

**DOING
BUSINESS
IN**

Portugal



HLB Portugal



**OLIVEIRA,
ASSOCIADOS, SROC, LDA.**

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HLB INTERNATIONAL

Doing Business in Portugal

PREFACE

In the preparation of this booklet we have tried to cover the principal aspects that regulate businesses in Portugal, using, for this purpose, a language accessible to potential investors and business managers.

We are aware that it is not easy to synthesize in a booklet of this nature all the legal, accounting, auditing, tax and labour rules/requirements that regulate businesses in Portugal. However, if we have achieved our goal, contributing, by this way, to business development in Portugal, we will be very satisfied.

This is the fourth edition of this booklet prepared under the responsibility of Oliveira, Reis & Associados, S.R.O.C., Lda..

Our thanks to those who have collaborated with it.

José Vieira dos Reis

International Contact Partner

FOREWORD

This booklet has been prepared for the use of clients, partners and staff of HLB International member firms. It is designed to give some general information to those contemplating **doing business in Portugal** and is not intended to be a comprehensive document. You should consult us therefore, before taking further action. *Oliveira, Reis & Associados, SROC, Lda.* and HLB International cannot be held liable for any action or business decision taken on the basis of information in this booklet.

Oliveira, Reis & Associados, SROC, Lda.
July 2008

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1. INTRODUCTION

a) Location and Climate

Portugal lies immediately west of Spain and its coast is bathed by the Atlantic Ocean, with a total area of 92,142 km². To its west and southwest lie the islands of the Azores and Madeira. The northern and central regions are heavily populated and characterised by rivers, valleys, forests and mountains. The south is less populated and, apart from the rocky backdrop of the Algarve, much flatter and drier.

The lush landscape of the north is rich viticulture country but also features corn, potato and rye. The central and southern regions are less green, yet they support corn, oaks, olive groves, vineyards and orange and fig trees, and are a delight in spring when the almond blossom is in full bloom.

Portugal has a mild welcoming climate. Nonetheless, the difference between the north/south and coast/inland weather is marked. Inland areas have more variable weather than coastal regions. To the south of the Tagus river Mediterranean influences are clear. Long, hot, humid summers and dry, short, relatively mild winters. May–October dry and warm, November–April cool with rain in north, mild in south (though often wet and windy January–March). Temperatures vary between 8 and 28 Celsius (C).

Portugal offers excellent conditions: a unique climate, an extensive choice of leisure & tourism activities.

b) Legal System, Currency, Population and Language

Portugal is a democratic parliamentary republic, ruled by a Constitution, approved in 1976, defined as a semi-presidentialist system, similar to the French one.

The Constitutional System includes the President of the Republic, who represents the Portuguese Republic, the *Assembleia da República* (Parliament), which represents Portuguese citizens, the Government and the Courts of Law, that administers justice in the name of the people and is solely subject to the law and whose decisions are binding for all public and private entities. With the exception of the Law Courts, these sovereign bodies (excepting the Government) are elected by direct, secret and periodic vote, by the people.

The legal system is based on French and German law – a civil law system.

Portugal was a founding member of the UN in 1945, a founding member of NATO in 1949, a member of the Council of Europe since 1976, of the European Union from 1986, and a founding member of the Community of Portuguese Speaking Countries in 1996.

Portugal has diplomatic relations with over 180 countries in all continents and oceans.

The euro is the official currency (divided into 100 centimes). Portugal has a population of approximately 10,569 thousand. The official language is Portuguese; the third most widely spoken European language in the world and the mother tongue to about 200 million people, a considerable number of the citizens of Portugal can communicate easily in English, French and Spanish.

c) Portuguese economic overview

Portugal is an open economy, a feature that has been accentuated over the last few years with the deepening of European economic integration and the increasing internationalisation of the Portuguese economy. In structural terms and in common with its European partners, Portugal has developed an extensive services economy over the past 25 years. Restructuring in the economy covered various sectors - industry, tourism, wholesale & retail and financial services – among others.

Portugal can be classified as a small country with a population earning an income clearly below the European average. The Portuguese productive structure is characterised by a slightly larger share of agriculture and construction and a somewhat smaller share of industry and services in Gross Added Value than the EU-27 average. However, the production structure in Portugal is progressively coming closer to the EU-27 average.

Current Economic situation and outlook

The most recent forecasts by various international organizations point out that the uncertainty created by the mortgage market situations in the United States will lead to economic slackening in that economy and to a lesser extent in the European Economy.

Those adverse effects will affect the Portuguese Economy, namely the foreign demand and private consuming, which will limit a possible and expected acceleration in the overall economy activity.

The outlook for the Portuguese economy points to a continuing recovery of economic activity in the 2008-2009 period, accompanied by a decline in inflation to 2 percent at the end of the horizon. This projection translates into a reduction of the Portuguese economy's net external borrowing requirements, reflecting the reversal of the downward trend of the house holds' saving rate, as well as the continuing reduction in general government borrowing requirements. The current projections are surrounded by greater than usual uncertainty levels and pose clear down side risks to economic activity, which are, essentially, associated with the international economic and financial environment.

Economic Indicators		2002	2003	2004	2005	2006	2007 ^a
Population (b)	'000 inhab	10,366	10,445	10,509	10,563	10,586	10,600
Employment (b)	'000 indiv	5,137	5,118	5,123	5,123	5,159	5,200
Unemployment (b)	'000 indiv	271	342	365	422	428	400
Rate of economic activity (b)	% total pop	52.2	52.3	52.2	52.5	52.8	n.a.
Unemployment rate (b) Portugal	% working pop	5.0	6.3	6.7	7.6	7.7	8.0
Unemployment rate EU27 (c)	% working pop	8.8	9.0	9.0	8.7	7.9	7.6
Overall balance – General Government	% of GDP	-4.1	-5.4	-5.2	-6.0	-3.9	-3.3
Public Debt	% of GDP	55.5	56.8	58.2	63.6	64.8	67.7
Current Account Balance	Million EUR	-10,961	-8,457	-11,112	-14,483	-14,599	-14,159
	% of GDP	-8.1	-6.1	-7.7	-9.7	-9.4	-8.8
HCPI – Portugal	Annual change average	3.7	3.3	2.5	2.1	3.0	2.0
HCPI – EU27 (c)	Annual change average	2.5	2.1	2.3	2.3	2.2	2.3

Source: GEE – Gabinete de Estratégia e Estudos based on INE – Instituto Nacional de Estatística, except otherwise indicated

Notes: (a) OECD forecasts and Economist Intelligence Unit; (b) Employment inquiry (base revision Census 2001)

(c) GEE – Gabinete de Estratégia e Estudos based on European Economy

Exchange rates EUR/USD – Banco de Portugal; n.a. – not available

Following 1.2 per cent growth in 2006, the latest estimates point to a 1.9 percent increase in Gross Domestic Product (GDP) in 2007. The current projection foresees a GDP growth of 2.0 percent in 2008 and 2.3 per cent in 2009, i.e. close to the values projected for the euro area.

Inflation fell consistently during the 90s making Portugal an economic success story. In 1990 Portugal suffered from double digit inflation (13.3%). By the end of the 90s this had fallen to under 3% (2.2% in 1997). The Portuguese Consumer Price Index (CPI) rose on average 2.5% in 2007 when compared with 2006. The CPI recorded an annual rate of change of 2.7% in December 2007. On a monthly basis, the CPI increased 0.1%. The gap between the Portuguese and the Euro-zone 12-month average rate of change is estimated to have decreased to 0.3 p.p. in December 2007.

Unemployment has also fallen significantly in recent years, although it is showing signs of an upturn after 2002. In 1986 (the year when Portugal joined the European Community) unemployment levels were among the highest in the EU. Portugal's 2006 unemployment rate was 7.3%, lower than the EU-25 average of 7.6.

Economic Indicators		2002	2003	2004	2005	2006	2007 ^a
<i>GDP at market prices</i>	Million EUR	135,434	138,582	144,128	148,852	155,131	161,100
	Million USD	128,066	158,764	179,281	185,196	194,783	218,500
	Real change	0.8	-0.7	1.5	0.5	1.3	1.8
<i>GDP per capita</i>	EUR	13,066	13,268	13,715	14,092	14,654	15,204
	USD	12,355	15,008	17,060	17,531	18,400	20,617
<i>GDP per person employed</i>	Nominal change	4.2	2.7	3.9	3.3	3.5	n.a.
<i>Private consumption</i>	Million EUR	85,385	87,822	92,323	96,690	101,000	105,200
	Real change	1.3	-0.1	2.5	2.2	1.1	1.4
<i>Public consumption</i>	Million EUR	27,144	28,129	29,747	31,552	31,965	32,000
	Real change	2.6	0.2	2.6	2.2	-0.5	-1.0
<i>Investment (GFCF)</i>	Million EUR	33,841	31,735	32,581	32,272	32,492	33,800
	% of GDP	25.0	22.9	22.6	21.7	20.9	21.0
	Real change	-3.5	-7.4	0.2	-3.3	-1.6	0.8
<i>GFCF excl. construction</i>	% of GDP	11.6	10.7	10.6	10.2	10.2	n.a.
	Real change	-3.7	-4.9	2.3	-1.9	2.9	n.a.

