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At a glance... PORTUGUESE TAX SYSTEM



TAX & BUSINESS



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General information

Portuguese tax system – The Portuguese tax system is based essentially on three groups of taxes: taxes on income, taxes on excise duty and taxes on patrimony. The taxation over income is divided between the Personal Income Tax ("IRS"), a unique and progressive tax that attends to the income and to the composition of the family aggregate, and the Corporate Income Tax ("IRC"), which was recently object of a reform which has repositioned Portugal on top of the international tax competitiveness, as from January 1, 2014 onwards. With respect to excise duties, beyond the Special Excise Duties ("IECs"), there is also the Value Added Tax ("VAT"), with origin on European law, which is based on a liquidation and deduction mechanism throughout the chain production. The taxation over patrimony integrates the Municipal Property Transfer Tax ("IMT") and the Municipal Property Tax ("IMI"), which have replaced the old SISA Tax and the old Municipal Contribution, reverting its revenue to the Municipalities. In addition, there is also the Stamp Duty that has a residual nature, and lies not only over some financial operations, but also over the free transfers in benefit of individuals with or without parental relation, as

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well as over the detention of the so-called “luxury real estate”.

Official Currency – Euro

Means of Establishment/Commercial companies – In Portugal, commercial companies are organized into four groups: Private Limited companies (“sociedades por quotas”), which can be unipersonal and imply a limited responsibility, Corporations (“sociedade anónima”), General Partnerships (“sociedades em nome colectivo”), and Limited Partnerships (“sociedades em comandita”). Most of the companies that are part of the Portuguese enterprise sector have been adopting the form of Private Limited Companies.

Interest Rates – In Portugal, the reference interest rate for the monetary and inter-banking market is EURIBOR (European Interbank Offered Rate), being the most common index EURIBOR at 6 months and EURIBOR at 3 months. Currently, the firstly mentioned rate is fixed at 0.185% and the secondly mentioned rate at 0.082% (variable throughout time).

Accounting Principles – With the purpose of accomplishing the European Union harmonisation plan on the accounting domain, Portugal has adopted the Accounting Normalization System (“SNC”), which succeeded to the Accounting Official Plan (“POC”).

Fiscal Year – The fiscal year corresponds, as a general rule, to the civil year. However, exceptionally, some companies may opt for a different fiscal period for IRC purposes.

Agreements to Avoid Double Taxation – Portugal signed Agreements to Avoid Double Taxation (“DDTs”) with the following countries: South Africa, Germany, Algeria, Austria, Barbados*, Belgium, Brazil, Bulgaria, Cape Verde, Canada, Chile, China, Cyprus, Colombia*, Korea, Cuba, Denmark, Arabic United Emirates, Slovakia, Slovenia, Spain, United States of America, Estonia, Finland, France, Greece, Guinea-Bissau, the Netherlands, Hong Kong, Hungary, India, Indonesia, Ireland, Iceland, Israel, Italy, Japan, Kuwait, Latvia, Lithuania, Luxembourg, Macao, Malta, Morocco, Mexico, Mozambique, Moldova, Norway, Panama, Pakistan, Peru, Poland, Qatar, United Kingdom, Czech Republic, Romania, Russia, San Marino*, Singapore, Sweden, Swiss, East Timor*, Tunisia, Turkey, Ukraine, Uruguay and Venezuela.

Social Security Bilateral Conventions – Portugal signed Social Security Bilateral Agreements with Andorra, Argentina, Australia, Brazil, Cape Verde, Canada, Quebec, Chile, United States of America, Morocco, Moldova, United Kingdom, Tunisia, Ukraine, Uruguay, Venezuela, being also into force a Multilateral Social Latin-American Security Convention and its respective Application Agreement, as well as the European

Regulations applicable to secondments within the European Union.

Social Security – As a rule, the salary and the remunerations paid to dependent workers are subject to Social Security mandatory contributions, at a rate of 11% for the employee and at a 23.75% for the employer.

The members of the board whom have manage or administration functions are also subject to Social Security mandatory contributions, at the same rates, on the value of the remunerations effectively earned on each collective person in which they perform such activity, with a minimum limit of € 419.22 (Social Support Index – “IAS”), which does not apply in the situations where the member of the board accumulates such activity with another remunerated activity which determines the register in a mandatory social protection regime or with a pensioner situation but, in both cases, only as long as the base value considered for the other social protection regime or the amount of the pension paid is equal or superior to the IAS.

In the case of independent workers, the amount of the contributions is calculated, in general, through the application of the contributive rate to the conventional remuneration fixed in one of the taxable base ranges determined with reference to the IAS. The general rate is 29.6%, except in some particular cases, namely the individual entrepreneurs, to whom a rate of 34.75% applies.

Biding Information – The Portuguese tax system foresees the possibility of taxpayers requesting to the tax Administration information about the tax regime applicable to a specific situation that is not clear to the taxpayer. For certainty and legal security reasons, these informations bind the tax Administration regarding that specific situation and, as long as certain requirements are met, these binding informations can be provided with urgency.

