

DOING BUSINESS

IN PORTUGAL



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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries worldwide.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering a business operation in Portugal has been provided by the office of UHY's representative there:

UHY & ASSOCIADOS, SROC, LDA.
Campo Grande, 28 – 5° A/D
1700-093 Lisboa

Phone +351 21 761 3330
Website www.uhy-portugal.pt

You are welcome to contact [António Santos \(asantos@uhy-portugal.pt\)](mailto:asantos@uhy-portugal.pt) with any further inquiries you may have.

Information in the following pages has been updated so that it is are effective at the date shown, but inevitably it is both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at June 2015.

We look forward to helping you do business in Portugal.

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2 – BUSINESS ENVIRONMENT

A republic since 1910, Portugal has been an independent state since 1143. Its continental frontiers were established in 1297, making the country one of the oldest nations of Europe.

Portugal is situated on the west of the Iberian Peninsula, where the Atlantic meets Europe. Its position on the Atlantic coast early on determined the country's maritime prowess.

In 1415, one of the first of many epic sea voyages made by Portuguese sailors was recorded. The Portuguese were the first Europeans to discover the ocean routes to India, Brazil, China and Japan, and at the same time they founded settlements along the east and west coast of Africa.

Recently, the sovereign debt crisis in the euro zone during 2010 and beginning of 2011 contributed to the deterioration of access to international market financing. For the Portuguese economy, characterised by a high degree of external indebtedness, these events put into question the sustainability of public finances, leading to the inevitable financial assistance of the European Central Bank, the European Union and the International Monetary Fund (IMF) in April 2011.

The program of economic and financial adjustment had come to an end in May 2014 without having to call upon to additional external financial assistance and Portugal regained the access to financing in international debt markets.

After three years of the economic and financial assistance program, Portuguese economy has made considerable progress in correcting a set of macroeconomic imbalances. The objectives have been globally achieved having contributed to this the net lending from the outside, the external balance, the reduction of the structural primary budget deficit and the ongoing public finances consolidation which conducted to a sustainable growth process.

The Gross National Product (GNP) has grown by 0.9% in 2014 and the forecasts of the Bank of Portugal point to an increase in the economic activity in Portugal in 2015 (1.7%) and a growth by 1.9% in 2016. Favourable export performance and lower contraction of domestic demand were determining factors to these results.

Portugal is therefore an exciting country in which to do business today. Firmly anchored in the euro zone, conducting more than 70% of its external trade within Europe and with a stable parliamentary democracy, the country is reinventing itself and creating the right conditions for companies to be successful.

In 2014, Portugal attracted EUR 8.4 billion in net foreign investment and EUR 7.5 billion in 2013. Companies like Volkswagen, Visteon, Delphi, Microsoft, Lear and Mitsubishi, among others, have chosen to operate in Portugal. The country is home to the headquarters of 1,300 multinationals and branches offices of some 3,000 others.

Though Portugal is an attractive market for investment, the best way to minimise risks and invest successfully in Portugal is to seek the advice of appropriate professionals on issues which directly relate to your business or investment.

THE PORTUGUESE CONSTITUTION AND GOVERNMENT

The 1976 constitution, which was revised in 1982, 1989, 1992, 1997, 2001, 2004 and 2005, established a mixed presidential and parliamentary system, with both the president of the Republic and the Assembly elected by direct universal suffrage.

The president is the head of state, whose function is to monitor and supervise the institutions in accordance with the constitution. The government, headed by the prime minister, is responsible for defining policy.

The Assembly of the Republic, parliament, is composed of deputies elected in direct and secret ballots from party lists on the basis of proportional representation. It has a wide range of powers and duties, both political and legislative.

The country is divided into 18 administrative districts, which report to the central government, and 2 autonomous regions, Madeira and the Azores.

THE MARKET

Area:	92,152 km ²
Population:	10,39 million (2014)
Working Population:	5,23 million (2014)
Population density by km ² :	112.6 (2014)
Official Designation:	Portuguese Republic
Capital:	Lisbon
District capitals:	Aveiro, Beja, Braga, Bragança, Castelo Branco, Coimbra, Évora, Faro, Funchal (in Madeira), Guarda, Lisboa, Leiria, Ponta Delgada (in Azores), Portalegre, Porto, Santarém, Setúbal, Viana do Castelo, Vila Real and Viseu
Language:	Portuguese
Currency:	Euro

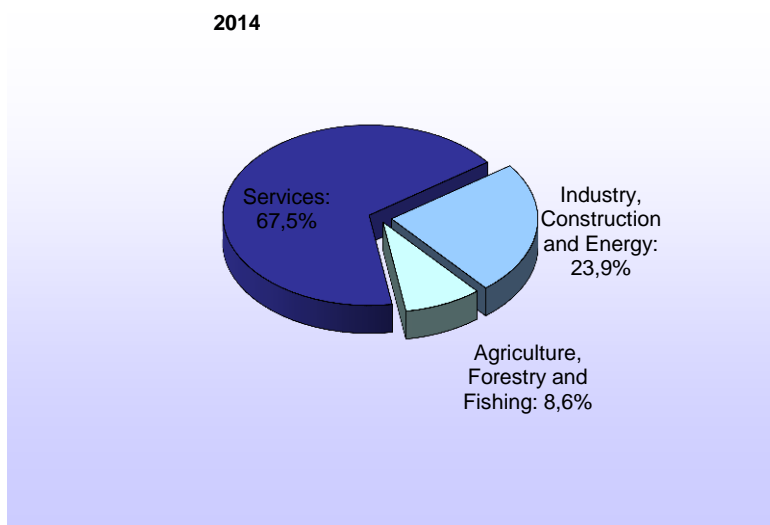
(Source: National Statistics Institute)

THE ECONOMY

The Portuguese economy, with the help of the EU structural funds, and based on appropriate promotion, quality, design and diversification, has evolved in line with the majority of European countries, with the services sector becoming increasingly important.

