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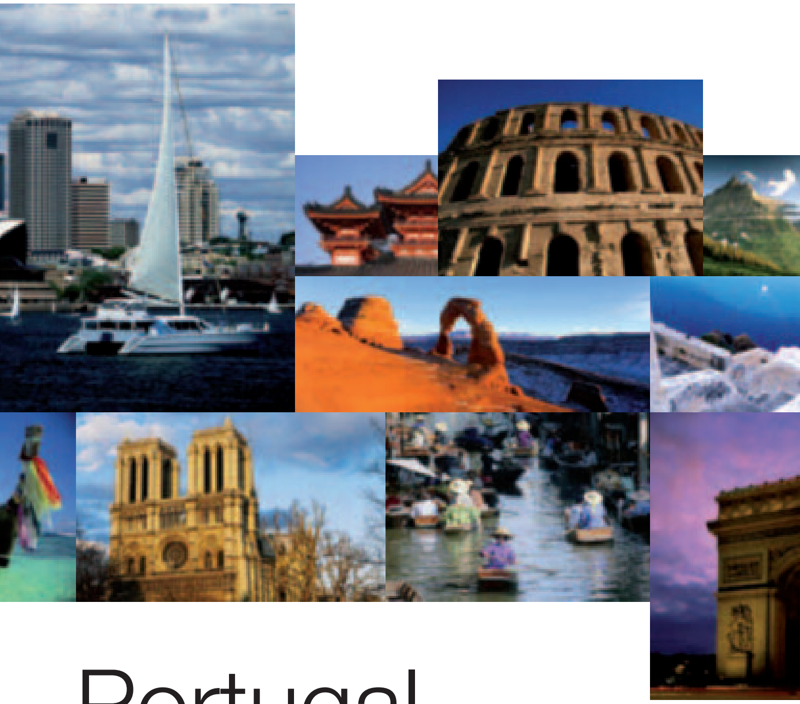

Portugal Tax Guide

2010

FOREWORD

For any business looking to set up in a new market, one of the critical deciding factors will be the target country's tax regime. What is the corporate tax rate? What capital allowances can we benefit from? Are there double tax treaties? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, which is administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide businesses with the answers to these key tax questions. This handy reference manual provides clients and professional practitioners with comprehensive international tax and business information for over 100 countries throughout the world.

As you will appreciate, the production of the WWTG is a huge team effort and I would like to thank all the member firms of the PKF network who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication. I would also like thank Richard Jones, PKF (UK) LLP, Kevin Reilly, PKF Witt Mares, and Rachel Yeo and Scott McKay, PKF Melbourne for co-ordinating and checking the entries from within their regions.

This year's WWTG is the largest ever reflecting both how the PKF network is growing and the strength of the tax capability offered by member firms throughout the world.

I hope that you find that the combination of reference to the WWTG plus assistance from your local PKF member firm will provide you with the advice you need to make the right decisions for your international business.

Mark Pollock
PKF Perth
Chairman, International Tax Committee of the PKF network

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PREFACE

The PKF Worldwide Tax Guide 2010 (WWTG) has been prepared to provide an overview of the taxation and business regulation regimes of over 100 of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have sought to base their summaries on information current as of 30 September 2009, while also noting imminent changes where necessary.

On a country-by-country basis, each summary addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

In addition to the printed version of the WWTG, individual country taxation guides are available in PDF format which can be downloaded from the PKF website at www.pkf.com

Finally, PKF International Limited gladly welcomes any comments or thoughts readers may wish to make in order to improve this publication for their needs. Please contact Kevin F Reilly, PKF Witt Mares, 10304 Eaton Place, Suite 440, Fairfax, Virginia 22030, USA by email to kreilly@pkfwittmares.com

PKF INTERNATIONAL LIMITED
APRIL 2010

ABOUT PKF INTERNATIONAL LIMITED

PKF International Limited (PKFI) administers a network of legally independent firms. The PKF network is the 11th largest global accountancy network with over 240 legally independent member and correspondent firms which have a combined annual turnover of $1.9 billion. Located in 125 countries, the member firms of the PKF network share a commitment to providing clients with high quality, partner-led services tailored to meet each client's own specific requirements.