Arbitration Courts – Portugal has, since 2011, arbitral courts that, being bounded to legal criteria, issue their decisions within a 6 month period, renewable in certain cases, but which in practice has been respected. The arbitral jurisprudence is, apart from swift, also published online for consultation, making it possible to disclosure in a larger scale the arbitral decisions in comparison to the judicial decisions, in which only the ones emerging from the superior courts are published.

The “Golden Visa” – Portugal introduced in 2012 a Residency Authorization for Investment (so-called “Autorização de Residência para Investimento - ARI”) which allows third country citizens to access free circulation within the Schengen Area, subject to the condition to invest in Portuguese territory and maintain such investment for a minimum period of 5 years.

Such investment can be made through a capital transfer equal or superior to € 1,000,000.00, through the purchase of real

estate with a minimum value of € 500.000,00, or through the creation 10 jobs.

The investment can be made directly or through a company, in which case the amount of the investment will be determined according to the proportion of the participation of the investor within the social capital of the company.

The ARI is valid for a period of one year, and it can be renewed for a subsequent period of two years, in which case the investor should prove that he remained in Portuguese territory for 7 days within the first year and for 14 days within the subsequent two years periods.

Corporate Income Tax ("IRC")

Taxpayers – The collective persons as well as some other entities that are deemed to obtain income in Portuguese territory, whether they are Portuguese tax residents or not, are subject to IRC. The IRC code distinguishes four different groups of taxpayers: (i) entities with their head-offices or places of effective management in the Portuguese territory and which carry out activities of a commercial, industrial or agricultural nature; (ii) entities with their head-office or place of effective management in the Portuguese territory, but which do not carry out activities of a commercial, industrial or agricultural nature; (iii) non-resident entities in Portuguese territory which carry out their activity through a permanent establishment herein; and (iv)

non-resident entities without a permanent establishment in Portuguese territory.

Residency – The collective persons who have their head-office or place of effective management in Portuguese territory are deemed to be Portuguese tax residents.

Taxable Basis – As for the entities which carry out, mainly, activities of a commercial, industrial or agricultural nature, the IRC relies on the respective taxable profit. With regards to collective persons or entities which do not carry out activities of a commercial, industrial or agricultural nature, the IRC relies on the respective global income, corresponding to the sum of the income considered for each of the different categories of IRS, plus the patrimonial increments deriving from free transfers. Regarding the entities, with or without legal personality, which carry out their activities in Portuguese territory through a permanent establishment herein, the IRC relies on the profit imputable to the permanent establishment located in Portuguese territory. As for the entities, with or without legal personality, which do not have their head-office, place of effective management or permanent establishment in Portuguese territory, and the income obtained in this territory is not subject to IRS, the IRC relies on the income of the different categories considered for IRS purposes, plus the patrimonial increments deriving from free transfers.

Taxable Profit – The taxable profit of the collective persons and other entities which carry out activities of a commercial, industrial or agricultural nature, corresponds to the sum of the net earnings for the relevant period plus the positive and negative asset variations of the same period and not reflected in those net earnings, determined according to the accounting and eventually corrected under the terms of the IRC code.

Tax Losses – In case tax losses are obtained, they can be deducted to the taxable profits of one or more of the twelve following fiscal years. The reported losses are limited to 70% of the taxable profit of the fiscal year in which the tax losses from previous fiscal years are intended to be deducted, thus resulting in the fact that at least 30% of the taxable profit obtained is always subject to taxation.

Tax Rates – The taxable amount of the IRC taxpayers is, as a rule, subject to a 23% tax rate (which is 18.4% at the Azores Autonomous Region), in case of Portuguese tax resident entities, and to a 25% tax rate in case of non-resident entities without a permanent establishment in Portugal.

In the case of taxpayers which carry out, directly and mainly, activities of a commercial, industrial or agricultural nature and that qualify as small or medium companies, the IRC rate applicable to the first € 15,000.00 of the taxable amount is 17% (13.6% at the Azores Autonomous Region), being the 23% general

tax rate (18.4% at the Azores Autonomous Region) applicable to the remaining amount.

The global income obtained by entities with their head-office or place of effective management in the Portuguese territory, which do not carry out mainly activities of a commercial, industrial, agricultural nature, is subject to a 21.5% rate (17.2% at the Azores Autonomous Region).

An increased tax rate of 35% still applies to the following income:

- Winnings from lotteries, raffle tickets, as well as any prizes granted at any contests;
- Capital income paid or placed at the disposal on open accounts in the name of one or more holders but for the account of non-identified third parties, except when the beneficial owner is identified;
- Capital income, as defined at the IRS Code, obtained by non-resident entities in Portuguese territory domiciled in country, territory or region subject to a more favorable tax regime, included in the Portuguese “black-list”.

In addition to the mentioned IRC general rate, a municipal surcharge applies at a 1.5% rate on the taxable profit.

