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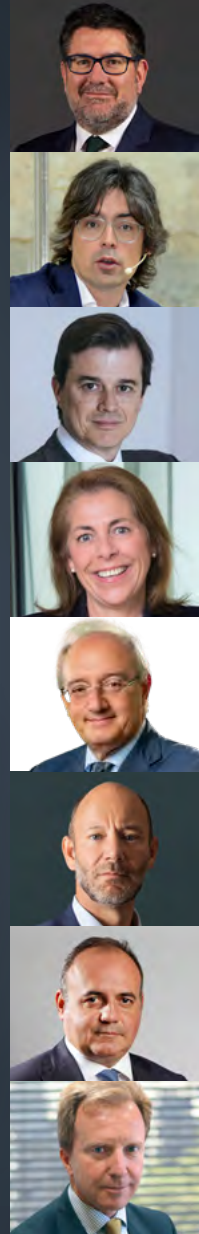
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# PORTUGAL AND ITS AUTONOMOUS REGIONS - A FRIENDLY ECOSYSTEM FOR BUSINESS

by Eduardo Castro Marques  
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**W**hen it comes to finding a country that is highly attractive in terms of tourism, with a good level of hospitality, friendly people and an enviable gastronomy, Portugal will certainly arise in anyone's mind. On the other hand, if the subject is to find an attractive ecosystem for companies, a stable and prosperous economic business fabric, and a fiscally attractive environment, Portugal will not be thought of as a classic example

of this reality. But is this judgement fair?

Portugal covers not only the territory historically defined on the European continent, but also the archipelagos of the Azores and Madeira. Although unified at territorial level, its autonomous regions, as the name indicates, enjoy some special prerogatives, and, as they are considered to be outermost territories, they deserve special treatment under the terms of the Treaty of Amsterdam.

Of great importance to the matter at hand, and in an introductory manner, a company operating in mainland Portugal will be subject, with respect to the Corporate Income Tax (IRC), to a rate of 21% (for SMEs this rate is reduced to 17% over the first € 15,000 of taxable income, and it is important to say that, in both cases, an additional municipal surcharge will eventually be added, which varies from municipality to municipality), and at European level, not being the highest, it will certainly not be the lowest rate, but it will be close - not to say that it will be equal - to the



average corporate income tax in the European Union.

Nevertheless, this scenario will improve exponentially when considering the Autonomous Region of the Azores. Here, the IRC rate is 16.8%, and for SMEs, a 13.6% tax will be applied on the first 15,000 € of taxable income. Certainly these conditions will be left behind when compared with the fiscal conditions offered by other European countries, such as Cyprus (we will not also consider the Isle of Man or Malta), but it will certainly be attractive when compared to the average rate of IRC applicable in European Union countries (currently at 20.9%). And what about the Autonomous

Region of Madeira? The corporate income tax rate applicable to companies operating in this archipelago is of 20%, and for SMEs, a 17% tax will be applied on the first € 15,000 of taxable income. However, this rate is not applicable in the entire territory of the Autonomous Region of Madeira. In fact, companies that are headquartered in the Madeira Free Trade Zone and are licensed at the International Business Center of Madeira (IBCM/CINM) (for this they need to fulfil certain investment and job creation requirements) the applicable IRC rate will be of **5% on the company's income**.

In addition to the above, due to Council Directive 2011/96/EU of 30 November 2011, on

the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, if the company to be headquartered in Mainland Portugal or in one of its Autonomous Regions is held by other parent companies not resident in Portugal, the distribution of dividends from the subsidiary company to the parent company will be subject to a 0% withholding tax, in order to avoid double taxation of that income.

Furthermore, in the payment of capital gains realised in the sale of participations (subject to certain restrictions imposed by Portuguese Law) in companies licensed in the IBCM/CINM, as long as they are paid to entities that are not resident in jurisdictions included in the list of tax havens, this payment will also be exempt from withholding tax in Portugal.

Finally, in both autonomous regions, more tax and financial benefits are being created specifically for the stimulation of business and technological development in the region.

Certainly, this is a superficial analysis of what Portugal has to offer in terms of tax and corporate conditions for the exercise of business activity, but won't this exposure make us rethink the question we previously asked?

In fact, both Mainland Portugal and its Autonomous Regions (being the conditions offered by the latter considerably more attractive) offer highly attractive conditions at the tax level, for the creation of companies and for the development of their activity.





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