The service sector currently accounts for 67.5% of total employment and 76.7% of Gross Value Added (GVA). Agriculture represents 8.6% of total employment and 2.3% of the GVA.

TABLE 1
Employment by sector



Source: National Statistics Institute

UNEMPLOYMENT

In 2014 the unemployment rate reversed the upward trend settling at 13.9% when in 2013 it was at 16.2%. In 2015, the forecast is 13.4%.

BANKING

The banks are very important in the Portuguese economy, contributing to a healthy financial dynamism.

Banks established in Portugal tend to specialise, following defined strategic options. Examples are the saving banks or banks which specialise in the purchase of real estate.

Insurance companies also play a crucial role in the Portuguese system.

As a consequence of its membership of the European Union, Portugal today has a significant level of foreign investment in banking and insurance companies.

STOCK MARKETS

Portugal has two stock markets located in Lisbon and in Oporto.

The stock markets provide an open market for leading Portuguese companies, allowing open market sales of government and corporate bond issues and shares.

The stock market also exercises good control over Portuguese companies which must respect a strict legal and fiscal reporting regime designed to guarantee the transparency of accounts, in order to protect investors.

The stock market in Oporto is exclusively for futures and derivatives, highlighting Portugal's involvement in one of the fastest-developing world markets.

3 – FOREIGN DIRECT INVESTMENT

Foreign investment has been increasing in recent times, especially since Portugal became a member of the European Union.

The adjustments needed for Portugal to be included in the founding group of countries of the European single currency have had a substantial effect on the Portuguese economy. The resulting economic stability has led to increased foreign investment.

Greater economic stability, coupled with the potential of the tourism industry, has been decisive for investment in Portugal.

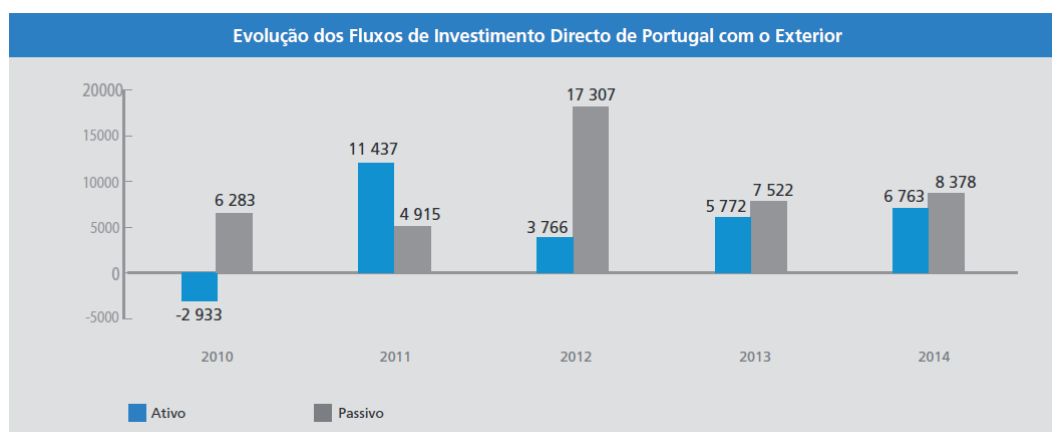
In addition, Portugal's traditional presence in Africa and Brazil gives it an advantage in the establishment of commercial contacts and business opportunities in these expanding markets.

The last five years has shown a positive trend in foreign direct investment (FDI) in Portugal, with values between 4.9 billion Euros in 2011 and 17.3 billion Euros in 2012.

The stock of foreign direct investment (FDI) in Portugal has also been growing in the last years settling in 116.5 billion Euros in 2014.

TABLE 2

Evolution of Portugal's direct investment flows with the outside



■ Active (FDI from Portugal to outside)

■ Liabilities (FDI into Portugal from outside)

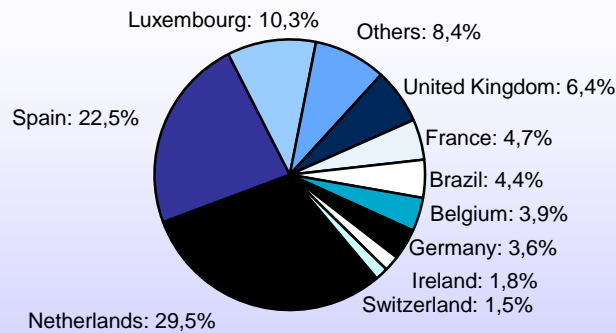
Source: Bank of Portugal

The top five countries investing in Portugal in 2014 were Netherlands, Spain, Luxembourg, United Kingdom and France, representing 73.4% of the total value. Outside the European Union, only Brazil and Switzerland appears in the top ten largest foreign investors in Portugal.