The taxable profit subject and not exempt for IRC purposes and obtained by Portuguese tax resident entities which carry out, mainly, activities of a commercial, industrial or agricultural nature, as well as by non-residents with a permanent establishment in Portuguese

territory is also subject to a State surcharge, progressive, according to the following rates:

- 3% on the taxable profit between €1,500,000.00, and €7,500,000.00;
- 5% on the taxable profit between €7,500,000.00 and €35,000,000.00;
- 7% on the taxable profit exceeding €35,000,000.00.

The Portuguese “participation exemption” regime – The profit and reserves distributed, as well as the capital gains or losses realized, are not considered for the purposes of determining the taxable profit of IRC taxpayers, as long as the following conditions are cumulatively met:

- the detention of a shareholding corresponding to, at least, 5% of the share capital or voting rights of the entity that distributed the dividends or generated the capital gain or loss;
- a minimum 24 months uninterrupted detention period, or, in the case of dividends, for an minor period, provided that the shareholding is maintained in order to complete the mentioned 24 months minimum period;
- the entity who distributes the dividends or which share capital is onerously transmitted should be subject and not exempt from IRC or an equivalent tax, at a legal rate not lower than 60% of the applicable IRC rate (i.e.,13.8% in 2014). In case this condition is not fulfilled, it will be necessary that the income derives, at least in 75% from the of exercise of a commercial, industrial or agricultural activity or from rendering services, as long as such

activities are not mainly aimed to the Portuguese market. In addition, the main activity of the participated entity should not be banking and insurance, and most of its income should not derive from passive operations;

- the entity that distributes the dividends or which share capital is onerously transmitted should not have its residence or domicile in a Portuguese “black-listed” country, territory or region.

The above described regime does not apply to the gains or losses deriving from the onerous transmission of shareholdings when the real estate owned by the participated company represents more than 50% of the respective assets, except when the real estate into question is deemed to be used in a commercial, industrial or agricultural activity that does not correspond to real estate rental or purchase and sale.

The international double tax credit – In case the conditions set forth for the application of the “participation exemption” regime are not met, the taxpayer may beneficiate from a tax credit granted to eliminate the economic international double taxation, for which purpose it will be required the detention of 5% of the share capital or voting rights for a minimum period of, at least, 24 months (or, in case such period is not completed upon distribution, it is maintained in order to complete such period).

The double tax credit which is not deducted within the fiscal year where it was generated

can still be used on the following five fiscal years.

The IRC Code foresees that, even if there is no DTT entered into between Portugal and the other country, it may be possible to deduct to taxable amount the tax paid abroad, being such deduction limited to the amount that would be due, according to the IRC Code rules, should the income into question be subject to tax in Portugal.

Withholding tax – Withholding tax applies to capital income, rental income, intellectual property income, remuneration of members of the board and other type of income deemed to be obtained in Portuguese territory by Portuguese tax resident or non-resident entities subject to IRC. The IRC withholding tax assumes, for Portuguese tax resident taxpayers, the nature of a payment on account of the final tax due, except in the following cases:

- when, in the case of entities exempted from IRC, all or part of the capital income are excluded from such exemption;
- when, apart from rental income, the taxpayer is a non-resident entity who does not have a permanent establishment in Portuguese territory or, in case such permanent establishment exists, the income is not attributable to it;
- when the capital income is paid or placed at the disposal in bank accounts opened in the name of one or more holders but for the account of non-identified third parties, except when the beneficial owner is identified.

Payments on account – The entities which carry out mainly commercial, industrial or agricultural activities and the non-resident entities with a permanent establishment in Portugal should make three payments on account, in the tax year to which the taxable profit respects, in the months of July, September and December.

The payments on account made by taxpayers who had a business volume in the previous tax year equal or inferior to €500,000.00 correspond to 80% of the tax amount, divided into three equal amounts. In the case of taxpayers who had a business volume in the previous tax year exceeding €500,000.00, the payments on account correspond to 95% of the tax amount.

If the amount deriving from the total payments on account made exceeds the final tax due, the taxpayer will be reimbursed on the difference.

If the taxpayer verifies that the amount already paid is equal or higher than the IRC that will be due based on the taxable amount of the relevant tax year, he is entitled not to pay the third payment on account. However, whenever it is determined that, as a consequence, an amount higher than 20% of the one that should have been paid was not delivered, compensatory interests will be due.

Such compensatory interests are calculated as from the end of the deadline when the payment should have been made up to the end of the deadline for filing the IRC tax return, or

for paying the IRC self-assessment in case it occurs previously.

Additional payments on account – The obligation to make additional payments on account covers companies that are obliged to make the payments on account and the special payments on account and that, within the previous tax year, were also subject to the State surcharge (which means that their taxable profit exceeded €1,500,000.00). The amount of the additional payments on account depends on the application of the following rates:

- 2.5% on the taxable profit between €1,500,000.00, and €7,500,000.00;
- 4.5% on the taxable profit between €7,500,000.00, and €35,000,000.00;
- 6.5% on the taxable profit exceeding €35,000,000.00.