The membership base of the PKF network has grown steadily since it was formed in 1969. Added to the sustained growth in the number of PKF member firms, this solidity has provided the foundations for the global sharing of expertise, experience and skills and the development of services that meet the evolving needs of all types of client, from the individual to the multi-national corporation.

Services provided by member firms include:

Assurance & Advisory
Insolvency – Corporate & Personal
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Taxation
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Forensic Accounting
Management Consultancy
Hotel Consultancy
IT Consultancy

PKF member firms are organised into five geographical regions covering Africa; Latin America and the Caribbean; Asia Pacific; Europe, the Middle East & India (EMEI); and North America. Each region elects representatives to the board of PKF International Limited, which administers the network. While the member firms remain separate and independent, international tax, corporate finance, professional standards, audit, hotel consultancy and business development committees also work together to improve quality standards, develop initiatives and share knowledge across the network.

Please visit **www.pkf.com** for more information.

STRUCTURE OF COUNTRY DESCRIPTIONS

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BRANCH PROFITS TAX
SALES TAX/VALUE ADDED TAX
FRINGE BENEFITS TAX
LOCAL TAXES
OTHER TAXES

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DEPRECIATION
STOCK/INVENTORY
CAPITAL GAINS AND LOSSES
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INTERNATIONAL TIME ZONES

AT 12 NOON, GREENWICH MEAN TIME, THE STANDARD TIME ELSEWHERE IS:

A
Angola . . . 1 pm
Argentina . . . 9 am
Australia -
 Melbourne . . . 10 pm
 Sydney . . . 10 pm
 Adelaide . . . 9.30 pm
 Perth . . . 8 pm
Austria . . . 1 pm

B
Bahamas . . . 7 am
Bahrain . . . 3 pm
Barbados . . . 8 am
Belgium . . . 1 pm
Belize . . . 6 am
Bermuda . . . 8 am
Bolivia . . . 8 am
Botswana . . . 2 pm
Brazil . . . 7 am
Brunei . . . 8 pm
Bulgaria . . . 2 pm

C
Cameroon . . . 1 pm
Canada -
 Toronto . . . 7 am
 Winnipeg . . . 6 am
 Calgary . . . 5 am
 Vancouver . . . 4 am
Cayman Islands . . . 7 am
Chile . . . 8 am
China - Beijing . . . 10 pm
Colombia . . . 7 am
Costa Rica . . . 6 am
Croatia . . . 1 pm
Cyprus . . . 2 pm
Czech Republic . . . 1 pm

D
Denmark . . . 1 pm
Dominican Republic . . . 7 am

E
Ecuador . . . 7 am
Egypt . . . 2 pm
El Salvador . . . 6 am
Estonia . . . 2 pm

F
Fiji . . . 12 midnight
Finland . . . 2 pm
France . . . 1 pm

G
Gambia (The) . . . 12 noon
Germany . . . 1 pm
Ghana . . . 12 noon
Greece . . . 2 pm
Grenada . . . 8 am
Guatemala . . . 6 am
Guernsey . . . 12 noon
Guyana . . . 8 am

H
Hong Kong . . . 8 pm
Hungary . . . 1 pm

I
India . . . 5.30 pm
Indonesia . . . 7 pm
Ireland . . . 12 noon
Israel . . . 2 pm
Italy . . . 1 pm

J
Jamaica . . . 7 am
Japan . . . 9 pm
Jersey . . . 12 noon
Jordan . . . 2 pm

K
Kazakhstan . . . 5 pm
Kenya . . . 3 pm
Korea . . . 9 pm
Kuwait . . . 3 pm

L
Latvia . . . 2 pm
Lebanon . . . 2 pm
Leeward Islands
 (Nevis, Antigua, St Kitts) . . . 8 am
Libya . . . 2 pm
Liberia . . . 12 noon
Lithuania . . . 2 pm
Luxembourg . . . 1 pm