Source: GEE – Gabinete de Estratégia e Estudos based on INE – Instituto Nacional de Estatística, except otherwise indicated

Notes: (a) OECD forecasts and Economist Intelligence Unit; (b) Employment inquiry (base revision Census 2001)

(c) GEE – Gabinete de Estratégia e Estudos based on European Economy

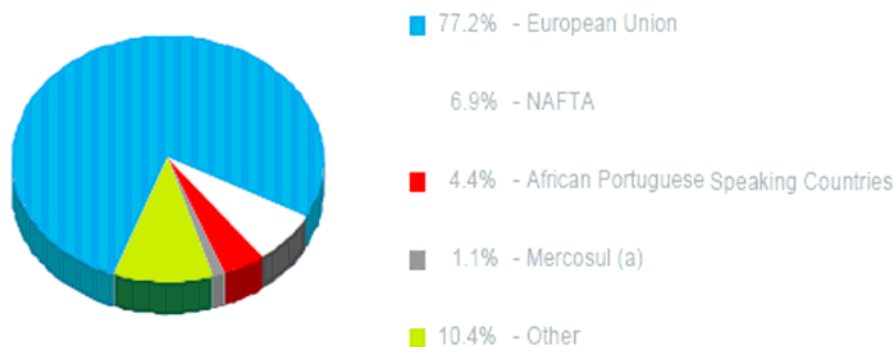
Exchange rates EUR/USD – Banco de Portugal; n.a. – not available

Portugal's International Trade		2001	2002	2003	2004	2005	2006
<i>Goods and Services</i>							
<i>Exports (fob)</i>	Million EUR	37,360	37,879	38,790	40,953	42,427	48,238
<i>Imports (fob)</i>	Million EUR	50,319	49,135	47,874	52,213	53,320	60,402
<i>Balance (fob)</i>	Million EUR	-12,959	-11,256	-9,084	-11,260	-10,893	-12,164
	% of GDP	-10.0	-8.3	-6.6	-7.8	-8.7	-7.8
<i>Goods</i>							
<i>Exports (fob)</i>	Million EUR	26,918	27,398	28,092	29,870	30,710	34,512
<i>Imports (cif)</i>	Million EUR	44,094	42,466	41,754	46,598	49,138	53,100
<i>Balance (fob-cif)</i>	Million EUR	-17,176	-15,068	-13,662	-16,728	-18,428	-18,588
	% of GDP	-13.3	-11.1	-9.9	-11.6	-12.4	-12.0

Source: GEE – Gabinete de Estratégia e Estudos based on INE – Instituto Nacional de Estatística

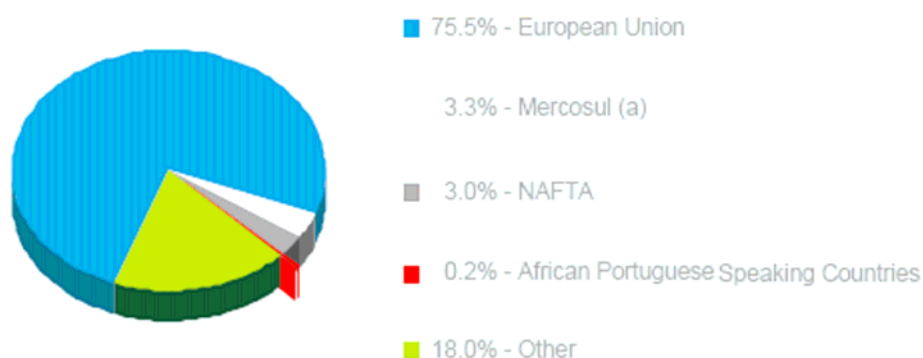
In 2006 Portuguese economic growth was 1.3%, an improvement over the position in previous years. In general the growth profile was impacted by a very positive export performance for goods and services. In 2006 a reduction in the public sector deficit to 3.9% of GDP was highly positive compared to the 6.1% of the previous year. Investment has contracted in recent years but the signs of a recovery were seen early 2007 led by increased investment by companies. Fixed capital formation in 2008-2009 is expected to remain vigorous. In general GDP growth is expected to be 1.8% in 2007, 2.1% in 2008 and 2.3% in 2009.

Geographical Distribution - Exports – 2006



Source: INE – Instituto Nacional de Estatística
 Note: (a) Includes associate members

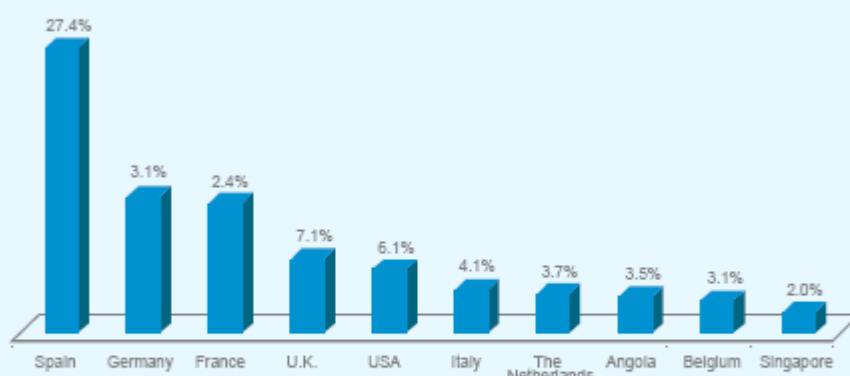
Geographical Distribution - Imports – 2006



Source: INE – Instituto Nacional de Estatística
 Note: (a) Includes associate members

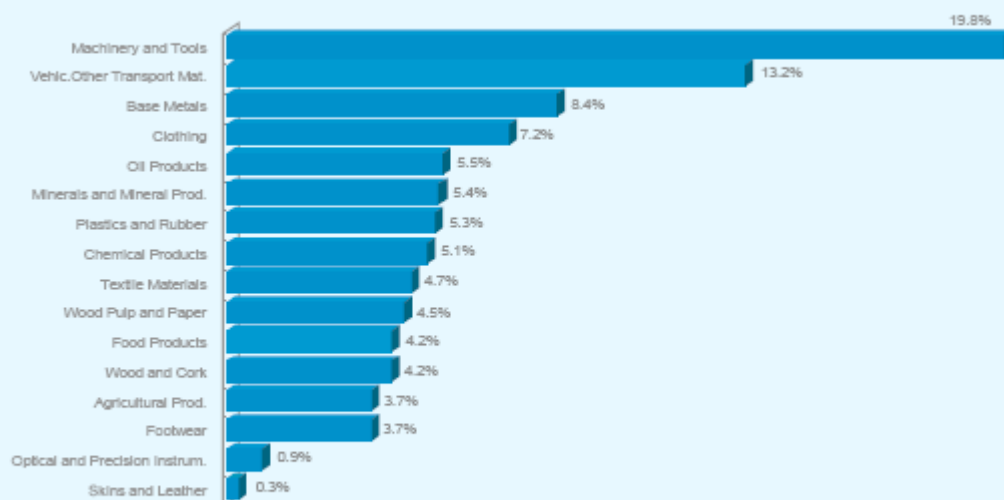
Portuguese international trade has been one of the main growth drivers in the economy despite the chronic balance of trade deficit down the years. In 2006 it was some 7.8% of GDP. In 2006 the domestic economy was marked by a strongly dynamic export performance in goods and services – real growth was 9.1% (8.3% in goods, 11.3% in services). Net external demand added one percentage point to GDP growth and the weight of exported goods and services rose to 31% of GDP. The pace of growth of imported goods and services slowed at the beginning of 2000 as a result of a drop in domestic demand and a cut in import prices; from 2004, it grew again, due above all to high oil prices. In 2006 this component also reflected real growth of 4.2% compared to 2.2% real growth in the previous year.