Special payments on Account – The special payment on account should be made in only one installment during the month of March or, in alternative, into two installments, during the months of March and October of the relevant fiscal year (or during the third and the tenth month, in the case where the tax year adopted by the taxpayer does not correspond to the civil year). The amount of the special payment on account corresponds to 1% of the business volume of the previous tax year, with the minimum limit of €1,000.00 and, when higher, is equal to such limit plus 20% of the exceeding part, with a maximum limit of €70,000.00.

Fiscal transparency – The Portuguese IRC and IRS Codes foresee a direct imputation regime to the shareholders, depending on whether they are collective persons or individuals, regardless of distribution, of the income obtained by the following companies, with the respective head-office or place of effective management in Portuguese territory: (i) civil entities which are not under the commercial form; (ii) professional activity companies; (iii) simple asset administration companies, in which the majority of the share capital belongs to, direct or indirectly, for more than 183 days of the tax year, a familiar group, or whose share capital belongs, in any day of the tax year, to a number of partners not exceeding five and none of them is a public law collective person.

To this effect, “professional activity companies” are deemed to be (i) the companies incorporated for the purpose of developing a professional activity specifically foreseen in the activities list referred by the IRS Code, in which individual partner is a professional of that activity, or , (ii) the companies with income that derives, in more than 75%, of the joint or isolated development of professional activities specifically foresees on the list referred by the IRS Code, as long as, cumulatively, in any day of the tax year, the number of partners does not exceed five, being none of them a public law collective person, and, at least 75% of the share capital is held by professionals who develop said activities, totally or partially, through the company.

Special Company Group Taxation Regime (“Regime Especial de Tributação de Grupos de Sociedades - RETGS”) – Portuguese tax resident taxpayers that are part of an economic group may opt to be taxed under this regime, as long as the following requirements are met:

- the dominant company holds, directly or indirectly, including through companies resident in another Member State of the European Union or of the European Economic Area, as long as, in this last case, there is Administrative cooperation, for, at least, 75% of the share capital of another dominated company (or companies), as long as such share capital grants to the dominant company more than 50% of the voting rights on the dominated company;
- the group companies are tax resident in Portuguese territory and subject to the IRC general regime, to the highest normal rate;
- the dominant company holds the shareholding on the dominated company for more than one year, or since the respective incorporation;
- the dominant company is not dominated by another Portuguese tax resident company;
- the dominant company did not renounce to the application of the regime within the previous three years.

The option for the RETGS should be made until the third month of the relevant fiscal tax year.

Regarding each of the tax years covered by the application of the RETGS, the taxable profit of

the group is calculated by dominant company, through the sum of the taxable profits and the tax losses deriving from the individual IRC tax returns filed by each of the companies that belong to the group.

Simplified Regime – the Portuguese tax resident taxpayers that are not exempt nor subject to a special taxation regime and that develop mainly a commercial, industrial or agricultural activity may opt for the application of the simplified regime for the determination of the taxable amount, as long as the following conditions are cumulatively met:

- such taxpayers have obtained, on the previous tax year, an annual gross amount of income not exceeding €200,000.00;
- the total of their balance sheet related to the previous tax year does not exceed €500,000.00;
- such taxpayers are not legally obligated to legally review their accounts;
- the respective share capital is not held in more than 20%, directly or indirectly, by entities who do not fulfill any of the previously referred conditions, except when they are venture capital companies or venture capital investors;
- such taxpayers adopt the accounting normalization regime for micro-entities;
- the mentioned taxpayers did not renounce to the application of the regime within the previous three years, with reference to the date when the application of the regime begins.

The option for the application of the simplified regime should be formalized in the declaration filed upon the commencement of the activity, or in the declaration filed upon the verification of any changes to the activity, until the end of the 2nd month following the tax period in which the taxpayer intends to initiate the application of the mentioned regime.

For the purposes of the application of the simplified regime, the relevant taxable amount is obtained through the application of the following coefficients:

- 0.04 of the merchandise and product sales, as well as of the services rendered within a hotel management activity and similar, restaurants and beverages;
- 0.75 of the income deriving from the professional activities foreseen in the IRS Code;
- 0.10 of the remaining income deriving from services rendered and operating subsidies;
- 0.30 of the non-operating subsidies;
- 0.95 of the income deriving from contracts regarding the cession or temporary use of intellectual or industrial property or “know-how” acquired on the industrial, commercial or scientific sector, from other capital income, from the positive result of rental income, from the positive balance of the gains and losses and from the remaining patrimonial increments;
- 1.00 of the acquisition value of the patrimonial increments obtained free of charge.

The value of the taxable amount determined according to the above mentioned rules cannot be less than 60% of the annual value of the minimum guaranteed monthly retribution.

Transfer Pricing – In the commercial operations, including operations or series of operations over assets, rights or services, as well as in the financial operations, performed between a taxpayer and any other entity, subject or not to IRC, with whom the taxpayer is in a situation of special relations, the terms and conditions to be agreed should be substantially identical to the terms and conditions that would normally be agreed between independent entities in comparable operations.

