on specified acts, contracts, documents, titles, etc., which take place in Portugal and are not subject to or exempt from VAT.

Stamp Duty is due on funding operations, although several exemptions are available, namely for shareholder loans, provided certain requirements are met.

**Real estate taxes**
The ownership of real estate triggers Municipal Property Tax which is due on an annual basis (paid in three installments) at a rate that varies between 0.3 percent and 0.5 percent.
Controlled Foreign Company rules

Yes. Profits or other income derived by a non-resident company that are subject to a more favorable tax regime can be attributed to the Portuguese resident shareholders who hold, directly or indirectly, at least 25 percent of the share capital, voting rights or equity rights of these entities (or 10 percent if more than 50 percent of the share capital of the non-resident company is held, directly or indirectly, by Portuguese-resident shareholders).

Transfer pricing rules

General transfer pricing rules

Portuguese transfer pricing legislation generally follows the methodologies and principles of the OECD Transfer Pricing Guidelines. Nevertheless, specific rules are provided for in Article 63 of the CIT Code and in Ministerial Order no. 1446-C/2001, of December 21 (which provides detailed documentation rules). Portuguese transfer pricing rules apply to domestic and cross-border transactions undertaken by a Portuguese entity subject to CIT and other entities with a 'special relationship' to the former. For these purposes, a 'special relationship' is considered to exist between two entities when one entity has or may have, directly or indirectly, a significant influence in the management of the other entity. This concept captures not only legal relationships (direct or indirect shareholdings in excess of 20 percent), but also situations of economic dependency.

Documentation requirement

Taxpayers with annual net sales and other income equal to or greater than EUR 3,000,000 in the fiscal year prior to the year under consideration, need to prepare and maintain, for a period of 10 years, updated transfer pricing documentation.

Multinational groups must submit a country-by-country report, provided that they have income exceeding EUR 750,000,000.

Thin capitalization rules

Thin capitalization rules were replaced by earnings stripping rules as of January 1, 2013. Under the earning stripping rules currently in force, interest is deductible up to the higher of the following amounts: EUR 1 million or 30 percent of the taxable EBITDA. However, a transitional period applies, under which the EBITDA threshold will be gradually reduced from 70 percent in 2013 to 30 percent in 2017.

The interest which, during a certain period, exceeds the abovementioned limits and therefore is not deductible for tax purposes may be carried forward for the five subsequent periods. The full amount of interest deductible in each of the subsequent periods may not exceed the said limits.

General Anti-Avoidance rules (GAAR)

Yes

Specific Anti-Avoidance rules/Anti

No anti-treaty shopping rules.
## Treaty Shopping Provisions

The participation exemption regime does not apply to dividends arising from hybrid instruments nor to dividends deriving from an arrangement or a series of arrangements which, having been put into place for the main purpose or one of the main purposes of obtaining a tax advantage that defeats the object or purpose of the participation exemption regime, are not genuine having regard to all relevant facts and circumstances. hybrid instruments.

## Advance Ruling system

Yes

## IP / R&D incentives

Tax credit of 32.5 percent of total R&D expenses.

In addition, 50 percent of the increase in R&D expenses relative to the average of the two preceding years is also deductible, up to EUR 1,500,000.

## Other incentives

Incentives on some qualifying investment expenses are available. These incentives correspond to a CIT credit up to 50 percent of the tax due.

Under the Retained Earnings Reinvestment Regime, tax relief is available for small and medium sized enterprises which reinvest their retained earnings in qualifying assets.

## VAT

There are three different VAT rates applicable to taxable transactions performed in Portugal mainland: a reduced rate of 6 percent, an intermediate rate of 13 percent and a standard rate of 23 percent. Regarding the transactions performed in the Autonomous Region of Azores the rates are 5, 10 and 18 percent, respectively. With respect to the transactions located for VAT purposes in the Autonomous Region of Madeira, the rates are 5, 12 and 22 percent.

## Other relevant points of attention

No

Source: Portuguese tax law and local tax administration guidelines, updated 2016.