Trading Partners – Main Clients - 2006



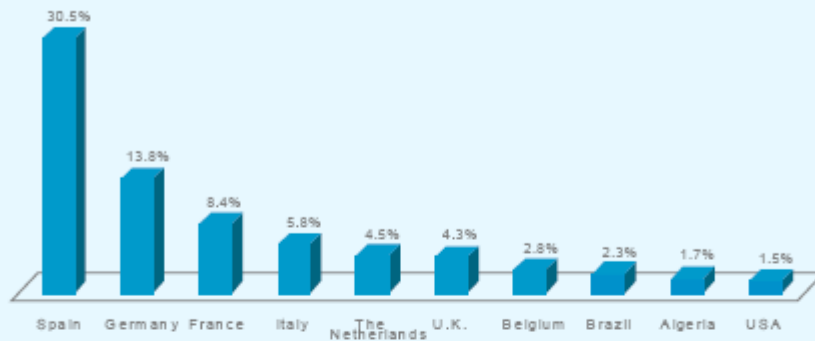
Source: INE – Instituto Nacional de Estatística

Exports – Main Products - 2006



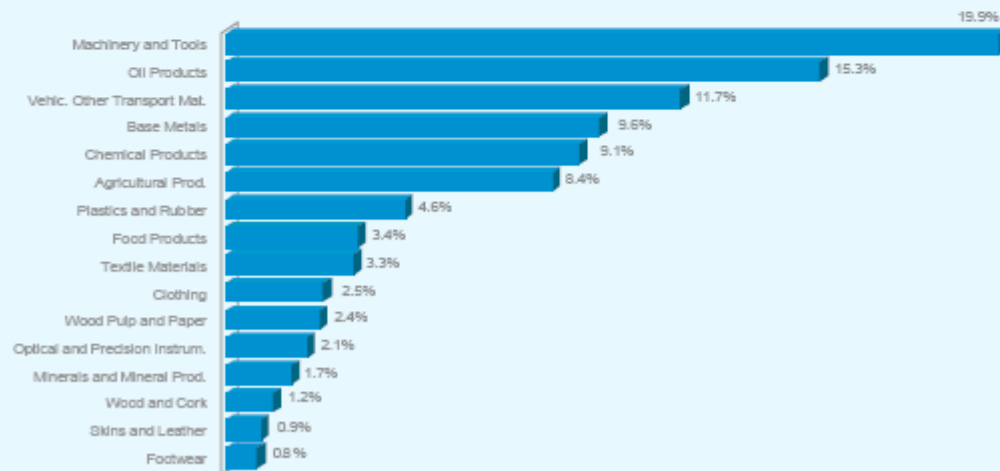
Source: INE - Instituto Nacional de Estatística

Trading Partners – Main Suppliers - 2006



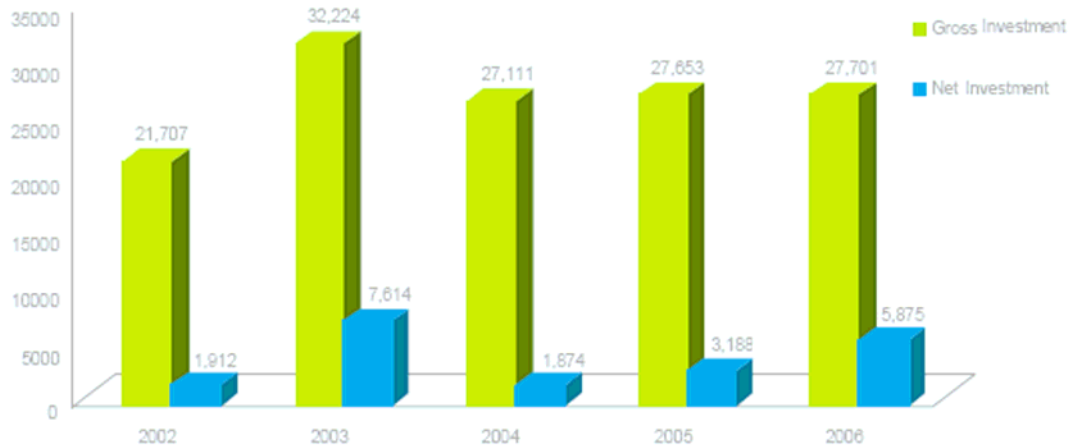
Source: INE – Instituto Nacional de Estadística

Imports – Main Products - 2006



Source: INE – Instituto Nacional de Estadística

Trends in Foreign Direct Investment in Portugal



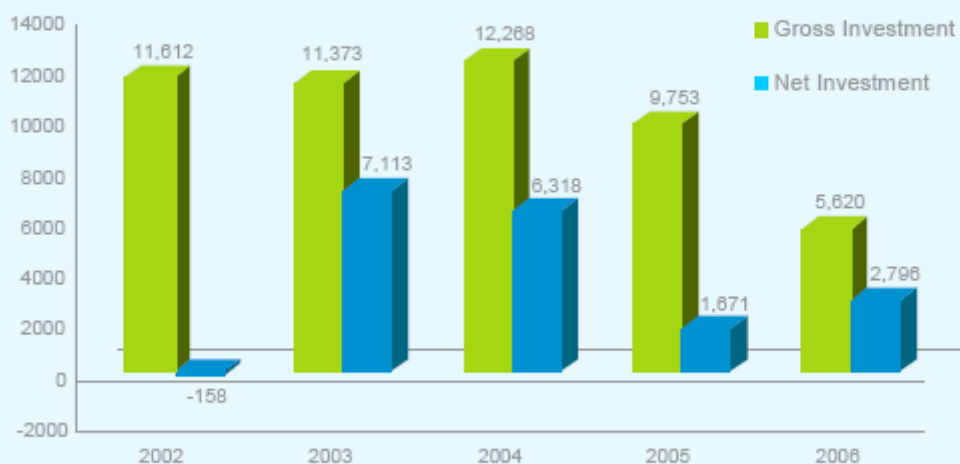
Source: Banco de Portugal (February 2007)
Unit: Million EUR

Over the last five years gross foreign direct investment (FDI) in Portugal has improved in all years except in 2002, essentially due to the international environment. From 2003 the country enjoyed a recovery to above earlier levels. In subsequent years the level of gross FDI stabilized, but over the last three years net FDI grew. The EU is the main origin of foreign capital investment, with Spain in top place in 2004, Germany top ranked in 2005, followed by Spain. In 2006 this was basically unchanged in terms of EU significance.

Switzerland and the USA are the only two countries on the list of major investors in Portugal, outside the EU.

In 2006 manufacturing, wholesale and retail trade, and real estate operations attracted the most of foreign investment, jointly accounting for 78% of total FDI in that year.

Trends in Portuguese Foreign Direct Investment



Source: Banco de Portugal (February 2007)
Unit: Million EUR

In gross terms, Portuguese foreign direct investment abroad (PFDI) increased substantially in the past decade, reflecting the growing involvement of domestic companies in international markets. Since the start of the new millennium 2004 has stood out both in gross and net terms.

As to the last 5 years, the top two destination countries for PFDI in 2002 were EU co-members Spain and the Netherlands and the EU accounted for approximately 81% of total PFDI. Brazil was the third destination, accounting for 9%. Between 2004 and 2006 the European Union position strengthened with Spain, Denmark (only in 2004) and the Netherlands in top positions, followed by Brazil.

In recent years there has been a broader diversification in destinations for Portuguese investment. Apart from Brazil there has been greater focus on the countries of central and Eastern Europe particularly Poland. This reflects a willingness and capacity to develop global PFDI positioning. PFDI in Portuguese-speaking African countries has also expanded, mainly in Angola.

2. INVESTING IN PORTUGAL

a) Foreign investment

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 internationalisation base.

Portugal actively seeks foreign investment, and provides subsidies to many investments. Foreign investment is permitted in all sectors open to private investment. There are no limits on foreign investment, except for certain strategic sectors. Since joining the EU in 1986, Portugal has experienced large increases in both direct and portfolio foreign investment.

The operations of foreign investment are promoted in Portugal by public institutions, nominated by the API – Portuguese Investment Agency.

Foreign investment projects of particular national importance can be covered by a foreign investment contract with the government. Through such contracts financial and tax incentives can be negotiated with the Portuguese government.

b) Government incentives

1. Contractual regime

A contractual regime exists for large investment projects. This empowers the aforementioned Portuguese Investment Agency to discuss a tailored incentives package for each project, fulfilling its case-by-case orientation (explain below).

A foreign promoter can also see the investments projects recognized as PIN projects – Projects of Potential National Interest, or PIN+ (Projects of Potential National Interest classified as being of strategic importance) if the business concerned is established through an intermediary of a branch established in Portugal and complies with the requirements foreseen by the following legislation:

- PIN: Resolution of Council of Ministers nº 95/2005 of 24 May and Regulatory Decree nº8/2005, of 17 August.
- PIN+: Decree-Law nº 185/2007, of 17 August.

II. The National Strategic Reference Framework (QREN)

The main strategic aim of the National Strategic Reference Framework is the qualification of the Portuguese people through an emphasis on knowledge, science, technology and innovation, as well as the promotion of high and sustained levels of economic and socio-cultural development and territorial qualification within a framework of expanding equal opportunities and increasing the efficiency and quality of public institutions.

The incentives earmarked for the National Strategic Reference Framework (NSRF/QREN) 2007-2013 will endeavour to strengthen the business fabric in Portugal. Instruments will focus on strengthening business productivity and competitiveness, as well as their performance in the global market, and will promote new development potential.