M
Malaysia . . . 8 pm
Malta . . . 1 pm
Mauritius . . . 4 pm
Mexico . . . 6 am
Morocco . . . 12 noon

N
Namibia . . . 2 pm
Netherlands (The) . . . 1 pm
Netherlands Antilles . . . 8 am
New Zealand . . . 12 midnight
Nigeria . . . 1 pm
Norway . . . 1 pm

O
Oman . . . 4 pm

P
Panama . . . 7 am
Papua New Guinea . . . 10 pm
Peru . . . 7 am
Philippines . . . 8 pm
Poland . . . 1 pm
Portugal . . . 1 pm
Puerto Rico . . . 8 am

Q
Qatar . . . 8 am
Romania . . . 2 pm
Russia -
 Moscow/St Petersburg . . . 3 pm

S
Sierra Leone . . . 12 noon
Singapore . . . 7 pm
Slovak Republic . . . 1 pm
South Africa . . . 2 pm

Spain . . . . .1 pm
Swaziland . . . . .2 pm
Sweden. .1 pm
Switzerland . . . . .1 pm

T

Taiwan .8 pm
Tanzania . . . . .3 pm
Thailand . . . . .7 pm
Trinidad and Tobago . . . . .8 am
Turkey. .2 pm
Turks and Caicos Islands . . . . . . .7 am

U

Uganda .2 pm
Ukraine .2 pm
United Arab Emirates . . . . .4 pm
United Kingdom . . . .(GMT) 12 noon
United States of America -
- New York City. . . . . .7 am
- Washington, D.C. . . . . .7 am
- Chicago. . . . . .6 am
- Houston. . . . . .6 am
- Denver . . . . .5 am
- Los Angeles. . . . . .4 am
- San Francisco . . . . .4 am

Uruguay . . . . .9 am

V

Vanuatu. . . . . .11 pm
Venezuela . . . . .8 am
Vietnam

Z

Zambia .2 pm

Time Zones

PORTUGAL

Currency: Euro (EUR) | Dial Code To: 351 | Dial Code Out: 00

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A. TAXES PAYABLE

COMPANY TAX

General Regime: Resident corporations are subject to Portuguese corporate income tax (IRC) on their worldwide income. Resident companies are those which have their head office, or place of effective management, in Portugal.

Non-resident companies with a permanent establishment in Portugal are liable for IRC on the income attributable to that permanent establishment. A non-resident company with no permanent establishment in Portugal is taxed on the following types of income sourced in Portugal: real estate, capital gains, dividends, services, interest and royalties.

Taxable profit up to EUR 12,500.00 is taxed at a reduced rate of 12.5% and the excess is taxed at 25%. There are anti-avoidance measures to prevent businesses being split up artificially between different companies to take advantage of the 12.5% rate. A local surcharge of up to 1.5% is levied on the taxable income amount. The tax year usually coincides with the calendar year (1 January to 31 December). However, in some cases such as branches of non-resident companies, different tax years may be adopted.

Tax is payable as follows:

Taxable persons	Tax payment
Resident entities whose main activity is commercial, industrial or agricultural and non-residents with a permanent establishment in Portugal.	Payments on account in July, September and 15 December. The balance is due by the date when the tax return is filed – generally 31 May.
Resident entities whose main activity is neither commercial, industrial nor agricultural.	Tax is payable by 31 May following the end of the tax year.
Non-resident entities without a permanent establishment.	Tax is payable by 31 May following the end of the tax year.

Payments on account are estimated on the basis of the previous tax year's IRC liability, less any tax withheld at source, and are subject to the following limits:

- three instalments of 23.33% (total 70%) – taxpayers with turnover below EUR 498,797.90.
- three instalments of 30% (total 90%) – taxpayers with turnover above EUR 498,797.90.

Permanent establishments of non-resident companies are taxed at the rates applicable to resident companies (i.e. 25%), plus a 1.5% municipal surcharge (effective rate of 26.5%). When there is no permanent establishment, tax is levied at rates varying between 15% and 25% according to the source of income.