TABLE 3

Top inflow FDI investors into Portugal, by country

2014



Major reasons to invest in Portugal are because the country:

- Has some of the lowest operational costs in Western Europe
- Gives fast, easy and access to the EU single market
- Is a founder member of and full participant in the European Monetary Union
- Boasts a superb investments track record, with many firms bringing new projects to Portugal
- Is home to Europe's youngest and most enthusiastic workforces, with first-rate training facilities
- Has high levels of productivity growth in both manufacturing and services
- Offers a wide range of sites and buildings at highly competitive prices and ready to use
- Offers good domestic logistics and communications infrastructure (is the world's 12th country with better infrastructure)
- Offers high quality support services for investors, both during and after investment
- Has one of Europe's best records for industrial relations
- Has a large network of treaties for the relief of double taxation and many of the Portugal-based companies also benefit from an exemption from corporation tax on dividends that they receive from subsidiaries
- Allows residents to enjoy a high quality of life with one of the continent's lowest crime rates.

4 – SETTING UP A BUSINESS

Excluding the acquisition of a Portuguese company, the commonest ways of investing in Portugal are to:

- Set up a company
- Set up a branch.

The most common type of companies in Portugal are the shareholders company (SA) and the limited liability company (LDA), which have in common the fact that the responsibility of the shareholders or of the quota-holders is generally limited to their interest in the capital of the company.

There are also other ways of investing in Portugal, for example through joint ventures and partnerships, although these are less commonly used.

SHAREHOLDERS COMPANY (SA)

SA companies are required to have at least five shareholders, which can be reduced later.

Except in the case of Madeira offshore companies and subsidiaries of a Portuguese holding company, the setting up of a SA can be made with a single shareholder.

The company must register its start of activity and must also be registered in the commercial registry.

The minimum social capital is EUR 50,000 which can be paid in cash or in kind; in the latter case, it is necessary to add to the notarial deed, a document from a statutory auditor which attests to the value of the assets included in the company's capital.

In most cases companies have a structure with a general meeting, a board of directors and a statutory auditor. In certain cases, a single executive can substitute the board of directors.

LIMITED LIABILITY COMPANY (LDA)

LDAs tend to be smaller companies and usually have lower nominal capital than an SA.

The LDA must have at least 2 quota-holders. Nevertheless, it is also possible to set up LDA with only one quota-holder, termed a *Sociedade Unipessoal por Quotas* (SUQ).

Just like an SA, all LDAs must be registered in the commercial registry before declaring the start of activity to the tax authorities.

The amount of capital is freely fixed by the quota-holders and can be paid on the same terms as those permitted for the SA.

LDA companies must have a general meeting, while management structure can be organised to suit the company's requirements.

These companies also need a statutory auditor if two of the following three conditions are exceeded over two consecutive years:

- Total of balance sheet – EUR 1,500,000
- Net sales – EUR 3,000,000
- Average number of employees in the year – 50.

ON THE SPOT FIRM

With the *Empresa na Hora* (On the Spot Firm) initiative, it is possible to create a company (LDA, SA or SUQ) in just one office (a one-stop office) and in a single day (taking around an hour and a quarter to set up).

Interested parties no longer have to obtain in advance a certificate of company admissibility from the National Registry of Companies (RNPC). Nor is it necessary any longer to sign a public deed, except in certain cases.

During the incorporation procedure, the definitive legal person identification card will be handed over, the social security number provided, and the company will immediately receive its memorandum and articles of association and an extract of the entry in the Commercial Register.

This *Empresa na Hora* initiative to modernise administration is the first step on the way to simplifying the relationship between a firm and public administration bodies throughout its life cycle. Portugal has thus become one country in Europe where setting up a company is now:

- Fast, taking an average of 1 hour 14 minutes
- Less bureaucratic, requiring the completion of just a single form
- One of the cheapest places, costing about EUR 360.

The security of the incorporation procedure for new enterprises is ensured by having all the details sent to the tax authorities. In 2013, more than 20,000 companies were set up at the desks opened for this new service, which is the start of true fast-tracking for entrepreneurship.

BRANCH

The branch's name must be registered on the RNPC (National Registry of Collective Persons).

To set up and register a branch in the Commercial Register, the following documents must be presented:

- The parent company's incorporation documents
- The translated by-laws of the parent company
- A copy of the parent directors board minute attesting to the opening of the branch in Portugal
- A power of attorney.

JOINT VENTURES

JOINT VENTURE AGREEMENT

The Portuguese law allows and regulates for this form of companies' co-operation, which is normally used for a specific project. Large construction projects frequently use joint ventures.

The agreement must be written and notarised. It must show the members' interests and profit shares, as well as the lead member.

EUROPEAN ECONOMIC INTEREST GROUPING (AEIE)

Individual or collective members located in EU member states can be associated with unlimited liability.

ASSOCIATION OF BUSINESS ENTERPRISES

This is very similar to the AEIE but members must be Portuguese entities and are treated just like a company.

PARTNERSHIPS

Partnerships are rarely used in Portugal, because these involve some partners having unlimited liability.

Nevertheless, liberal professions, such as lawyers, economists, engineers, etc., use partnerships.

Partnerships are normally formed by a deed which should be notarised and which defines the contribution of each partner and sets out the partnership's by-laws, method of sharing profits and the admission of new partners.

5 – LABOUR

Labour in Portugal is mainly regulated by the Working Code, in force since December 2003, as well as by many collective agreements made between employers and employees' representative organisations.