III. R&D and Innovation supporting incentives programmes

The Portuguese government is strategically committed to strengthen the country's scientific resources. Some of the upper incentive programmes are intended to increase the country's intellectual capital resources, and apply them to economic and social development activities.

c) Sources of finance

The sources of finance linked with the above mentioned incentive programmes are regulated by a protocol with API and include the following banks:

- BNP Paribas
- Banco Espírito Santo
- Caixa Económica Montepio Geral (CEMG)
- Banco Comercial dos Açores
- Caixa Central - Caixa Central de Crédito Agrícola Mútuo, C.R.L.
- Banco Português de Negócios
- FORTIS BANK
- Caixa Geral de Depósitos, S.A.
- Banco TOTTA & Açores, S.A.
- Banco Comercial Português
- BPI

Investors are free to present their project to any bank of their choice, as long as the bank has signed the above-mentioned protocol. Confidentiality is guaranteed as long as the credit institution is subject to the protocol agreement.

Upon submission of an application, companies must simultaneously submit the relevant documents required by the Banks for the appraisal by the chosen credit institutions. Upon conclusion by API of

the incentives analysis, this is sent to each of the banks in the short-list, with the indication of API's judgement and the estimate value of the incentive. The credit institutions then inform API of their assessment and the operation conditions, if approved.

The project evaluation and analysis by the banks is done in parallel with API's own incentive's evaluation.

d) Offshore facilities

Madeira benefits from a special corporate tax regime, applicable to industrial activities, commercial activities, sea transport, services, excluding financial mediation, insurance and auxiliary activities for financial intercession and centralized administrative services, such as logistics, treasury and distribution centres.

Companies that are to benefit from that special tax regime must comply with one of the following clauses:

- create 1 to 5 jobs, and make a minimum of € 75,000 investment in the acquisition of fixed assets during the first 2 years of operations;
- create 6 or more jobs.

Additionally, companies undertaking industrial activities are entitled to a 50% tax reduction if they fulfil at least two of the following requisites:

- contribute towards the modernization of the regional economy, namely through technological innovation of products/ production processes, or business model innovation;
- contribute towards the diversification of the regional economy, namely through the operation of high value-added activities;
- contribute to the long-term permanence of highly skilled, technically or scientifically specialized human resources in the Madeira region;
- contribute towards the improvement of environmental conditions;
- create at least 15 job posts, maintained for a minimum of 5 years.

e) Foreign exchange controls

Portugal's adherence to the requirements of the European Union Directives has resulted in the progressive liberalisation of foreign exchange controls. This process was effectively completed on December 16, 1992, when the Bank of Portugal (the central bank) announced the lifting of all remaining controls. Travellers carrying € 12,500 or more in foreign banknotes, gold, travellers cheques or bearer securities must declare this to the Portuguese customs authority. The information is collected for statistical purposes and compliance with money-laundering legislation. Portugal does not restrict currency holdings by residents or non-residents, and it does not limit the foreign exchange supply in any way. Residents and non-residents are free to hold deposits in any currency with Portuguese banks.

3. EMPLOYMENT REGULATIONS AND SOCIAL SECURITY CONTRIBUTIONS

Working conditions are well balanced, between employees and employers – particularly with the advent of the new Labour Code approved at the end of 2003, which was completed in 2004, with the release of some new regulations.

Employment legislation is regulated by:

- Law 99/2003, of August 27 – Labour code approval;
- Law 35/2004, of July 29 – Release of Labour regulations in order to complete the Labour code;

The working week is usually 40 hours, although this is flexible, and employees are entitled to 22 to 25 days of annual holiday. Employees in the “dependent” work regime are paid a 13th and a 14th month’s salary, called respectively vacations and Christmas subsidy. These subsidies are not obligatory for other regimes employees.

Nationals of the EU and certain other European Countries can live and work in Portugal without a visa or work permit. Non-EU nationals require a visa to enter Portugal if they plan to stay longer than 90 days or intend to work or study here. Visas should be applied for well in advance, from a Portuguese consulate or embassy in your home country.

All employees and foreign property owners require a tax card and a fiscal number, which can be obtained at the local tax office.

The fiscal number must be quoted in all tax dealings.

Portugal has a monthly "Pay As You Earn" system of income tax with rates from 0 to 32.5 per cent and a final progressive tax rate that varies from 10.5 to 42 per cent. Individuals living in Portugal are taxed on their world-wide income, and non-residents must pay tax on income received in Portugal, e.g. letting income. All employees make mandatory monthly contributions to the Portuguese social security system of around 11 per cent of their gross monthly salary.

Social Security is paid in part by the employer and in part by the employee. The employee's contribution is withheld at source as per the following table:

Regime		Employee	Employer
General regime	Employees (dependent work)	11%	23.75%
	Members of the management body of a company or any other legal entity (a)	10%	21.25%
Self-employed	Self-employed workers under the minimum (mandatory) protection scheme (b)	25.4%	-
	Self-employed workers under the enlarged protection scheme (b)	32%	-

(a) The amount of the social security contributions is limited to 12 times the monthly national minimum wage (€ 403 x 12 =€ 4,836).

(b) The base shall be determined by the individual, between a minimum € 403 (monthly national minimum wage) and € 4,836 (12 X the monthly national minimum wage).

4. TYPES OF BUSINESS ORGANISATIONS

a) Principal types of companies

The most frequently adopted company structures are the Private Limited Company (*Limitada*), the Individual Company (*Unipessoal*) and Corporations (*Sociedades Anónimas*). But there are certain types of companies which are regulated outside Portuguese Commercial Company Law. Among such companies are Pure Holding Companies and Public Companies.

The Private Limited Company is the most frequent option for small and medium sized enterprises. Share capital is divided into quotas whose holders are jointly liable for paying the company capital and liable for the total amount of share equity. In case of debt or bankruptcy, only the company's assets can be used to pay creditors. The trade name must have the word "*Limitada*" (Lda.). The Commercial Company Law requires a minimum of two persons or legal entities to create a Private Limited Company and the minimum capital is € 5,000 divided into quotas with a value of no less than € 100 each, i.e. no less than 2% of the share equity. Transferring a stake in a Private Limited Company can be done by a private deed, except when such transfer occurs as part of a judicial procedure. A stake cannot be transferred without prior consent of the company by a general meeting resolution, except where the transfer is in favour of a spouse, ascendant or descendant or between shareholders.

Shareholders can introduce into the Articles of Incorporation certain limitations regarding the transmission of shares or specific requirements to obtain the company's consent, or even forbidding the transfer of quotas.

The management of the company is attributed to one or more directors, who may or may not be shareholders. They must be private individuals. If a legal entity is elected as a director it must nominate an individual to represent it.

Auditing is optional for a Limited company. However, Private Limited companies that do not have an Auditing Board are required to appoint a qualified auditor (*Revisor Oficial de Contas*) if two of

the following three limits are surpassed for two consecutive years:

Total net assets	€ 1,500,000
Total of net sales and other profits	€ 3,000,000
Number of employees	50

The Individual Stakeholder Company is a form of Private Limited Company, which is either incorporated from the beginning by a single shareholder or, an ordinary Private Limited Company which is subsequently transformed into a single shareholder company by concentrating all the capital in a single shareholder irrespective of the form and motive for such action.

For a Corporation (Sociedade Anónima) to become a legal entity, the Commercial Company Law requires the existence of at least five shareholders. The minimum share capital required is € 50,000, divided into shares with a value no less than one cent of a Euro each. Purchase and sale contracts executed in order to transfer shares are not subject to any specific contractual form.

In accordance with the Portuguese Commercial Company Law, corporations must adopt one of three management systems:

- An unitary system, which consists of a *Conselho de Administração* (Board of Directors) or, in certain cases, a single Director, overseen by a *Conselho Fiscal* or *Fiscal Único* (Audit Committee or Individual Qualified Auditor);
- A system in which management powers are shared between a Board of Directors (*Conselho de Administração*), in this case more than one Director is necessary, including an audit *commission*, overseen by an individual qualified auditor; or
- A system in which management power is shared between an Executive Board of directors, an Advisory and Supervisory Board (*Conselho Geral e de Supervisão*) overseen by an individual qualified auditor.

Corporations are required to nominate an Audit Committee, an individual auditor or an Audit Committee and an individual qualified auditor jointly. The Audit Committee must have at minimum three full members and one or two alternate members. In case of more than three full members must have at least two alternate members. One of the members must be a qualified auditor (*Revisor Oficial de Contas*) or an auditing firm (called *Sociedade de Revisores Oficiais de Contas*), but cannot be a shareholder.

If the corporation nominates an individual auditor, it must also nominate an alternate auditor. Each must be a qualified auditor or an auditing firm.

In case of a corporation with securities listed on a Stock Exchange it must have an Audit Committee and an individual qualified auditor jointly.

The Audit Committee/individual auditor has the power to:

- to oversee the managing body's activities as well as the company's books and accounts,
- to deliver an opinion on the management's annual report and,
- to report on the company's books and accounts for tax and administrative authorities.