CAPITAL GAINS TAX

Worldwide capital gains obtained by resident companies are included in taxable income and taxed at the standard flat rate of 26.5%. The gain (or loss) is calculated by the difference between the sales proceeds and the acquisition cost which may be updated using official inflation coefficients. If the proceeds of the sales are reinvested in other fixed assets, 50% of the gain obtained (net of the related losses) will be excluded from taxation. For this purpose, reinvestments made in the preceding year, the year of sale and the two subsequent years will be taken into account.

When only part of the consideration is reinvested, only the corresponding part of the gain qualifies for the relief.

Gains derived from the disposal of shares by qualifying holding companies (SGPS) are not subject to taxation. However, capital losses arising on the sale of shares, as well as interest incurred on loans used to purchase shares, are not deductible for IRC purposes at the SGPS level.

BRANCH PROFITS TAX
All income attributable to the Portuguese branch (permanent establishment) is subject to corporation tax. No tax is imposed on the eventual remittances of profits to the head office.

SALES TAX/VALUE ADDED TAX (VAT)
As a member of the European Union, Portugal has adopted VAT which is a sales tax levied on the supply of goods and services as well as on the import of goods from non-EU countries into Portugal (for VAT purposes, Portugal includes Azores and Madeira), and acquisition of goods from other EU Member States. The standard rate is 20%. In addition, an intermediate rate of 12% and a reduced rate of 5% are applicable to a range of goods and services. In Azores and Madeira, the rates are 14%, 8% and 4% respectively on the same supplies.

FRINGE BENEFITS TAX (FBT)
In general, benefits provided to employees are added to their remuneration and taxed accordingly. There are, however, some exceptions such as lunch allowances, travel allowances and the use of a car (provided such use is not formally agreed in the employment contract).

OTHER TAXES
MUNICIPAL TAX ON REAL ESTATE
Owners of real estate properties are subject to tax at 0.8% for rural properties and between 0.4% and 0.7% for urban properties on the notional net income derived from property. A 1% rate applies when the real estate property is owned by a resident of an offshore jurisdiction (as defined in a ‘black list’ published by the Finance Ministry). This tax is deductible against rental income.

REAL ESTATE TRANSFER TAX
Stamp duty is levied on many types of transactions. Real Estate Transfer Tax applies to transfer of real estate property and is normally payable by the purchaser. The rate for urban properties is 6.5% and 5% for land for agriculture. Real Estate for habitation is subject to rates varying from 0% to 6%. An 8% rate applies when the purchaser of the property is a resident of a black-listed offshore jurisdiction. Transfers of ownership, which are subject to this tax, are exempt from VAT.

B. DETERMINATION OF TAXABLE INCOME (IRC)

General regime: Net income, or taxable income, is arrived at by adjusting the accounting profits for non-taxed income and non-deductible expenses. As a general principle, costs are only deductible when necessarily incurred for the purpose of producing income.

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Simplified scheme: Companies that a) during the previous year had a total turnover under EUR 149,639.37; and b) have not elected to be assessed under the general regime referred to above, are subject to the simplified taxation scheme. Under this scheme, taxable income is computed as follows:
- 20% of the turnover from sales of goods; plus
- 70% of the gross income from other sources.

The simplified scheme was abolished from 1 January 2009, although companies granted this regime before that date may be able to use it until the expiration of the period for which the regime was granted.

DEPRECIATION
Fixed assets can be depreciated for tax purposes. The depreciation rates are set by specific legislation and include 2% for office buildings and 5% for industrial buildings. No depreciation is allowed on land. The normal method of calculation is the straight-line basis but declining-balance method may be used except for items such as buildings, cars and office furniture.

STOCKS/INVENTORY
Inventory must normally be valued at the effective cost of acquisition or production (historic cost). Other methods which may be adopted include:
- the standard cost method, which must be calculated in accordance with the appropriate technical and accounting principles
- the sale price method, based on the market value less a normal profit margin.

CAPITAL GAINS AND LOSSES
Gains obtained by non-resident entities from the disposal of shares are exempt from tax. However, some anti-avoidance provisions apply in order to prevent abuse of this concession.

