Doing business in Portugal

Portugal: a tax reform to promote investment

By António Côrte-Real Neves

At the beginning of 2014, Portugal implemented one of the most significant reforms of its corporate taxation laws in the last decades: the reform of the Income Tax Code (IRC). This reform, which was prepared throughout 2013 had as its primary objective a review of the guidelines of the business taxation system in Portugal. The goal was to make its tax system competitive with its European counterparts, thus promoting investment, stimulating economic growth and the job market. The reform was a reaction to the flight of capital to foreign countries over the past few years, partly due to Portugal's tax regime – with visible effects in the stagnation of the national economy, decrease in governmental revenues and in employment rates – and Portugal sought to implement the changes necessary to become one of the most attractive fiscal regimes for EU companies.

Due to limitations around direct taxation imposed by the European Union at the beginning of this tax year - and after a year of preparation, study, analysis and public debate - the reform of corporate taxation was approved and became law on January 16th, 2014.

Following closely the guidelines established by the Government Program, we would like to highlight the following measures:

- **Reduction of the corporate income tax rate** – the corporation tax rate was reduced from 25% to 23%, with a further reduction set to 21% for 2015; and the commitment of the Portuguese Government to set the rate between 17% and 19% in 2016, according to a review of the economic and fiscal situation;
- **Loss Carry Forward** – the maximum period for reporting tax losses was extended from 5 to 12 years; the reform also made adjustments to the conditions in which a carry forward can occur, particularly by removing from the law that: "the modification of the company's object or a substantial change in its activity ceases the right to deduct tax losses";
- **Participation exemption regime** - a regime was introduced under which - the verified fulfillment of certain requirements, such as a certain shareholding percentage and a holding period - profits, reserves and realized capital gains are not subject to taxation, thus making the taxation of dividends and capital gains far more comprehensive and attractive under this regime;

Given that this is the year of its implementation, it is too early to know the results from the amendments introduced by this reform; however, it seems fair to say that it has placed Portugal in the forefront of the European Union with a friendlier tax regime for companies.

In conclusion, it is safe to say that Portugal is once again opening its arms to investment.

Service:
António Côrte-Real Neves, a lawyer with 14 years' experience, is senior lawyer at Morais Leitão, Galvão Teles, Soares da Silva & Associados, and specializes in Tax and Customs Law
Contact: acneves@mlgts.pt
Website: http://www.mlgts.pt