The individual auditor is nominated by the General Meeting and must be either a qualified auditor or an auditing firm. The individual auditor's powers and duties are the same as the Audit Committee in the unitary management system.

Pure Holding Companies or SGPS are companies whose object is individually the holding and

managing of shareholdings, and are regulated by Decree-Law 495/88, of 30th December 1988, as amended. Only holdings of over 10% of share capital in a company that a *SGPS* invests in, and which are held for more than one year, can be considered to be incorporated within the *SGPS*.

SGPS companies can only hold less than 10% of the share capital in a particular company they invest in, under the following circumstances:

- a) where the total amount of such holdings does not exceed 30% of the total amount of the holdings mentioned in the item above; or
- b) where each one of them was acquired for no less than 4,987,978.97 euros; or
- c) where the acquisition followed a merger or demerger of those companies; or
- d) where the acquisition was effected by a company which concluded an agreement with the holding company whereby it is managed in accordance with the instructions given by the latter.

These companies cannot dispose of, or encumber investments before a year after acquisition, except where acquired by exchange or where the respective capital gains are reinvested within 6 months. They cannot own immovable assets except for their own premises. *SGPS* companies are only allowed to grant loans to companies in which they invest.

Public Companies ("Sociedades Abertas") are corporations quoted on the stock exchange, participated by public investors, and listed on the Stock Exchange, whose shares were subject to an IPO on the Stock Exchange. The principal set of laws that regulate these entities are contained in the Portuguese Commercial Company Law, but public companies must also respect specific regulations included in mainly in Securities Code, Decree-Law 486/99 of 13th November 1999 (with amendments).

b) Legal steps to set up a company in Portugal

The legislation concerning the incorporation of companies allows the possibility of applying the special regime for immediate business incorporation (*On the spot company*), at the appropriate office (*Centro de Formalidades de Empresas/Conservatória do Registo Comercial*). Within this regime no prior documents are required and the whole process will be performed in one office only.

However, the following rules have to be complied with:

Define company's principal activity & corporate name

The application for a corporate name must meet the following requirements:

- The proposed corporate name and two other alternative corporate names must be indicated;
- The corporate name:
 - must reflect the activities that the company intends to perform;
 - cannot be misleading regarding the activities it proposes to undertake;
 - cannot be confused with another corporate name already registered with the Registry.

All registered names benefit from the exclusivity principle in Portuguese territory.

Application form of the company's starting activity

After the conclusion of the previous process it is necessary to register the company's starting activity at the local Tax Office (*DGCI - Direcção-Geral dos Impostos*). This form must be signed by the firm's responsible accountant.

Special situation

An official auditor's report is required whenever equity has been formed or increased in specie, by transfer of assets from a shareholder.

For special situations it is necessary to comply with the specific regulations, for example, for the setting up of Banking or Insurance entities.

c) Constitution costs

The total costs for a company's start up and registration (fees payable to the registry) are approximately €400.

d) Legal, Accounting and Audit requirements

The legal accounting requirements as to what is required to be stated in financial statements, follow the requirements established by the Portuguese Accounting Plan's (Commercial, Banking and Insurance activities) and by Supervisory entities like the Accounting Normalisation Commission, the Portuguese Central Bank or the Portuguese Securities Market Commission, and concern in general terms the presentation and disclosure of the following documents:

- Management report;
- Financial statements¹:
 - Balance sheet;
 - Profit and Loss account;
 - Cash-flow statement;
 - Notes to the financial statements.
- Other disclosure documents:
 - Statutory Auditor's report;
 - Report of the Audit Committee or Individual Statutory Auditor;
 - External Auditor report;
 - Management letter summarising the conclusions of the Statutory Auditor's procedures.

Portuguese Commercial Company Law establishes that the management report, the financial statements and the other documents should be presented and considered by the respective body within 3 months after the close of the accounting year or within 5 months if consolidated accounts are presented.

The management report, the financial statements and the other documents, including the statutory audit report/external auditor report, after being approved by the respective body, have to be registered with the Commercial Registry.

The audit requirements have been addressed in a) when the principal types of companies were presented. The audit of annual accounts consists of the review and verification of the accounting records and documents, in order to determine whether they give a true and fair view of the company's financial position.

e) The Portuguese Institute for Statutory Auditors

The Portuguese Institute for Statutory Auditors (*Ordem dos Revisores Oficiais de Contas*) regulates the statutory audit profession in Portugal. According to the legal regime for Statutory Auditors, their functions divide themselves into:

- Public interest functions (statutory audits, audits and related services); and
- Non-public interest functions (Consultancy and teaching).

The Portuguese Institute for Statutory Auditors jurisdiction is:

- a) To exercise jurisdiction over all that relates to the activity of statutory auditing and the audit of accounts and the provision of related services to companies or other entities, in accordance with the technical standards approved or recognised by it;
- b) To safeguard the social function, dignity and prestige of the profession, to foster respect for the respective ethics and code of conduct, and to defend the interests, rights and prerogatives of its members;
- c) To promote and contribute to the advancement and professional training of its

¹ Listed companies must apply international accounting standards (IAS/IFRS) in the presentation of their financial statements, starting 2005.

- members;
- d) To exercise disciplinary jurisdiction over all its members;
 - e) To promote and support the creation of complementary social security schemes for the benefit of statutory auditors, and to monitor the functioning thereof;
 - f) To propose to the relevant authorities measures relating to the defence of the profession, the function of statutory auditors and their professional and moral interests;
 - g) To create, join, associate itself or participate in the capital of entities, national or foreign, and to collaborate therewith, with a view to the conduct and furtherance of studies, research, training schemes and other work which promote the streamlining and dissemination of the principles, concepts and standards of accounting and the statutory audit/audit of accounts;
 - h) In liaison with standard-setting bodies, to recommend to the government the regulation of accounting matters which are conducive to rendering the statutory audit/audit of accounts more efficient;
 - i) To exercise jurisdiction over all matters relating to examinations, practical experience contracts and enrolment;
 - j) To collaborate with the government in streamlining the statutory audit/audit of State-enterprise and administrative-sector companies and entities;
 - k) To prescribe the principles and norms of the code of professional ethics and conduct;
 - l) To expound the standards and technical procedures for professional conduct, taking into consideration international standards;
 - m) To discipline the consultancy work undertaken by its members in those areas which form part of the examination programme for admission to the Institute;
 - n) To promote the publication of a journal with the object of providing scientific, technical and cultural information;
 - o) To certify, whenever called upon to do so, that statutory auditors carry out in full their professional duties in accordance with this enactment;
 - p) To exercise all other functions which are attributed to it by this enactment and by any other legal decrees.

The statutory audit process

In those companies or other entities where there is a supervisory body, the statutory audit process is carried out by way of the inclusion of statutory auditors in that body or, where such is the case, by the exercise of the functions of a individual qualified auditor or of a statutory audit body, in accordance with applicable legal provisions.

Where there is no internal supervisory body, the statutory audit process is performed in accordance with prevailing legislation, in which case the provisions relating to companies or other entities having such a body shall apply, mutatis mutandis, to the statutory audit process and to the statutory auditors.

The carrying out of a statutory audit implies that the statutory auditors are subject to the range of powers and duties attributed to the other members of the internal supervisory body of companies or other entities or to the body itself, without prejudice to its own status.

In the case of those companies or other entities subject to the statutory audit requirement, the issue of a statutory audit report is mandatory, such a report to be issued solely by the statutory auditors who exercise the aforesaid function.

The statutory audit report

Flowing from the conduct of a statutory audit or, whenever as a result of the personal and independent involvement of statutory auditors acting in terms of the law, they are required to give an opinion or report on specific acts or facts relating to assets and liabilities which involve the examination of the accounts of companies or other entities, a statutory audit report must be issued, with the adaptations which prove to be necessary.

The statutory audit report expresses the statutory auditor's opinion that the financial statements present, or do not present, a true and fair view of a company's or other entity's financial position, as well as the results of its operations, with respect to the date and the period to which such financial statements relate.

The statutory audit report ends with a qualified or unqualified opinion, the disclaimer of an opinion, an adverse opinion, and with or without an emphasis paragraph, in conformity with the forms prescribed in the technical standards approved or recognised by the Institute.

Where there is a complete or significant lack of audit evidence or material, or the suppression thereof, the statutory auditor must issue a statement declaring that it is not possible to give an opinion on the accounts.

The statutory audit report and the opinion disclaimer are subject to the rules governing the right to information, registration and publication in terms of the respective legislation.

The statutory audit report, in any of its forms, as well as the opinion disclaimer, is treated as having "public faith" (it can not be questioned), and can only be refuted by way of legal proceedings instituted on the grounds of an alleged falsehood.

Legal proceedings for proving the incorrectness of a statutory audit report or an opinion disclaimer must be instituted within a period of 120 days commencing on the date of their legal filing at the relevant registry or, when obligatory, on the date of their publication in the *Diário da República* or in any other publication constituting a legal substitute therefore, together with the accounts to which they relate, or moreover, if this occurs earlier, from the date of knowledge of its contents by whatever means.