DIVIDENDS
There is a full participation exemption for payment of dividends between Portuguese resident companies when the recipient of the dividends is a company that has held a participation of not less than 10% of the share capital of the distributing company for a minimum period of one year. If such conditions are not met, 50% of the dividend amount is excluded from taxation (i.e. only 50% of the dividend amount will be subject to tax).

The full participation exemption is also available for dividends derived from other EU resident companies, provided the participation exceeds 10% of the share capital of the subsidiary and the related shares have been held for a period of one year.

Dividends paid to non-resident shareholders are normally subject to withholding tax at 20% (or at the treaty rate if applicable). When the parent company is resident of an EU Member State and has held a participation of at least 10% in the share capital of the Portuguese subsidiary, no withholding tax shall apply provided the company paying the dividend obtains a tax certificate proving that the conditions of the directive have been met.

INTEREST DEDUCTIONS
Interest is deductible on an accruals basis. The Fiscal Administration is entitled, under certain circumstances, to disallow interest payments to related parties in excess of arm's length arrangements.

In the case of loans granted by non-EU companies, interest expenses are subject to thin capitalisation restrictions.

The thin capitalisation ratio is 2:1. No relief is granted on the interest due to non-EU resident shareholders on the part of a loan that exceeds twice the participation in the equity.

LOSSES
Operating losses incurred by resident companies, or by a branch of a non-resident company, may be carried forward to set off against taxable profits for six years. No deduction is allowed in the following two situations:
(a) where the nature of the activity has changed substantially compared to when the losses were incurred
(b) the ownership of 50% or more of the share capital has changed, compared to the year in which the losses were incurred.

FOREIGN SOURCED INCOME
Taxation of resident companies takes into account their worldwide income.

INCENTIVES
Incentives under Portuguese tax legislation include financial derivatives; the free-trade zones of Azores and Madeira; investment tax credits; incentives for small companies; tax credits for research and development investments; and creation of jobs for persons under 30 years of age.

C. FOREIGN TAX RELIEF

Foreign-sourced income, gross of tax paid abroad, is included in taxable income. A unilateral credit for foreign income tax suffered can be set off against the Portuguese corporate tax. Portugal's tax treaties also apply the ordinary credit method. The tax credit is restricted to the lower of:
- the income tax paid abroad (ordinary credit method)
- the Portuguese income tax chargeable on that foreign income.

D. CORPORATE GROUPS

Companies meeting the following conditions can opt to be taxed on a group basis:
- all companies in the Group are resident in Portugal
- the parent company must hold, directly or indirectly, at least 90% in the remaining companies of the group.

In this regime, the taxable income of the group is computed on the basis of the taxable income and losses of the companies included in the group.

E. RELATED PARTY TRANSACTIONS

Transfer pricing legislation enables the tax authorities to make corrections to taxable income when the conditions (and prices) agreed between related parties are different from those that would have been agreed and accepted by independent entities. Taxpayers must keep the necessary documentation to support the transfer pricing policy within the group.

F. WITHHOLDING TAX

Payments between resident companies are generally subject to withholding tax. The rates vary between 15% and 25%.Where payments are made by residents to non-residents, the tax rate may be reduced if there is a double tax treaty.

G. EXCHANGE CONTROL

Capital movements are freely transferable.

H. PERSONAL TAX

Income tax is payable by individuals on income obtained from employment, a business activity or independent profession, investment income, immovable property, capital gains, pensions and betting or gambling profits. Resident individuals are subject to income tax on their worldwide income while non-residents are liable to income tax only on income sourced in Portugal. Residence is determined by physical presence in Portugal for 183 days or more in any tax year. An individual who, at the end of a tax year, owns a dwelling in Portugal that might reasonably be assumed to be the individual's usual residence, is also generally considered resident in that tax year.

When determining the taxable income, certain tax credits are allowed in addition to some specific deductions concerning each category of income. These include a percentage of expenses incurred on health and education.