There are special relations between two entities in the situations in which one of them has the power to exercise, directly or indirectly, significant influence in the management decisions of the other, which is deemed to be the case, namely, when:

- an entity and the respective shareholders, or the spouse, or the respective ascendants or descendants, who hold, directly or indirectly, a participation not lower than 20% of the share capital or of the voting rights;
- entities in which the same shareholders, their spouses, ascendants or descendants hold, direct or indirectly, a participation not lower than 20% of the share capital or of the voting rights;
- an entity and the members of its boards, or of any management, direction or

supervision board, and the respective spouses, ascendants or descendants;

- entities in which the majority of the members of any management, direction or supervision boards are the same people or, although being different people, are connected between themselves through marriage, legally recognized cohabiting couples, or direct family relationship;
- entities connected through a subordination contract, a group parity contract or other contract with a similar effect;
- companies which are in a control relation, under the terms of the commercial companies code;
- entities with a legal relation which allows, under its terms and conditions, that one of them influences the management decisions of the other, depending on facts or circumstances which are not related to their own business or professional relation;
- a resident or a non-resident entity with a permanent establishment located in Portuguese territory and an entity subject to a clearly more favorable tax regime resident in a country, territory or region included in the Portuguese "black list".

The taxpayer must keep the documentation related to the transfer pricing policy fully organized, including the guidelines or instructions related to its application, the contracts and other legal acts concluded with entities with whom the taxpayer is in a situation of "special relations", with mention to the changes that occur and with information on the respective compliance, documentation

and information related to such entities, as well as to the companies and goods or services used for comparison, the functional and financial analysis and the sectorial data, and remaining information and elements taken into consideration for the determination of terms and conditions commonly agreed, accepted or practiced between independent entities and for the selection of the method or methods used.

The taxpayer must also indicate, in the declaration for annual accounting and tax information, the existence or absence, in the relevant tax period, of any transactions with entities with whom the taxpayer is in a situation of special relations. In case the taxpayer declares the existence of such transactions, it must also identify the entities concerned, the amounts of the transactions performed and declare if he organized, at the time that the transactions occurred, and still keeps, the documentation related to transfer pricing.

Imputation of Income from Non-Resident Entities Subject to a Favorable Tax Regime ("Controlled Foreign Companies")

– The profits or income obtained by non-resident entities in Portuguese territory and subject to a clearly more favorable tax regime are imputed to Portuguese tax resident taxpayers that hold, directly or indirectly, including through a mandatary, fiduciary or intermediary, at least 25% of the share capital, of the voting rights or of the rights over income or patrimonial elements of these entities, or

10%, when at least 50% of the share capital, of the voting rights or of the rights to the income or patrimonial elements are held, directly or indirectly, including through a mandatary, fiduciary or intermediary, by Portuguese resident taxpayers for IRC or IRS purposes.

This imputation is made in the taxable base related to the tax period that integrates the end of the tax period of the non-resident entity, by the amount of the respective profit or income, depending on the situation, obtained by such non-resident entity, in accordance with the share capital proportion or the rights over income or patrimonial elements held, directly or indirectly, including through a mandatary, fiduciary or intermediary, by the taxpayer.

Under this imputation system, an entity is deemed to be subject to a clearly more favorable tax regime when: (i) its residency territory is included in the Portuguese “black-list”; (ii) such entity is, in its residency territory, exempted or not subject to a tax identical or similar to the IRC; or (iii) the tax rate applicable to such entity is less than 60% of the general IRC rate.

Some entities are excluded from this scheme, depending on its activity and as long as certain requirements are met.

Income Tax Return - The IRC taxpayers must annually submit a periodic income tax return, in its official form, as a rule until the last day of the month of May. The tax will then be self-

assessed and must be paid within the mentioned deadline.

PERSONAL INCOME TAX (IRS)

Liability – Portuguese tax resident individuals are liable to IRS on their worldwide income. Non-resident individuals are liable to IRS only on their Portuguese source income.

Residency - According to the IRS Code, an individual is deemed to be resident in Portuguese territory when, in the relevant year:

- he/she remained in Portugal more than 183 days, consecutive or otherwise; or
- even if having remained in Portugal for fewer days, he/she have, in the 31st of December of the relevant year, a house in such conditions that makes it his/her habitual abode; or
- in the 31st of December of the relevant year, he/she is a crew member of a ship or an aircraft that are serving entities with their residency, head office or place of effective management in Portuguese territory; or
- he/she perform abroad functions or commissions of a public nature at the service of the Portuguese State.

Members of the family aggregate are also deemed to be resident in the Portuguese territory, as long as any of the members holding its direction is resident in Portugal, although it is possible that the non-resident spouse proves otherwise.

Portuguese nationals who relocate their tax residency to a country, territory or region subject to a clearly more favorable tax regime, included in the Portuguese “black-list” are also deemed to be Portuguese tax residents, in the year of such relocation and in the subsequent four years, unless the individual concerned proves that his/her relocation is due to justifiable reasons, such as the exercise in that territory of a temporary activity in account of an employer domiciled in Portugal.