Audit of accounts

Flowing from the audit of accounts, whether such audit is imposed by the company's statutes or by a contract, an audit opinion shall be issued on the financial statements examined, such opinion to comply with the technical standards approved or recognised by the Institute.

Related services

Flowing from the provision of services related to the statutory audit or audit of accounts, a report must be issued, where such is the case, describing the nature and extent of the work carried out, and the respective conclusion, in compliance with the technical standards approved or recognised by the Institute.

Audit standards

The audit standards in place are the ones published by the Portuguese Institute for Statutory Auditors. Following the European Union action plan on statutory audit, the above mentioned standards will be adapted, whenever necessary, to the International Standards on Auditing (ISA's).

5. TAXATION

The current Portuguese Tax System was adopted in the 1980s to synchronize national legislation with the various directives of the EU which affect taxation.

The tax system presently in force is based on a set of state and local taxes levied on income, net wealth and expenditure, in addition to other taxes imposed on certain particular deeds or situations.

The most important current taxes are:

- a) **Corporate Income Tax (IRC)**, regulated by the Corporate Income Tax Code, as enacted by Decree-Law 442-B/88, of 30th November 1988, as amended;
- b) **Personal Income Tax (IRS)**, regulated by the Individual Income Tax Code, as enacted by Decree-Law 442-A/88, of 30th November 1988, as amended;
- c) **Value Added TAX (VAT)**, regulated by the Value Added Tax Code, as enacted by Decree Law 394-B/84, of 26th December 1984, as amended;
- d) **Tax on property**, regulated by the Property Transfer Tax Code and the Municipal Immovable Asset Tax, both approved by the Decree-Law 287/2003, of 12th November;
- e) **Stamp duty**, regulated by Law 150/1999, of 11th September 1999, (Stamp Duty Code), as amended.

a) **Corporate Income Tax (IRC)**

Corporate Income Tax is regulated by the Corporate Income Tax Code (*IRC Code*), with subsequent amendments, and applies to income and capital gains earned by companies in Portugal.

Under applicable provisions of the *IRC Code* the following entities are subject to Portuguese Corporate Income Tax:

- Companies and other legal entities with their registered office or an effective place of management in Portugal whose main activities are carried out in commercial, industrial, or agricultural areas;
- Companies and other legal entities with head offices or an effective place of management in Portugal which carry out activities in commercial, industrial or agricultural areas by way of ancillary activities;
- Legal entities which do not have their registered office or an effective place of management in Portugal but have a branch or a permanent residence in Portugal;
- Entities without either registered offices or an effective place of management or a permanent establishment in Portugal, which earn income and/or capital gains, considered

to arise from a Portuguese source.

Concept of Permanent Residence

An entity is considered to have a permanent establishment in Portugal whenever it engages in commercial, industrial or agricultural activities through:

- Fixed premises located therein, namely a place of management, branch, office, factory or workshop or natural resource extraction site (mine or oil derrick) or a construction site or an assembly plant, if the construction site or the assembly plant lasts for more than six months;
- An employee or an agent engaged ad hoc empowered to negotiate and conclude any contracts on behalf of and the interest of that entity, unless such an agent is a self-employed or liberal professional acting within his normal professional activities.

Period of assessment

IRC is, in general terms, assessed over a period equal to a financial year, which matches the calendar year. However, a financial year other than the set calendar year can be adopted in the cases of:

- Resident entities that are subject, in legal terms, to consolidation;
- Non-resident entities with a permanent establishment in Portugal;
- A resident entity under permission by the Minister of Finance, if this is justified for economic reasons.

In any of the above mentioned cases, the entity must use the adopted financial year for a minimum five-year period.

Taxable Income

1. Companies and legal entities with head offices or effective management located in Portugal are subject to tax on income arising on a world-wide basis.
2. Companies and legal entities, which do not have their head offices or effective place of management in Portugal but have a branch or permanent establishment in Portugal, are subject to tax on income and capital gains attributed to the activities of such branch or permanent establishment.
3. Companies and legal entities that do not have their head offices, or effective place of management or permanent establishment in Portugal are subject to tax on income considered to have been earned in Portugal.

Tax assessment

Corporate income tax is applied by two assessments methods: The *Simplified Assessment Method* (Regime Simplificado) and the *Organized Accounting Method* (Regime Geral).

Simplified Assessment method

The Simplified Assessment system applies to resident entities which have not opted for the Organized Accounting method, whose main activities are of a commercial, industrial or agricultural nature, as long as they:

- Are not exempt from IRC;
- Do not benefit from a special IRC taxation regime;
- Are not legally required to have *external audit statutory*;
- Have a total annual net sales lower than € 149,639.37;

In this system, taxable income is determined through the application of a 0.20 coefficient to sales and of a 0.45 coefficient to all other types of income. Note that the taxable income hereby determined cannot be lower than the yearly national minimum wage. Under this system, entities cannot deduct any tax credits arising from double taxation on income obtained outside Portugal.

Organized Accounting

Taxable income is determined on a net accounting profits basis, as adjusted for allowable expenses and any profits or gains that may not be taxable, as well as for tax credits arising from double taxation on income obtained outside Portugal.

IRC general rates

Resident entities or branches of non-resident entities whose main activity is of a commercial, industrial or agricultural nature have, nowadays, a rate of 25%.

According with draft State Budget Law for 2009, recently submitted to Portugal's Parliament, a reduced corporate income tax rate of 12.5% will apply to a taxable base of up to € 12.500. The 25% standard rate will continue to apply to taxable income above this threshold.

To combat desertification in the interior of Portugal, the government has allocated some tax benefits to companies located in those zones, such as a reduction of the IRC rate. These benefits will be maintained during 2008.

For the following types of income there are withholding taxes: royalties (if received by the original owner); technical assistance; commissions; provision of services considered to be made in Portugal, with the exception of transport, communications and financial activities; share dividends; interest on bank deposits; government bonds; return on fixed asset sales; rental income; income arising from swap operations, assignment of credits, securities for portfolio accounts with guaranty of price and other similar operations; redemption of life insurance policies; interest on the lease of agricultural or industrial equipment.

We call your attention to the autonomous (taxation independent of Corporate Income Tax) taxation of certain expenses:

Costs	Tax
Confidential expenses or non documented expenses	50% or 70% ⁽¹⁾
Representation expenses, travel allowances and self car transportation costs	5%
Passenger and commercial car, when cars expenses, cost over € 40,000 and companies had losses in the 2 last years	15%
Dividends paid by entities subject to IRC to entities total or partially exempt from IRC, whenever shares are held for less than one year	20%
Payments to residents of tax havens ⁽²⁾	35% or 55% ⁽¹⁾

(1) The highest rate is applicable only to companies that are totally or partially exempt from corporate tax and whose main activity is not of a commercial, industrial, or agricultural nature.

(2) Unless the taxpayer is able to prove that those payments correspond to real operations in normal conditions and the amounts paid are reasonable.

Special payment on account

The amount of the special payment on account is assessed with reference to the difference between 1% of the annual turnover (which corresponds to the amount of the sales and services rendered) of the previous tax year – with a minimum limit of € 1,250 and, when higher, it corresponds to that limit plus 20% of the excess, which cannot exceed € 70,000 – and the payments on account made in that previous tax year.

Some specific rules for the assessment of the special payment on account are provided for several sectors, namely re-sale of fuel and tobacco. Also, certain taxpayers are exempt from the special payment on account.

Corporate Tax (IRC) main benefits

Benefit	Description of the benefit
Contracted investments	Productive unit investment projects realized until December 2010, in an amount equal to or higher than € 4,987,978.97 (or € 249,398.95, in case of FDI), considered as of strategic national interest, may benefit from contracted tax benefits for a 10 years period.
Employment Tax Incentive	For a period of five years after the beginning of the employment contract, 150% of the costs related to the net increase in jobs for individuals aged between 16 and 30 years of age may be deducted from the taxable income. The maximum amount of the annual increase on deductible costs for each eligible employee is 14 times the highest national minimum wage. This benefit is extended to long-term unemployed (i.e., people that have been registered as such for, at least, 12 months prior to being hired). This tax benefit is not cumulative with other employee-related tax benefits or incentives applicable to the same person.