Labour matters have a close connection with social security, which in Portugal is obligatory. It provides cover for accidents at work and retirement.

LABOUR REGIME

General labour contracts do not have to be in writing. However, labour contracts with a defined period must be in written form.

Labour contracts with foreigners from outside the EU must always be written and must be registered with the government.

Trial periods vary from 15 days to 240 days, unless the collective agreement defines a different period.

Term contracts have a maximum period of six years and are only legally allowed if there is a cause which does not justify the creation of a definitive labour contract, such as an unexpected increase of work, the substitution of employees who are temporarily absent with the right to return to their jobs, etc.

Employers can only terminate a labour contract by following the disciplinary procedures required by law.

SOCIAL SECURITY

All employees and self-employed persons must be covered by social security, although there are some specific social security schemes for certain activities.

Employers must withhold 11% of the gross salary of the employee and they are required to pay a further 23.75%. The payment of both parts is the responsibility of the employer.

The regime for the self-employed is based on relevant income which is calculated using the social support index (IAS), from 1 x the IAS up to a maximum of 12 x the IAS. For 2014, the IAS is EUR 419.22.

A self-employed person is responsible for the payment of their own social security contribution on the basis of 29.6%.

Furthermore, if a self-employed person performs more than 80% of their activity for one company or person, they are considered to be contractors and should pay a social contribution to the amount of 5% of the services provided by the self-employed person.

6 – TAXATION

The taxation of resident companies is regulated by the Corporate Tax Code (IRC), approved by the Decree-Law 442-B/88 of 30 November 1988 with several amendments; the latest one was introduced by the Law 82-B/2014 of 31 December 2014.

CORPORATE TAX

SUBJECTIVE INCIDENCE

Commercial collective persons, or civil collective persons, and in a general way, all collective persons which have their head offices in Portugal, collective entities which have no legal personality, and entities which may or may not have their head office in Portugal, but receive income in Portugal, are subject to corporate tax.

OBJECTIVE INCIDENCE

Resident companies are subject to tax on their world-wide income, while non-resident companies are only subject to tax on income from a source in Portugal.

TAX DETERMINATION

The tax is calculated based on the company's financial statements with adjustments imposed by law. This means preparing accounts using the Standard Accounting System (SNC), subject to some corrections mentioned in the IRC Code.

Adjustments include the following listed items.

DEPRECIATION

Depreciations are regulated by Decree Nº 25/2009 of 14 September; depreciation defines the useful life of each asset. Beyond this useful life, the depreciation charge will not be considered as a taxable cost.

The following are also not considered as taxable costs:

- Land – costs related with its acquisition
- Private motor vehicles – the cost of a car's acquisition where the amount exceeded EUR 25,000.

NON-DOCUMENTED EXPENSES

Non-documented expenses are not considered deductible for the calculation of taxable profit and furthermore are subject to a special stand-alone tax at a rate of 50%.

SPECIAL STAND-ALONE TAX

Expenses related with private motor-vehicles are also subject to a special stand-alone tax at a rate of 10%. This rate could increase to 27.5% or 35% depending if the cost of acquisition of the vehicles exceeds the legal limits (EUR 25,000 and EUR 35,000 respectively).

Representation expenses are tax-deductible expenses, but are subject to a special stand-alone tax at a rate of 10%.

Per-diem allowances and expenses relating to motor-vehicle trips in the service of an employer are also subject to a special stand-alone tax at a rate of 5%.

If a company suffers a tax loss, all the rates of the special stand-alone taxes referred above are increased by 10%.

CAPITAL GAINS

Portuguese law defines capital gains as the difference between the sales proceeds net of expenses and the acquisition cost adjusted for depreciation and increased by the official inflation coefficient; this coefficient is only applied when the seller has held an asset for at least two years.

In the case of land or real estate, the tax authorities have a right to adjust for tax purposes the value stated by the parties on the notarial deed, according to the official tax value calculated according to the rules of the Municipal Property Tax. This will probably introduce a natural change in the tax situation of both parts involved in that contract, since the seller will have a higher capital gain and the buyer will have to pay more Municipal Property Transfer tax.

The capital gains obtained by fixed assets disposals are only taxed at half the value if the sale proceeds are reinvested in fixed assets, during the previous year, the year of the sale or in the two following years. If only part of those proceeds is reinvested, only the percentage not reinvested will be subject to capital gains taxation.

RESERVES

Companies may deduct provisions for doubtful debts (bad debt), the amount and percentage depending on the time they are overdue.

TABLE 4

Deductions depending on months overdue

MONTHS OVERDUE EXCEEDING	MONTHS OVERDUE NOT EXCEEDING	DEDUCTIBLE (%)
6	12	25
12	18	50
18	24	75
24	-	100

RATES

Taxable income is charged at the rate of 21%. Small and medium enterprises are subject to a rate of 17% on the first EUR 15,000 of taxable income. Municipalities may impose an additional charge of 1.5% on taxable income.

Non-resident companies, which have no permanent establishment located in Portugal, are in most cases subject to a rate of 25%, which is withheld at source from the income.

For companies located in the Azores and Madeira, and where profits are obtained there, maximum tax rates are 16.8% and 21%, respectively.

PAYMENT OF CORPORATE TAX

Payment of this tax is made using a three-payment system during the year, based on the IRC determined for the previous year. These advance payments are made in July, September and 15 December.

