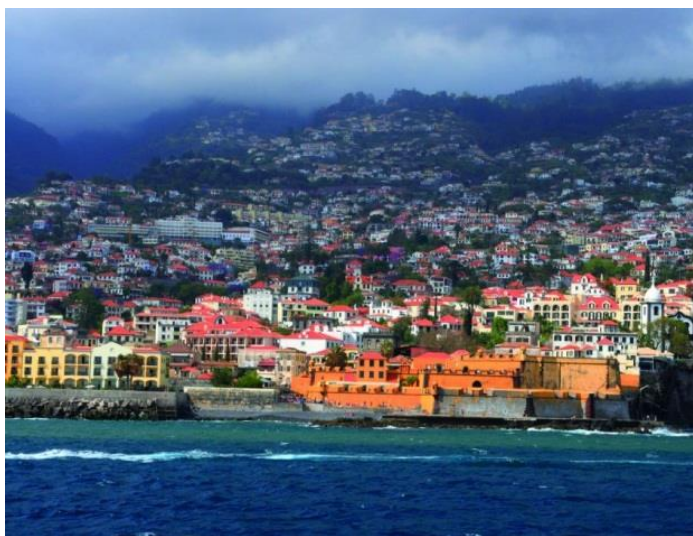




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MADEIRA'S NEW INVESTMENT TAX CODE



TAX & BUSINESS



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INTRODUCTION

A special Investment Tax Code applicable to investments in Madeira (RAM) was enacted in June 2016. The law seeks to adapt the national Investment Tax Code to Madeira's special needs.

The tax benefits were included in Madeira's Investment Tax Code with the aim of strengthening regional business and ensuring the recovery of good market dynamics. This is materialized by introducing incentives to investment and capitalization, and directing support for investments, particularly in areas such as: industry mining, manufacturing, tourism, computer activities and services, research and high tech, environment, energy and telecommunications as well as projects in the field of information technology.

Madeira's Investment Tax Code encompasses four special regimes:

- i. Contractual Tax Benefits regime regarding Productive investments in the Autonomous Region of Madeira;

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- ii. Tax Regime regarding Investment Support in Madeira (RFAI-RAM);
- iii. Deduction Scheme for Retained profits and reinvested in the Region Autonomous Region of Madeira (DLRRRAM);
- iv. Tax Incentives System aimed at Research and Business Development in the Autonomous Region of Madeira (SIFIDE-RAM).

CONTRACTUAL TAX BENEFITS REGIME REGARDING PRODUCTIVE INVESTMENT

An investment may qualify insofar as applications are presented until 31 December 2020 and the investment projects have a value equal or above 1.5 million euros (Madeira island) or 500 thousand euros (Porto Santo island, an island of Madeira's archipelago),

Such benefits may be enjoyed for a period of 10 years and include:

- i. A tax credit up to a value between 10% and 35% of relevant applications;
- ii. An exemption or reductions on the Immovable Property Tax rate; and
- iii. Exemptions on the special tax applicable to transactions of immovable property and stamp duties.

The framework and the regime's uninterrupted application is subject to various objective and subjective conditions, and certain continuous obligations.

FISCAL BENEFITS AIMED AT SUPPORTING INVESTMENT

In order to benefit from tax incentives under the Tax Regime regarding Investment Support in Madeira (RFAI-RAM), corporate taxpayers must make investments that not only create jobs, but also assure their preservation for a certain period of time. This period coincides with the minimum maintenance period for the assets subject to investment (three years in the case of SMEs, and five years in the case of non-SMEs).

This regime allows the taxpayer to deduct 35% of the investment in qualifying assets in the part up to 1.5 million euros and 15% on the remaining part.

Moreover, with regard to investments in qualifying immovable property, the taxpayer may benefit from exemptions to Immovable Property Tax, Transactions on Immovable Property Tax, and Stamp Duties.

DEDUCTION REGIME FOR AND RETAINED EARNINGS REINVESTED

This scheme allows the taxpayer to deduct to the corporate income tax payable up to 15% of retained earnings that are reinvested within two years in qualifying assets. The maximum annual amount of reinvested profits is EUR 1.5 million. This deduction may not exceed 25% of corporate income tax.

RESEARCH AND BUSINESS DEVELOPMENT

As to the Tax Incentives System aimed at Research and Business Development in the Autonomous Region of Madeira (SIFIDE-RAM), it allows the taxpayer to deduct at least 32,5% of expenses incurred in qualifying research and development activities during the concerned period. The benefit is applicable until 2020.

CONCLUSION

Madeira's new Investment Tax Code of Investment is a great tool to spur the development of commercial activity. However, its practical application demands a careful analysis and monitoring of the requirements, so that the investor and taxpayer adequately

mitigate any potential risk of failing to fulfil any of such requirements.

This new instrument further enables Portugal and, particularly, Madeira, as an investment platform, even more so because these four special tax regimes work in perfect harmony with the International Business Centre of Madeira (IBCM) and there are no restrictions on development of business operations installed in the free zone.

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