Non-habitual Tax Residents - The non-habitual tax residents regime in Portuguese territory was recently created, applying to taxpayers who become Portuguese tax residents in accordance with the already described criteria and were not resident in the Portuguese territory in any of the previous five years.

The taxpayer who qualifies as a non-habitual tax resident acquires the right to be taxed as such for a period of 10 consecutive years, as from the year of his/her registration as resident in the Portuguese territory.

The recognition of this status depends on the register of the taxpayer as a non-habitual tax resident within the legal deadline and allows the taxpayer to benefit from the application of the exemption method for elimination of international double taxation on almost all of the respective income obtained abroad. The non-habitual tax resident taxpayers can also benefit from a 20% flat rate on employment income (category A) and entrepreneurial and professional income (category B) obtained in

the exercise of the so-called “high added value” activities.

Taxable Basis – In the case of Portuguese tax residents, the IRS relies on their worldwide income. As for the non-residents, they are only taxed on the income deemed to be obtained in Portuguese territory.

Taxable Income – The income of individual persons are liable to IRS according to the category which they integrate. The following categories are foreseen: Category A (employment income), category B (entrepreneurial and professional income), category E (capital income), category F (rental income), category G (capital gains) and category H (pensions).

Aggregation - Once the specific deductions are applied, the income from the various categories is aggregated, for the purpose of its joint taxation. With regard to Portuguese tax residents, the aggregation is levied on all of their income, with the exception of the income subject to withholding tax or special tax flat rates, as well as whenever the taxpayer does not opt for the income aggregation, in the cases where this option is legally foreseen. As for the non-residents, the respective income is not usually aggregated, although there are some situations in which such taxpayers may opt for their income’s aggregation - for example, income obtained by individuals who are residents in other European Union Member States.

Rates – Complying with the principle of the taxation according to the contributive capacity, for IRS purposes, there are various levels of taxation with progressive rates, applicable according to the annual income of the taxpayer. Here are the applicable rates for 2014:

Taxable Income	Rate	Deductible allowance
Up to €7,000	14.50 %	---
Between €7,000 and €20,000	28.50 %	€ 980
Between €20,001 and €40,000	37%	€ 2,680
Between €40,001 and €80,000	45%	€ 5,880
More than €80,000	48%	€ 8,280

Additional solidarity tax – Taxable income exceeding € 80,000.00 up to € 250,000.00 a 2.5% additional solidarity tax rate applies. Cumulatively, taxable income exceeding € 250,000.00 is subject to a 5% additional solidarity tax rate.

Surcharge - A surcharge of 3.5% applies to all aggregated income in the IRS annual declaration, obtained by Portuguese tax resident individuals, as well as to some types of income subject to special rates, such as certain types of income obtained by non-habitual tax residents in Portugal.

The taxpayers who obtain employment income (category A) and pensions (category H) will be subject to a monthly withholding, as a payment on account of the final surcharge due, to be determined upon the submission of the annual IRS declaration, which can lead to a reimbursement.

As for the remaining IRS income categories, the surcharge will be calculated only on final terms, after the submission of the annual IRS declaration.

Flat rates – The taxation of non-residents is carried out almost exclusively through withholding tax rates (as a rule, 25%). With regard to residents, the withholding tax rates are primarily applied to most of capital income, rental income and capital gains, being however the taxpayer entitled to choose between the application of the flat rate or the income aggregation. For Portuguese tax resident individuals, the flat rate applicable to capital income, rental income and capital gains is 28%.

Taxable Income Deductions - In order to personalize the IRS, some taxable income deductions are allowed, most of correspond to the following:

- 10% of health expenses exempted from VAT or subject to the VAT 6% reduced rate up to a maximum amount of € 838.44;
- 30% of education and training expenses, up to a maximum limit of € 760.00;

- 20% of the alimony payments, with a monthly maximum amount of € 419.22 per beneficiary;
- 25% of the expenses with elderly homes with a maximum limit of € 403.75;
- 15% of the housing expenses, up to a maximum limit of € 296.00 or of € 414.00, depending on the type of expenses.

However, these deductions are subject to the following limits:

Taxable income bracket (€)	Limit (€)
Up to 7,000	No limit
Between 7,001 and 20,000	100
Between 20,001 and 40,000	80
Between 40,001 and 80,000	60
More than 80,000	0

The tax benefits foreseen under the law are also deductible to the taxable income, with the following limits:

Taxable income bracket (€)	Limit (€)
Up to 7,000	No limit
Between 7,001 and 20,000	1,250
Between 20,001 and 40,000	1,000
Between 40,001 and 80,000	500
More than 80,000	0

Elimination of International Double Taxation -
 As for the income obtained abroad, and to eliminate the international double taxation, the tax effectively paid abroad or the tax that

would be due in Portugal (depending on which is lower) is deductible to the taxable income, except for the income obtained abroad by "non-habitual residents", in which case the exemption method applies as long as certain conditions are met.