Companies must also pay a Special Advanced Payment, in March or in two phases during the months of March and October, which is calculated as the difference between 1% of turnover (with a minimum of EUR 1,000 and a maximum of EUR 70,000) and the total amount of the previous year's advanced payment.

If the advanced payments are not enough, the company should pay the difference to the tax due up to the last day of May.

RETURNS

A company must present a return when it begins its activity in Portugal.

Companies must also present annually the income tax return up to the last day of May or in cases where the taxation year does not coincide with the civil year, prior to the last day of the 5th month after the end of the taxation year.

Companies must also present an annual simplified enterprise information (IES) return with accounting and statistical information up to 15 July or, in the cases where the taxation year does not coincide with the civil year, prior to the 15th day of the seventh month after the end of the taxation year.

ENTITIES EXEMPTED FROM CORPORATE INCOME TAX

An automatic exemption applies to the following:

- The state, autonomous regions (Madeira and the Azores), municipal entities, municipal federations and associations, social security entities
- Collective Persons whose objectives are exclusively or predominantly the defence of the environment, scientific research, culture, charity, or social solidarity (providing there is exemption recognition).

SUBSTANCIAL SHAREHOLDING EXEMPTION

A qualifying company (participation equal or higher than 5% and hold by more than 24 months) is not subject to taxation on the dividends paid by the subsidiaries if some conditions are fulfilled.

A sale of relevant shares in a subsidiary by a qualifying company can be made tax free if some conditions are verified.

PERSONAL INCOME TAX

SUBJECTIVE INCIDENCE

Taxpayers are persons who are resident in the Portuguese territory and those who, though not resident, receive income in the country.

OBJECTIVE INCIDENCE

Income subject to taxation is classified into the following categories:

- Income from employment (Category A)
- Self-employed, industrial or agricultural income (Category B)
- Investment income (Category E)

- Property income (Category F)
- Increase in assets (Category G)
- Pensions (Category H).

RESIDENCE

A person is considered a 'resident' if they have been in Portugal for at least 183 days, in any 12 month period beginning or ending in the year, as well as a person who has been in the country fewer than 183 days, but own a house in conditions which suggests the intention to maintain and occupy as habitual residence.

DETERMINATION OF NET INCOME

Net taxable income is arrived by adding the income in each category net of any deductions relating to each category or allowances.

DEDUCTIONS FOR INCOME FROM EMPLOYMENT

Deductions include:

- The amount of EUR 4,104 or social security deductions, if higher
- Indemnities paid by employee to the employer due to unilateral cessation of a labour contract without previous notice as a result of a court decision or by agreement obtained in court
- An indemnity not higher than the basic remuneration corresponding to the previous notice
- Quotas paid to trade unions.

DEDUCTIONS FROM SELF-EMPLOYMENT INCOME

- If the taxpayer is required to keep organised accounts, he can make the deductions allowed by law, which must be registered in his accounts.
- If the taxpayer is taxed by the simplified scheme, the income obtained is taxed by the application of the follow coefficients:
 - 0.15 – Sales of goods and products and services rendered in connection with hotel activities, food and beverage;
 - 0.75 – Professional activities specifically provided in the Personal Income Tax Code;
 - 0.35 – Income of services not covered by previous points;
 - 0.95 – Royalties, investment income generated by business and professional activities, property income, capital gains and other increase in assets;
 - 0.30 – Subsidies not used in operations;
 - 0.10 – Subsidies used in operations and other income from self-employment not covered by previous points.

INVESTMENT INCOME DEDUCTIONS

Profits of companies resident in Portugal or in other EU member state (in the latter case, providing that they fulfil the requirements and conditions of article 2 of Directive 90/435/CEE) distributed to resident persons are only taxed on 50% of the income received or are subject to a flat rate of 28% (definitive withholding tax).

PROPERTY INCOME DEDUCTIONS

Documented repair and maintenance expenses paid by the owner are deductible, as well as the municipal property tax, the stamp tax and all the costs effectively supported and paid by the taxpayer to obtain or guarantee property income.

INCREASE IN ASSETS INCOME DEDUCTIONS

The only deduction legally possible in this category relates to capital gains, where a gain or loss is only considered at 50% of the gain or loss (except gains with sale of social participations).

PENSIONS INCOME DEDUCTIONS

If the income obtained for each beneficiary in this category is equal or less EUR 4,104, it is deductible the totality of the pension. If the total income of each beneficiary is higher than this amount, the amount deductible is EUR 4,104.

The quotas paid by the beneficiary to trade unions may also be deducted from this category of income.

DEDUCTION OF LOSSES

Losses, with some restrictions, are deducted to obtain the total net income.

TAX DUE

The tax due amount is determined by the application of the rates mentioned below:

TABLE 5

Rates for taxable income (2015)

TAXABLE INCOME (EURO)	NORMAL RATE (A)	AVERAGE RATE (B)
Up to 7,000	14.5%	14.5%
7,000 – 20,000	28.5%	23.6%
20,000 – 40,000	37.0%	30.3%
40,000 – 80,000	45.0%	37.65%
80,000 + upwards	48.0%	-

When the taxable income exceeds EUR 7,000, the average rate (B) is applied to the top value of the previous line, and the normal rate (A) is applied to the difference between that value and the taxable income.