Benefit	Description of the benefit
Financial activity carried out in the Madeira and Santa Maria Free Zones	<p>New companies licensed to carry on business there between 1 January 2007 and 31 December 2013 in the Free Zone will benefit from a reduced tax rate of 3% in 2007-2009, 4% in 2010-2012 and 5% in 2013-2020.</p> <p>Access to the scheme is restricted to companies which meet specific eligibility criteria, based on the number of permanent jobs created. The tax benefits are limited by a ceiling placed on the taxable base per company which ranges from EUR2 million (where less than three new jobs are created) to EUR150 million (where more than 100 new jobs are created).</p> <p>The companies involved will have to start business within a fixed time limit (six months in the case of international services, and one year in the case of industrial or shipping activities), beyond which they will lose their licences.</p> <p>Admission to the Free Trade Zone is also restricted to the activities included in a list drawn up by the Portuguese authorities on the basis of the statistical classification of economic activities in the EU.</p> <p>As under the previous scheme, detailed above, and authorised by the Commission on 11th December 2002, financial and insurance intermediary activities, financial and insurance auxiliary activities and "intra-group services" (coordination, accounting and distribution centres) are explicitly excluded.</p>
Pension Funds and similar Funds	<p>Exemption from Corporate Tax, Municipal Property Transfer Tax (IMT) and Stamp Tax.</p>
Retirement Savings Funds (FPRs), Education Funds (PPE) and Retirement/Savings Funds (PPR/E)	<p>Exemption from Corporate Tax, Municipal Property Transfer Tax (IMT) and Stamp Tax.</p>
Shares Savings Funds	<p>Exemption from Corporate Tax and Stamp Tax.</p>
Shares and other securities sold by non-residents	<p>The capital gains resulting from the disposal of shares, other securities, <i>bearer</i> warrants issued by residents and financial derivatives issued in a regulated stock-market, are exempt if made by non-resident entities without a permanent establishment in Portugal, unless:</p> <ul style="list-style-type: none"> • the non-resident entity without a permanent establishment in Portuguese territory is owned by resident entities in more than 25% directly or indirectly; • the non-resident recipient without a permanent establishment in Portuguese territory is resident in a listed tax haven; • in case of capital gains relate to shares or capital participations in companies resident in Portugal if more than 50% of the company's assets consist of Portuguese real estate or relate to shares in a Portuguese holding company that controls such a Portuguese property company.
Interior tax incentives	<p>Only applicable to entities whose main activity is located in some designated areas, which occurs when the taxpayers' headquarters or effective direction is located in those areas, more than 75% of its salaries are concentrated there and when their taxable income is computed by the simplified corporate tax regime.</p> <p>Possibility of benefiting from:</p> <ul style="list-style-type: none"> • Corporate tax rate reduced to 20% (in cases where <i>Organized Accounting Method</i> applies) or 15% (in cases where <i>Simplified Regime</i> applies) if, among other requirements, they have their tax affairs in good order. • Depreciation of investment expenses can be taken up to 130% of its value, except in the cases of expenses related to the acquisition of land, property and passenger vehicles. • Exemption from Property Transfer Tax (IMT) on the acquisition of buildings or parts thereof only when used on a permanent basis in the taxpayer's main activities and located in the designated areas. • In cases of a net job increase the expenses connected with social security contributions borne by the employer are considered as 150% of their value. • In cases of a net job increase, the first three years of legally binding employment contracts without a fixed expiry date, are exempt from contributions to the Social Security.

Double Taxation Treaties

Portugal has signed double tax treaty conventions with a number of countries to avoid the double taxation of income. A chart listing the double tax treaties currently in force as well as the maximum withholding tax rates provided for in each of the treaties is set out below:

COUNTRIES	DATE RATIFIED	RATES		
		DIVIDENDS	INTEREST	ROYALTIES
AUSTRIA	1971	15%	10%	5% ^{b)} 10% ^{c)}
ALGERIA	2006	10% ^{c)} 15%	15%	10%
BELGIUM	1970	15%	15%	10%
BRAZIL	2001	10% ^{c)} 15%	15%	15%
BULGARIA	1996	10% ^{c)} 15%	10%	10%
CANADA	2000	10% ^{c)} 15%	10%	10%
CAPE VERDE	2000	10%	10%	10%
CHILE (1)	---	10% ^{c)} 15%	5% ⁱ⁾ 10% ^{j)}	5% ⁱ⁾ 10%
CHINA	2000	10%	10%	10%
CUBA	2001	5% ^{d)} 10%	10%	5%
CZECH REPUBLIC	1997	10% ^{c)} 15%	10%	10%
DENMARK	2002	10%	10%	10%
ESTONIA	2004	10%	10%	10%
FINLAND	1970	10% ^{d)} 15%	15%	10%
FRANCE	1971	15%	10% ^{g)} 12%	5%
GERMANY	1982	15%	10% ^{a)} 15%	10%
GREECE	2002	15%	15%	10%
HUNGARY	1999	10% ^{c)} 15%	10%	10%
ICELAND	2002	10% ^{c)} 15%	10%	10%
INDIA	2000	10% ^{c)} 15%	10%	10%
INDONESIA (1)	---	10%	10%	10%
IRELAND	1994	15%	15%	10%
ISRAEL	---	5% 10% 15%	10%	10%
ITALY	1982	15%	15%	12%
LATVIA	2003	10%	10%	10%
LITHUANIA	2003	10%	10%	10%
LUXEMBOURG	2000	15%	10% ^{f)} 15%	10%
MACAO	1999	10%	10%	10%

COUNTRIES	DATE RATIFIED	RATES		
		DIVIDENDS	INTEREST	ROYALTIES
MALTA	2002	10% ^{c)} 15%	10%	10%
MEXICO	2000	10%	10%	10%
MOROCCO	1998	10% ^{c)} 15%	12%	10%
MOZAMBIQUE	1992	15%	10%	10%
NORWAY	1970	10% ^{d)} 15%	15%	10%
PAKISTAN	2003	10% ^{c)} 15%	10%	10%
POLAND	1997	10% ^{c)} 15%	10%	10%
ROMANIA	1999	10% ^{c)} 15%	10%	10%
RUSSIA	2002	10% ^{c)} 15%	10%	10%
SINGAPORE	2000	10%	10%	10%
SLOVAKIA	2004	10% ^{c)} 15%	10%	10%
SLOVENIA	2004	5% ^{d)} 15%	10%	5%
SOUTH KOREA	1997	10% ^{c)} 15%	15%	10%
SPAIN	1995	10% ^{d)} 15%	15%	5%
SWEDEN	2003	10%	10%	10%
SWITZERLAND	1974	10% ^{d)} 15%	10%	5%
THE NETHERLANDS	2000	10%	10%	10%
TUNISIA	2000	15%	15%	10%
TURKEY	2007	5% ^{c)} 15%	10% ^{h)} 15%	10%
UKRAINE	2002	10% ^{c)} 15%	10% ⁱ⁾	10%
UNITED KINGDOM	1968	10% ^{c)} 15%	10%	5%
UNITED STATES OF AMERICA	1995	5% ^{c)} 15%	10%	10%
VENEZUELA	1997	10%	10%	10% ^{e)} 12%

- (1) Not yet in force;
a) If paid by banking entities;
b) Where a company holds 50% or more of the share capital;
c) Where a company holds 25% or more of the share capital for more than 2 years consecutively;
d) Where a company holds 25% or more of the share capital;
e) For the supply of technical assistance services;
f) If paid by companies to financial entities;
g) In respect of debentures issued in France after 1st January 1965;
h) Loans conceded for more than 2 years;
i) Bond and stock interest
j) Bank and assurance company loans; Equipment credit sales;
k) Loan of equipment;

b) **Personal Income Tax (IRS)**

Personal Income Tax is due on the worldwide income received by individuals residing in Portugal as well as on the income received or considered to have been received in Portugal by non-resident individuals.

The *IRS* Code considers as resident the following individuals with respect to the year in which the taxable income was obtained:

- Individuals who spend more than 183 days consecutively or non consecutively in Portugal or remain there for a lesser period but keep a residence in the same country on 31st December of the same year that demonstrates the intention of maintaining a regular domicile there;
- Crew members of vessels or aircraft used by entities with head offices or effective place of management in Portugal, if the head office hold an effective place of management in Portugal as at 31st December of the same year;
- Individuals who, although being abroad, are employed by the Portuguese State;
- A member of the same family if the head of the family is a Portuguese resident, except when the spouse spends less than 183 days in Portugal and proves the inexistence of relationship between her main economic activities and in Portuguese territory;
- Portuguese citizens who change their residency to a State with a more favorable tax regime (listed on a table issued by the Portuguese tax authorities).

Categories of taxable income

Individual Income Tax applies to, and is due in accordance with, the categories of income set out in the table below:

Categories of income	Type of income
A.	Dependent employment (covers all earnings and certain fringe benefits earned by employees)
B.	Business Activities and Supply of Services (covers earnings arising from commercial or industrial activities and/or from the supply of services)
E.	Capital income (covers remuneration paid by way of interest on capital investments, loans or bank deposits as well as share dividends)
F.	Property income (covers income arising from property lease or rental)
G.	Capital and other gains (covers capital gains, compensation awards and gambling, lotteries or raffle prizes)
H.	Pensions (covers retirement and disability pensions)

Tax on individual income is assessed in four steps:

1. Category-specific tax-deductible expenses are deducted from the gross income received within each category of income listed above in order to determine taxable income (TI) per category;
2. Total Taxable Income (TTI) is then determined by adding up all categories of TI;
3. Tax rates in force are then applied to TTI so as to determine the basic tax assessment (BTI);
4. Final tax assessment, i.e., amount of income tax payable by taxpayer is determined by deducting from BTI any expenses listed in *IRS* Code (health and education expenses, tax credits arising from international double taxation, amounts paid by way of tax withheld at source, among others).