Income Statements - Taxpayers shall submit an official Form (Model 3), which shall include the income obtained in the previous year, as well as other relevant informations on their tax situation. This Form may be submitted in paper, at any tax office, during the months of March (if only employment income or pensions were obtained) or of April (if other types of income have been obtained), or through the internet, during the months of April (if only employment income or pensions were obtained) or May (if other types of income have been obtained).

VALUE ADDED TAX (VAT)

Objective Incidence – Onerous transfers of goods and services performed by a VAT taxpayer acting as such, in national territory, are subject to VAT. The importations and the intra-communitary acquisitions of goods and services are also subject to VAT.

Subjective Incidence - Individuals or collective persons carrying on an economic activity or performing a single taxable transaction which is liable to IRS (for example, an isolated act) or to IRC are deemed to be VAT taxpayers.

Location of Transactions - Depending on the taxable transactions into question, different criteria for determining the location of the operation are used. As a rule, in the onerous transfers of goods, the operation is deemed to be subject to VAT in Portugal whenever the transport of the goods concerned begins in Portugal or, in the cases where is no such transport, if the goods are located in Portuguese territory at the time they are made available to the purchaser. With respect to services rendered, in case such transaction is performed between VAT taxpayers, such operation is deemed to be subject to VAT in Portugal if the domicile of the service acquirer is located in Portuguese territory ("B2B" rule), or in the cases where the service acquirer is not a VAT taxpayer, when the provider has its head office or permanent establishment or domicile in Portuguese territory from which the services are provided ("B2C" rule).

Taxable Value – The taxable value is the value of the compensation obtained or to be obtained in each transaction. This value includes other taxes, rights or rates, as well as accessory expenses incurred by the purchaser or acquirer (commissions, packaging, and transport, insurance and advertising). However, the taxable value does not include discounts, rebates and bonuses granted.

Taxable event – The VAT is due at the time when the transferred goods are made available to the purchaser and that the services are considered to have been performed. In the situations where there is a legal obligation to

issue an invoice, VAT is deemed to be due within the following 5 business days, notwithstanding the VAT cash regime. In the case of prepayments or payments in advance, VAT is due upon such payments are received.

Rate - The standard VAT rate is 23%. There is also an intermediate rate of 13% and a reduced rate of 6% for a limited and reduced list of goods and services. In the Autonomous Region of Azores, the above mentioned rates are 18%, 10% and 5%, respectively and in the Autonomous Region of Madeira, the applicable rates are 22%, 12% and 5%, respectively.

Right of deduction - The VAT borne by the taxpayer on purchases of goods or services is deductible to the VAT charged on active operations (sale of goods or services), as long as certain conditions are met.

Reporting obligations - VAT taxpayers are obliged to submit periodic declarations, in an official form or through electronic data transmission, in which the taxable transactions and their values are disclosed. When the taxpayers are subject to the normal monthly regime (for an annual turnover equal or higher than € 650,000.00), the submission deadline corresponds to the 10th day of the 2nd month following the month in which the transactions took place. For taxpayers who are subject to the normal quarterly regime (for annual business turnover below to € 650,000.00), the submission deadline corresponds to the 15th day of the 2nd month following the

calendar quarter in which the operations took place.

Payment - The payment of the tax must be made within the legal deadline of the periodic declarations.

Exemption Regime – A VAT exemption regime is foreseen for taxpayers who have an annual turnover of equal or lower than € 10,000.00.

EXCISE DUTY

Tax on Alcohol and Alcohol Beverages

Objective Incidence - This tax is levied on alcoholic beverages, including beer, wine, other fermented beverages, intermediate products, spirit drinks and ethyl alcohol.

Taxable Base – The taxable value depends on the type of alcoholic beverage into question and it is defined according to the number of hectolitre/degree plato, to the acquired alcoholic degree of the finished product, to the number of hectolitres of the finished product, or to the hectolitre of alcohol.

Rate - The rate is not defined in terms of a percentage, but through a value fixed in EUR to be applied accordingly to the hectolitres produced. The rate varies between € 7.53/hl for some beers and a rate of € 1,251.72/hl for spirit drinks.

Tobacco Tax

Objective Incidence - The tax is levied on manufactured tobacco, cigars and cigarillos, cigarettes, smoking tobacco, including the fine-cut tobacco for rolling cigarettes and tobacco for smoking water pipe.

Taxable Base – For cigars, cigarillos and tobacco for smoking water pipe, only one rate is applicable on the sale price. On the other hand, for the remaining tobacco two rates are applicable, one over the selling price to the public, to which it is added a specific element, whose taxable unit is constituted by 1,000 in the case of the cigarettes, or by gram in the case of the remaining tobacco.

Rate – Cigars and cigarillos are subject to a rate of 25%. The rate for tobacco of smoking water pipe is 50% over the selling price to the public. With respect to cigarettes, the rate applicable to the specific element is € 87.33, plus a rate of 17% over the selling price to the public. For the remaining tobaccos, the specific element is subject to a rate of € 0.075/gr and the “ad valorem” element is subject to a rate of 20%.