TAX DEDUCTIONS

The following items are deducted from the tax due:

- Deductions related with descendants and ascendants living in the same household
- Family overheads
- Expenses for health and health insurance
- Expenses with education and formation
- Expenses with real estate
- Expenses related with alimony
- Deduction due to the invoice requirement
- Expenses with retirement/old people's homes
- Deduction for deficient persons
- International double taxation
- Tax benefits.

RETURNS

Every year taxpayers must present a return which shows his/her income in the previous year.

For taxpayers who only received income in categories A and H, the period to present the return is 15 March until 15 April; for all other taxpayers, is 16 April until 16 May.

NON-RESIDENTS

Like companies, non-resident persons are only subject to definitive withholding taxes at rates depending on the income category:

- Capital gains and other revenues – 28% (25% when allocated to a permanent establishment in Portugal)
- Property income – 28%
- Income from categories A, B and H – 25%.

Profits distributed by Portuguese companies to non-residents are subject to a definitive withholding at source at a rate of 28%.

'NON-HABITUAL RESIDENTS' REGIME

It applies to taxpayers who acquire tax residence in Portugal and have not had the status of tax resident in Portugal in any of the previous five years. The status of non-habitual resident acquires with the inscription of this quality in the register of taxpayers of the Tax Authority until 31 March of the following year in which one becomes tax resident.

The scheme is applicable for a period of 10 consecutive years. After this period taxpayers will be subject to the general rules of the Portuguese Personal Income Tax Code.

Taxation of income from Portuguese sources

The non-habitual residents who receive income from employment and from self-employment resulting from activities considered as "high added value with scientific, artistic or technical character" (included in a list published by the Portuguese Government) will be subject to taxation at a special rate of 20%.

Income from employment and from self-employment resulting from activities not considered as "high added value with scientific, artistic or technical character" and of other types (property, capital gains, interest, dividends and other capital income) will be subject to taxation as income obtained by residents in Portugal according to the general rules of the Portuguese Personal Income Tax Code.

Taxation of income from foreign sources

Additionally, the system establishes a tax exemption for income from foreign sources, including income from employment and self-employment, pensions, property, capital gains, interest, dividends and other capital income, under certain circumstances.

Concerning the property income, capital gains, interest and dividends obtained from abroad, this type of income are exempt from taxation provided they can be taxed in the source State, in accordance with Double Taxation Agreement signed between Portugal and that State. Note that this income is totally exempt from taxation but is obligatorily aggregated to the other income obtained in Portugal (if any) for determining the rate applicable.

VAT

The following operations are subject to VAT:

- Transmission of goods
- Rendering of services
- Importation of goods.

According to the rules of the European Union, most part of the services performed by non-residents to residents in Portugal, who are registered for VAT purposes, are deemed to be performed in Portuguese territory and consequently subject to the Portuguese internal VAT.

EXEMPTIONS

The following exemptions apply:

- Transmission of goods to foreign countries
- Sale and lease of real estate
- Banking and financial activities
- Insurance and reinsurance services
- Postal services
- Education
- Medical and dental services
- Social and welfare services.

TABLE 6

VAT Rates

CONTINENT	MADEIRA	AZORES
6%	5%	5%
13%	12%	10%
23%	22%	18%

REIMBURSEMENTS

Taxpayers located in other EU countries may obtain a reimbursement of the VAT paid on goods and services purchased in Portugal. This is also possible for countries not located in the EU with which Portugal has a reciprocity agreement.

RETURNS

VAT returns must be filed monthly, or quarterly if annual sales are less than EUR 650,000.

If monthly, the returns must be filed with the tax authorities by the 10th day of the second month after the respective period; if quarterly, the return must be filed with those services by 15th day of the second month after the respective period.

All tax returns must be submitted electronically via the Tax Authorities web site.

PROPERTY TRANSFER TAX

The Property Transfer Tax Code was approved at the beginning of 2004, substituting the prior tax regime.

OBJECTIVE INCIDENCE

This applies to the onerous transmission of a property right (including some promissory contracts), the acquisition of 75% or more of the capital of a personal company which has real estate, surface rights, real estate renting and sub-renting for more than 30 years.

SUBJECTIVE INCIDENCE

In this case, the taxpayer is the recipient of the goods transmitted; on a sale, this applies to the acquirer, while in the case of an asset swap, it applies to the one who receives the goods with a higher value.

TAXABLE VALUE

The taxation is calculated by the application of the relevant rates (shown below) to the price agreed by the parts, except when that price is lower than the value fixed for municipal property tax purposes.

In the case of quotas in companies, the taxable value is the value of the real estate corresponding to the higher social participation or quota or the total value.

RATES

General rate	6.5%
Rural	5%
Property rights acquired by offshore companies	10%

TABLE 7

Rates for buildings or flats exclusively destined for permanent habitation

INCIDENCE VALUE (EURO)	MARGINAL RATE TO APPLY (%)	AVERAGE RATE* TO APPLY (%)
Up to 92,407	0	0
92,407 – 126,403	2	0.5379
126,403 – 172,348	5	1.7274
172,348 – 287,213	7	3.8361
287,213 – 574,323	8	-
574.323 + upwards	Single rate of 6%	

* In the upper limit

TABLE 8

Rates for buildings or flats exclusively destined for habitation

INCIDENCE VALUE (EURO)	MARGINAL RATE TO APPLY (%)	AVERAGE RATE* TO APPLY (%)
Up to 92,407	1	0
92,407 – 126,403	2	1.2689
126,403 – 172,348	5	2.2636
172,348 – 287,213	7	4.1578
287,213 – 574,323	8	-
574.323 + upwards	Single rate of 6%	

* In the upper limit.