Husbands and wives living together, and their dependent children, are taxed on their joint income and are jointly liable for the tax of the family unit. Normally, the tax year coincides with the calendar year but may be split in the year of marriage, divorce, separation or death.

Special rules apply for the calculation of gains on immovable property, shares or other corporate rights, securities and patents.

Exempt income includes various employment allowances (up to certain limits); a portion of pension income; capital gains from the sale of the principal private residence, when the proceeds are reinvested in another private residence; and gains on sales of qualifying shares.

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Tax returns submitted in paper form are due between 1 February and 15 March of the subsequent tax year for taxpayers with income derived solely from employment or pensions or between 16 March and 30 April for taxpayers who receive any income other than from employment or pensions.

Tax returns submitted via the internet are due between 10 March and 15 April of the subsequent tax year for taxpayers with income which derives solely from employment or pension or between 16 April and 25 May for taxpayers who receive any income other than from employment or pensions.

The following rates apply in tax year 2009 to the aggregate net results of employment income, business income, investment income (except interest on bonds and deposits), income from land, capital gains and income from pensions:

Taxable Income (Euros)			Rates	
			Normal Rate	Amount to deduct
Up to	4,755.00€		10.50%	– €
More than	4,755.00€	to 7,192.00€	13.00%	118.88€
More than	7,192.00€	to 17,836.00€	23.50%	874.04€
More than	17,836.00€	to 41,021.00€	34.00%	2,746.82€
More than	41,021.00€	to 59,450.00€	36.50%	3,772.33€

Taxable Income (Euros)			Rates Normal Rate	Amount to deduct
More than	59,450.00€	to 64,110.00€	40.00%	5,853.09€
over	65,110.00€		42.00%	7,135.31€

Domestic income may attract withholding income tax. Tax withheld from residents represents a payment on account of the recipient's ultimate tax liability. However, an individual may treat tax withheld from interest on bank deposits or bonds and dividends as final tax.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

The following table is for general guidance only and reflects the lower of the treaty rate and the rate under domestic tax law. The rates are applicable to payments by Portuguese companies to non-residents under the treaties currently in force.

	Dividends %	Interest %	Royalties %
Non-treaty countries:	20	20	15
Treaty countries:			
Algeria	15/10	15	10
Austria	15	10	5/10
Belgium	15	15	10
Brazil	10/15	15	15
Bulgaria	10/15	10	10
Canada	15/10	10	10
Cape Verde	10	10	10
Chile	10/15	5/10	5/10
China	10	10	10
Cuba	5/10	10	5
Czech Republic	10/15	10	10
Denmark	10	10	10
Estonia	10	10	10
Finland	10/15	15	10
France	15	10/12	5
Germany	15	10/15	10
Greece	15	15	10
Guinea-Bissau	10	10	10
Hungary	10/15	10	10
Iceland	10/15	10	10
India	10/15	10	10
Indonesia	10	10	10
Ireland	15	15	10
Israel	5/10/15	10	10
Italy	15	15	12
Korea, Republic of	10/15	15	10
Latvia	10	10	10
Lithuania	10	10	10
Luxembourg	15	10/15	10
Macau	10	10	10
Malta	10/15	10	10
Mexico	10	10	10

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	Dividends %	Interest %	Royalties %
Morocco	15/10	10	10
Mozambique	15	10	10
Netherlands	10	10	10
Norway	10/15	15	10
Pakistan	10/15	10	10
Poland	10/15	10	10
Romania	10/15	10	10
Russia	10/15	10	10
Singapore	10	10	10
Slovak Republic	15/10	10	10
Slovenia	5/15	10	5
South Africa	10/15	10	10
Spain	10/15	15	5
Sweden	10	10	10
Switzerland	10/15	10	5
Tunisia	15	15	10
Turkey	5/15	10/15	10
Ukraine	10/15	10	10
United Kingdom	10/15	10	5
United States	5/15	10	10
Venezuela	10/15	10	10/12

1 Generally, a 25% holding is required by the recipient in the Portuguese company for the lower rate to apply. The relevant treaty should be consulted to confirm the necessary conditions in each case.

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