Tax on Petroleum and Energy Products

Objective Incidence - This tax applies to petroleum and energy products, other products to be used for motor fuel, other hydrocarbons, except for peat and natural gas to be used for fuel, as well as electricity defined with the code NC 2716.

Taxable Base – The taxable base of petroleum and energy products is 1000 l converted to the reference temperature of 15° C, or 1000 kg for some petroleum and energy products. For natural gas, the taxable base is the gigajoule and for electricity is the MWh.

Rate – The applicable rates vary according to the petroleum and energy product concerned. Notwithstanding, certain products are subject to reduced and differential rates applicable between the Mainland and the Autonomous Regions of Azores and Madeira (and even among these).

Additional to the rate – An additional to the rate corresponding to € 0.005 per litre on gasoline and to € 0.0025 per litre for diesel and for coloured and marked diesel also applies.

PATRIMONIAL TAXES

The Municipal Property Tax (IMI)

Objective Incidence - IMI applies to the patrimonial value of urban and rustic property located in Portuguese territory.

Subjective Incidence – The IMI taxpayer is the owner, usufructuary or superficiary of a property on the 31st of December of the relevant tax year, regardless of the fact that such individual or entity is a Portuguese tax resident or not.

Taxable Value - The tax applies to the patrimonial value of the property, as mentioned in the tax register of the property.

Rate – Rustic properties (plots of land) are subject to a 0.8% rate. As for the urban properties, the rate, to be set by the Municipalities, varies between 0.3% and 0.5%. For properties owned by entities resident for tax purposes in a country, territory or region subject to a clearly more favorable and included in the Portuguese “black-list” a higher rate of 7.5% applies.

Reporting Obligations - The taxpayer has the obligation to promote the tax register of the property, as well as to request for the update of such tax register when an event which is deemed to change the taxable value of the property occurs.

Payment - When the tax assessed is equal to or less than € 250.00, the payment must be made in only one installment during the month of April. If the tax assessed exceeds € 250.00, but is equal to or less than € 500.00, the payment must be made into two installments, in the months of April and November. Finally, if the tax assessed exceeds € 500.00, the payment must be made into three installments, in the months of April, July and November.

The Municipal Property Transfer Tax (IMT)

Objective Incidence - The IMT applies to the onerous transmissions of the property right or of parts of this right over property located in the Portuguese territory.

Subjective Incidence - The IMT is due by any person, individual or entity, who is a beneficiary of the transferred rights on immovable property located in Portugal, whether or not they are Portuguese tax residents.

Taxable Value – As a rule, the IMT is levied on the disclosed acquisition value or on the patrimonial value of the property, whichever is higher.

Rates - The rate applicable to the acquisition of rustic property (plots of land) is 5%. Urban properties destined exclusively to be a permanent abode are subject to progressive rates, depending on the patrimonial value of the property, with a maximum rate of 6% and a rate of zero for properties with a patrimonial value that does not exceed € 92,407.00. Urban properties destined exclusively for housing purposes (but not for a permanent abode), the rate is also progressive and it can vary between 1% and 6%. Urban properties not destined for housing are subject to a 6.5% rate. Finally, when the purchaser is resident or has its head-office in a country, territory or region subject to a more favourable tax regime included in the Portuguese “black-list”, a higher rate of 10% applies, without the

possibility of benefiting from any reduction or exemption.

Reporting Obligations - Purchasers of real estate are required to file, at any tax office or through electronic means, an IMT Form duly filled, which, amongst other elements, shall include the identification of the property and the value of the respective purchase.

Payment - The IMT should usually be paid on the assessment day or on the following day and before the taxable event occurs. If the property transmission occurs by means of an act or contract signed abroad, IMT must be paid during the following month.

STAMP DUTY (IS)

Objective Incidence - The stamp duty is due over acts, contracts, documents, titles, papers and other facts that are listed in the table attached to the IS Code. Acts or contracts subject to stamp duty are, consequently, not subject to VAT.

Subjective Incidence – IS taxpayers include notaries, registrars, financial institutions, insurers, landlords and sub-landlords, as well as the entities granting contest prizes.

Tax Burden - The stamp duty is a burden of the economic interest holders under the situations specified in the list attached to the IS Code. The IS Code defines, in some specific situations, who is the holder of the economic interest.

Rate - The stamp duty rate is determined in the list attached to the IS Code, and varies depending on the concerned operation, although the general rate is 10%.

Luxury Real Estate Rate - A rate of 1% applies to the patrimonial value of urban property and construction land equal or higher than € 1,000,000.00. The taxpayers are the owners, the usufructuaries or the superficiaries of such properties.

Exemption of free transfers - When the beneficiaries of free transfers (in life or upon death) are the spouse, the unmarried partner, or direct ascendants and descendants of the transferor, such transfers are exempt from IS, although they should be reported to the tax authorities.

Payment – As a rule, the tax payment must usually take place at the tax offices until the 20th of the month following the taxable event.

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