PERSONAL EXEMPTIONS

Exemptions are made for the following – the state, municipal authorities, ecclesiastical entities, collective entities of public interest or administrative public interest.

REAL EXEMPTIONS

Real exemptions are made for the following:

- Acquisitions of urban real estate (or flats) exclusively destined for permanent habitation, if the value for tax purposes is lower than EUR 92,407
- Acquisitions of real estate for resale
- Acquisitions of land by constructing companies for construction purposes.

MUNICIPAL PROPERTY TAX

Municipal property tax, which was also profoundly changed at the beginning of 2004 (following the approval of the new Code), is an annual levy imposed on the official value of real estate.

The main charge incurred on the taxable value of properties, which is based on objective coefficients, depends on the quality and location of the property.

TABLE 9

Property tax rates

TYPE OF REAL ESTATE	RATES
Rural	0.8%
Urban	0.3% – 0.5%

For property owned by offshore entities, this tax rate is fixed at 7.5%.

This tax is deductible from the personal or corporate income tax relating to rental income.

STAMP TAX

OBJECTIVE INCIDENCE

Stamp tax applies to contracts, documents, titles, books, papers and other items specified in the table attached to the Code.

Since 1 January 2004, non-onerous transmissions to individuals are subject to stamp tax.

SUBJECTIVE INCIDENCE

Taxpayers are entities who must make the liquidation and payment of the stamp tax; the cost is supported by the entity with an economic interest in the act.

Non-onerous transmissions between direct kin (e.g. grandfathers, fathers and sons) are tax-exempt, except non-onerous transmissions of real estate which are subject to taxation at a rate of 0.8%.

MAIN RATES

The following rates also apply:

- Onerous or non-onerous acquisition of real estate and other similar transactions, as well as resolution, invalidity or extinction of contracts – 0.8%
- Each cheque emitted in Portugal – EUR 0.05
- Non-onerous transmissions – 10%
- Guarantees of obligations – 0.04% to 0.6%
- Financial operations – 0.04% to 4%
- Insurance – 3% to 9%
- Goodwill of business establishment – 5%.

TAX TREATIES

TABLE 10

Countries with tax treaties

COUNTRIES	APPLICATION	DIVIDENDS	INTERESTS	ROYALTIES
Algeria	01/05/2006	10%/15%	15%	10%
Austria	28/02/1972	15%	10%	5/10%
Barbados	Not yet in force	5%/15%	10%	5%
Belgium	19/02/1971	15%	15%	10%
Brazil	05/10/2001	10/15%	15%	15%
Bulgaria	18/07/1996	10/15%	10%	10%
Canada	24/10/2001	10/15%	10%	10%
Cape Verde	15/12/2000	10%	10%	10%
Chile	25/08/2008	10/15%	5/10/15%	5/10%
China	08/06/2000	10%	10%	10%
Colombia	30/01/2015	10%	10%	10%
Croatia	Not yet in force	5%/10%	10%	10%
Cuba	28/12/2005	5/10%	10%	5%
Cyprus	16/08/2013	10%	10%	10%
Czech Republic	01/10/1997	10/15%	10%	10%
Denmark	24/05/2002	10%	10%	10%
Estonia	23/07/2004	10%	10%	10%
Ethiopia	Not yet in force	5%/10%	10%	5%
Finland	14/07/1971	10/15%	15%	10%
France	18/11/1972	15%	10/12%	5%
Georgia	Not yet in force	5%/10%	10%	5%
Germany	08/10/1982	15%	10/15%	10%
Greece	13/08/2002	15%	15%	10%
Guinea-Bissau	05/07/2012	10%	10%	10%
Holland	11/08/2000	10%	10%	10%
Hong Kong	03/06/2012	5/10%	10%	5%
Hungary	08/05/2000	10/15%	10%	10%
Iceland	11/04/2002	10/15%	10%	10%
India	05/04/2000	10/15%	10%	10%
Indonesia	11/05/2007	10%	10%	10%
Ireland	11/07/1994	15%	15%	10%
Israel	18/02/2008	5/10/15%	10%	10%
Italy	15/01/1983	15%	15%	12%

Japan	28/07/2013	5/10%	5%/10%	5%
Korea	21/12/1997	10/15%	15%	10%
Kuwait	05/12/2013	5/10%	10%	10%
Latvia	07/03/2003	10%	10%	10%
Lithuania	26/02/2003	10%	10%	10%
Luxembourg	30/12/2000	15%	10/15%	10%
Macao	01/01/1999	10%	10%	10%
Malta	05/04/2002	10/15%	10%	10%
Mexico	09/01/2001	10%	10%	10%
Moldova	18/10/2010	5/10%	10%	8%
Morocco	27/06/2000	10/15%	12%	10%
Mozambique	01/01/1994	15%	10%	10%
Norway	15/06/2012	5/15%	10%	10%
Pakistan	04/06/2007	10/15%	10%	10%
Panama	10/06/2012	10/15%	10%	10%
Peru	12/04/2014	10/15%	10/15%	10/15%
Poland	04/02/1998	10/15%	10%	10%
Qatar	04/04/2014	5/10%	10%	10%
Romania	14/07/1999	10/15%	10%	10%
Russia	11/12/2002	10/15%	10%	10%
San Marino	Not yet in force	10%/15%	10%	10%
Senegal	Not yet in force	5%/10%	10%	10%
Singapore	16/03/2001	10%	10%	10%
Slovakia	02/11/2004	10/15%	10%	10%
Slovenia	13/08/2004	5/15%	10%	5%
South Africa	22/10/2008	10/15%	10%	10%
Spain	28/06/1995	10/15%	15%	5%
Sweden	19/12/2003	10%	10%	10%
Switzerland	18/12/1975	5/15%	10%	5%
Timor	Not yet in force	5/10%	10%	10%
Tunisia	21/08/2000	15%	15%	10%
Turkey	18/12/2006	5/15%	10/15%	10%
Ukraine	11/03/2002	10/15%	10%	10%
United Kingdom	20/01/1969	10/15%	10%	5%
United Arab Emirates	22/05/2012	5/15%	10%	5%
U.S.A.	01/01/1996	5/10/15%	10%	10%
Uruguay	13/09/2012	5/10%	10%	10%
Venezuela	08/01/1998	10/15%	10%	10/12%