Withholding tax rates - Withholding Tax is applicable on Individual income.

There are two distinctive sets of withholding tax rates for A-category income:

- Withholding tax rates on entirely variable remuneration. These are deducted from each payment and determined in accordance with the total yearly amount of such remuneration as estimated at the beginning of the year.
- Withholding tax rates on fixed or partially fixed earnings, which are deducted from the remuneration paid according to tables published annually by the tax authorities.

Tax rates

Total Taxable Income (<i>in euros</i>)	Rates (%)	
	Normal rate	Average rate
Up to € 4 639	10.5	10.5000
€ 4 639 – € 7 017	13	11.3472
€ 7 017 – € 17 401	23.5	18.5991
€ 17 401 – € 40 020	34	27.3036
€ 40 020 – € 58 000	36.5	30.1545
€ 58 000 – € 62 546	40	30.8701
> € 62 546	42	---

c) Value Added Tax (VAT)

VAT is payable, as in all EU countries, by suppliers of goods and services, who charge it on every supply they make within their relevant activities, and afterwards pay the appropriate amount to the Tax Authorities.

Suppliers of goods and services legally required to charge VAT are allowed to deduct, from the VAT that they have charged, the amount of VAT included in the expenses that they have incurred within their relevant activities as well as the amount of VAT included in imports.

However, some expenses are considered to be personal or unrelated to the purchaser activities and therefore not VAT-deductible, such as diesel fuel expenses (only 50% of these are deductible), business travel or lodging expenses, tourism vehicles acquisition and maintenance expenses. In certain conditions it is possible to deduct VAT included on business travel or lodging expenses at between 25% or 50%.

VAT is collected at the following tax rates:

Rate	Portugal	Azores and Madeira
Reduced rate	5%	4%
Intermediate rate	12%	8%
General rate	20%	14%

Examples of each rate:

- *reduced rate*: agricultural or farm produce; some periodicals; newspapers; medication; products for agricultural use; passenger transport; hotel accommodation and certain entertainment forms; electricity; primary fuel; public work contracts;
- *intermediate rate*: restaurants, preserved produce: meat; ornamental flowers and plants; cooking oil; coffee; soft drinks;
- *general rate*: all other goods and services not mentioned in the previous items.

d) Tax on property

1. Property Transfer Tax ("IMT")

IMT is payable on the transfer of immovable assets and, as a rule, must be paid by the acquirer.

This tax is paid before the acquisition and it's applied on the higher value as between the selling price declared in the public deed and the value registered in the Portuguese tax system.

This tax has the following rates:

a) Urban property exclusively for permanent residence purposes:

Taxable value (in euros)	Rates	
	Marginal %	Average % ⁽¹⁾
Up to € 87 500	0%	0%
€ 87 500 - €119 700	2%	0.5380%
€119 700 - €163 200	5%	1.7273%
€ 163 200 – €272 000	7%	3.8364%
€ 272 000 – 543 900	8%	-
> 543 900	Single rate of 6%	

1) At the upper limit of the scale

b) Other urban property exclusively for residence purposes:

Taxable value (in euros)	Rates	
	Marginal %	Average % ⁽¹⁾
Up to € 87 500	1%	1.0000%
€ 85 500 - €119 700	2%	1.2690%
€119 700 - €163 200	5%	2.2635%
€ 163 200 – €272 000	7%	4.1581%
€ 272 000– 521 700	8%	-
> 521 700	Single rate of 6%	

1) At the upper limit of the scale

c) on rural land – 5%.

d) Acquisition of other urban property and other chargeable acquisitions– 6.5%.

The rate will be 8% without any deduction or exemption if the buyer of the immovable asset is an offshore company.

2. Municipal Property Tax (IMI)

Municipal property tax is payable on the taxable value of immovable assets (urban buildings as well as construction land and rural land) in each municipality and is payable by the owner or beneficiary of the property as at 31st December of each year.

That tax is applied to the Property Taxable Value at the following rates:

Real Estate type	Annual Rates
Rural land	0.8%
Urban real estate not evaluated	0.4% - 0.8% ⁽¹⁾
Urban real estate evaluated under the IMI Code (transferred after 1 st January 2004)	0.2% - 0.5% ⁽¹⁾
Real estate owned by an entity resident in a tax haven (2)	1% - 2% ⁽³⁾

(1) It depends on the Municipal Tax Authorities.

(2) When the taxpayer is resident in a country, territory or region subject to a more favorable tax regime (mentioned in the blacklist).

(3) The 2% rate is only applicable to urban real estate unoccupied for more than a year.

Temporarily Exemptions

The following situations are temporarily exempted from IMI:

- a) Urban real estate constructed, improved or acquired for permanent residence purpose;
- b) In case of first transmission, urban real estate constructed, improved or acquired, only applicable to dwelling;
- Period of exemption

Property Taxable Value	Exemption Period
0 – € 157,500	6 years
€ 157,500 - € 236,250	3 years

e) **Stamp Duty**

Stamp Duty is charged on a variety of deeds, contracts, documents, titles, books, papers and financial operations. This tax must be paid by the person who has the economic interest in the deed or contract such as the buyer in a purchase contract, credit institutions or

financing companies in financial operations.

Exemptions:

Certain categories of documents, contracts and financial operations are exempt from Stamp Duty:

- Interest on loans granted for the acquisition, construction, re-construction or improvement of residential buildings;
- Loans, and the interest and/or commissions charged, granted by credit institutions and financing companies to similar entities, provided that both parties reside in the European Union (EU) or, if one is a non-EU resident, it is not resident in a tax haven country;
- Financial operations, including interest charges, between companies and their respective subsidiaries, provided that the former hold a minimum 10% holding in the latter for one year;
- Incorporation and increase in share capital of holding companies (SGPS);
- Guarantees allocated to the State upon the management of public debt;
- All legal documents and products relating to entities residing in the tax-free trade zone of Madeira and of the Santa Maria Island (Azores), according to article 33, paragraph 11 of Decree-Law 215/89, of 25th July 1989;
- Securitization operations remunerations for credits assigned as well as to the assignment of credits guaranteed by collateral mortgage.

Tax rates

Stamp Duty is levied on the value of each taxable deed or operation at a tax rate, which varies according to the type of deed or operation, as exemplified below:

Operation	Rate
Onerous or gratuitous acquisition of immovable assets	0.8%
Rental or sublets (on monthly rent)	10%
Interest paid on bills of exchange and Treasury bills, loans, credit accounts discounts	4%
Premium and interest on drawn bills, bills receivable, drafts issued on domestic markets or any other kind of transfer	4%
Commissions in respect of guarantees granted	3%
Other commissions on financial services	4%
Transfer of a company's management location from a EU Member-State to a third country, and vice-versa, whenever the company's registered office is in a third country (percentage of net value of the company's assets on the date of transfer)	0.4%
Trademarks and patents (upon the taxes due on the respective register)	24%

6. CONTACT NAMES AND ADDRESSES

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7. FINAL NOTES

The content of this booklet derives from information disclosed in the following sites:

- **Portuguese Investment Agency**
www.investinportugal.pt
- **PRIME - Incentives Programme for the Modernisation of Economic Activities**
http://www.prime.min-economia.pt/presentationlayer/prime_Home_00.aspx
- **Banco de Portugal**
www.bportugal.pt
- **Portuguese External Commerce Institute**
www.icep.pt
- **Innovation Agency**
www.adi.pt
- **Statistics Portugal**
<http://www.ine.pt/>
- **Eurostat**
<http://europa.eu.int/comm/eurostat/>
- **Ministry of Economy and Innovation**
<http://www.min-economia.pt/>
- **Ministry of Finances and Public Administration**
<http://www.min-financas.pt/>
- **On the spot firm**
http://www.empresanahora.mj.pt/ENH/sections/EN_homepage
- **Business formalities centre**
http://www.cfe.iapmei.pt/cfe_ctexto_00.php?ctlocal_id=11
- **National Strategic Reference Framework**
<http://www.qren.pt/index.php?lang=0>

As the booklet updating process is annual we advise a consultation of the above-mentioned sites for more accurate information.

As mentioned before this booklet is designed to give some general information for those contemplating doing business in Portugal and is not intended to be a comprehensive document. You should consult us before taking further action.

Oliveira, Reis & Associados, SROC, Lda. is a Portuguese auditing and business consulting firm, founded in 1981. Its activity is based on the partner's activities (6 partners) that are responsible for client portfolio management. The client portfolio is characterized by Portuguese and multinational firms based in Portugal. The firm aims at a sustained development and growth of its client activity essentially as a partner and business adviser.