7 – ACCOUNTING & REPORTING

Portuguese legislation has applied the 4th EU Directive since 1989. The adoption of the 7th EU Directive relating to the consolidation of accounts occurred in 1991.

All traders must have accounting books. Companies, individual establishments with limited liability and individual establishments regulated by the Commercial Code (if their turnover is higher than EUR 200,000) are required to follow the Standard Accounting System (SNC).

Companies are generally required to deposit their accounts with the Commercial Registry, in accordance with the respective code. This includes the minute approving the accounts, the report of the board, the balance sheet, the profit and loss statement, and the notes to the accounts. For companies which are required to have a statutory auditor, the auditor's report is also attached. This obligation is filed through the submission of the annual simplified enterprise information (IES) return.

In Portugal, companies must adopt one of the following forms of structure:

- Shareholder companies
- Limited liability companies
- General partnerships
- Mixed liability companies
- Limited partnerships.

Shareholder companies must have an external auditor. Limited liability companies are also required to have a statutory auditor if, for two consecutive years, at least two of the following three items are exceeded:

- Balance sheet – EUR 1,500,000
- Net revenue – EUR 3,000,000
- Average number of employees – 50.

The statutory auditor activity is regulated in Portugal in accordance with the 8th EU Directive. Only members (persons or companies) of the Association of Statutory Auditors can act as statutory auditors.

Companies must also have:

- By-laws
- Minute books (general meeting and board of directors)
- Accounting books
 - Accounting books must be legalised before use and must be kept with all supporting documentation for at least twelve years.

8 – UHY REPRESENTATION IN PORTUGAL



CONTACT DETAILS

UHY & Associados SROC Lda
Campo Grande, 28 - 5º Dto.
Lisboa
Portugal
Tel: +351 21 761 3330
Fax: +351 296 283 078
www.uhy-portugal.pt

Year established: 1999
Number of partners: 5
Total staff: 50

CONTACTS

Liaison contact: António Santos
Position: Partner
Email: asantos@uhy-portugal.pt

OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

Lisbon, Porto, Funchal (Madeira Island), Ponta Delgada (Azores Island)

BRIEF DESCRIPTION OF FIRM

UHY & Associados, SROC, Lda (UHY Portugal), is one of the top ten auditing and accounting firms in Portugal with four offices and around 50 employees. UHY Portugal provides services to a variety of small and middle-market companies, including some governmental institutions. UHY Portugal also specialises in corporate tax, VAT planning and all other forms of Portuguese taxation.

SERVICE AREAS

Auditing
Corporate tax
Due diligence
Internal audit services
Mergers & acquisitions
VAT consultancy
Tax structuring

PRINCIPAL OPERATING SECTORS

Agriculture
Building Products
Car manufacturing and components
Construction
Electrical Components & Equipment
Energy: Services, extraction
Health Care
Hotels
Pharmaceuticals
Public Administration

LANGUAGES

Portuguese, English, French, Spanish.



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CURRENT PRINCIPAL CLIENTS

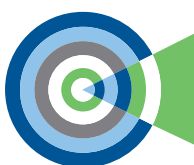
Sesaram - Serviço Regional de Saúde da Madeira
C. Santos – Comércio de Automóveis
Nasamotor - Veículos e Peças, SA
Companhia Geral Agricultura Vinhas Alto Douro
Gesba - Empresa de Gestão do Sector da Banana, Lda.
OLBO & MEHLER TEX PORTUGAL, Lda.
Electricidade dos Açores
Fundação José Berardo
ARM - Águas e Resíduos da Madeira
Investimentos Habitacionais da Madeira
SoniceL – Sociedade Nacional de Electrodomésticos
Câmara Municipal de Machico
Câmara Municipal da Calheta
Câmara Municipal da Loures
Instituto do Emprego e Formação Profissional

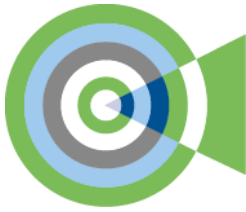
OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Spain, Germany

BRIEF HISTORY OF FIRM

The firm was founded in 1999 by three partners. In 2001 the company became a member of the UHY network. UHY Portugal, with currently, 5 partners, provides professional services legally reserved for statutory auditors, namely consultancy in subjects included in the admission exam to Ordem dos Revisores Oficiais de Contas, the Portuguese official audit body.





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