Independent legal & accounting firms

Doing Business in Portugal

Edition # 1 / November2021

Doing business in Portugal

MSI's guide on Doing Business in Portugal provides current information about the financial, regulatory and legal considerations that could affect business dealings within Portugal. For further assistance please contact our MSI member firms in Portugal.

Country overview

Population
Portugal has a total population of 10,286,300 million inhabitants (2019).

Government
Portugal is a semi-presidential democracy. The head of state is the President of Republic which is elected by universal direct suffrage for a five-year term with a limit of two terms.

The Parliament is currently composed of 230 members elected every four years also by universal direct suffrage and of which the Government emerges being then appointed by the President of Republic.

Beside the Central Administration, Portugal has Local Administration (municipalities and parishes) and two Autonomous Regions – Azores and Madeira – each with is own local authorities.

Languages
The national language is Portuguese. However, most people speak English as well, especially in the big cities like Lisbon, Oporto, Faro, Coimbra and Aveiro, and in Madeira and Azores.

Currency
The national currency is the Euro.

Economic summary
GDP: €210.291,1 billion
Income per capita: €20,276
Inflation: 0,0%

Main sectors of the economy
Portugal has a vibrant and stable economy, with a relatively low inflation and low unemployment rate, which have helped to ensure economic growth and the diversification of its economical areas and sectors.

Even though Portugal is an import and export nation, in the last years the Portuguese economy has diversified and encompasses the traditional areas, such as agriculture or manufacturing, and sectors with the modern areas, such as chemicals or technology, without forgetting tourism.

The country's perfect geographical strategic position, as the most southern European country, offers excellent conditions to promote and develop maritime connections, particularly with the African and American continents, with harbours near Lisbon and Oporto, which are also served by airports, including Faro.

Beside the airports and harbours, Portugal has developed a modern road network, comprising motorways ("auto-estradas"), main roads ("itinerários principais"), secondary roads ("itinerários complementares"), national roads ("estradas nacionais") and municipal roads ("estradas municipais"), providing north-south and east-west connections, with the major cities and into Spain, being also possible to travel by train across the country and into the principal European cities.

Finally, Germany, Spain, Great Britain, France, Italy, The Netherlands, United States of America, and Angola are the country's main import and export trade partners.

EU country / Non-EU and its impact on businesses and investors
Portugal is a member state of the European Union since 1986 and is an attractive base for doing business and for investment inbound and outbound, particularly with Africa and America, with a significant network of Double Taxation Agreements signed with EU and Non-EU countries across the world.

Beside a favourable environment to investments, it is worth notice that the workforce is highly skilled and well-educated given an effort made by the Portuguese Authorities since Portugal became an EU member state.

Setting up a business

Under Portuguese law a foreign individual
or company may operate in the Portugal through an incorporated or unincorporated entity or branch.

Portuguese corporate law provides a flexible and liberal framework for the organization of subsidiaries or branches and there are no special restrictions for a foreign entrepreneur to do business in Portugal.

The business operations can be set up in Portugal with or without a legal personality. If a legal entity has legal personality, the entrepreneur cannot be held liable for more than the sum it contributed to the company's capital.

Legal types of business entities
1. Branch ("Sucursal");
2. Limited Liability Sole Proprietorship ("Estabelecimento Individual de Responsabilidade Limitada" or "EIRL");

3. Partnership (“Sociedade em Nome Colectivo” or “SNC”);
4. Limited partnership (“Sociedade em Comandita” or “SC”);
5. Private Limited Liability Company (“Sociedade por Quotas” or “SQ”);
6. Single Shareholder Private Limited Company (“Sociedade por Quotas Unipessoal” or “SQU”);
7. Public Limited Liability Company (“Sociedade Anónima” or “SA”);
8. Cooperative (“Cooperativa”).

In international business, the Branch, the Private Limited Liability Company (“Sociedade por Quotas”), including the Single Shareholder Private Limited Company (“Sociedade por Quotas Unipessoal”) and the Public Limited Liability Company (“Sociedade Anónima”) are most used.

The Private Limited Liability Company (“Sociedade por Quotas” or “SQ”), including the Single Shareholder Private Limited Company (“Sociedade por Quotas Unipessoal”), are incorporated by one or more incorporators, whereas the Public Limited Liability Company (“Sociedade Anónima”) is incorporated by a minimum of five incorporators, and may be pursuant to the execution of a notarial deed of incorporation before a civil law notary or to the execution of a partnership agreement before a lawyer.

The minimum share capital is €1 per shareholder in the Private Limited Liability Company (“Sociedade por Quotas” or “SQ”) and in the Single Shareholder Private Limited Company (“Sociedade por Quotas Unipessoal”) and for the Public Limited Liability Company (“Sociedade Anónima”) the minimum share capital is €50,000.00.

Many foreign companies make use of a subsidiary rather than a branch. The main legal reason to set up a subsidiary, instead of a branch, is the limitation of its liability.

As a shareholder of a subsidiary, the foreign company’s liability is basically limited to the extent of its capital contribution; whereas if the foreign company makes use of a branch, it is fully responsible for all the obligations and liabilities of the branch.

Process of how to set up a business

As foreseen in the Portuguese Law, and in general, the above-mentioned legal types of business entities can be incorporated either by a notarial deed, by a partnership agreement before a lawyer or before Commercial Registry Office, with the “On-the-Spot Firm” project or procedures.

Financial year of taxes and financial accounts

As a general rule, the tax year is the same as the calendar year.

However, entities may choose a different tax year as long as they maintain it for the next five tax periods. These restrictions may not be applicable under some circumstances.

.

Accounting and auditing

Regarding Private Limited Liability Companies (“Sociedade por Quotas” or “SQ”), a statutory audit is required when in 2 consecutive years 2 out of the following 3 criteria are met:

1. Total assets > €1,5 million;
2. Annual turnover > €3 million;
3. Number of employees > 50

And for Public Limited Liability Companies (“Sociedade Anónima” or “SA”), an audit committee and a statutory audit is required when in 2 consecutive years 2 out of the following 3 criteria are met:

1. Total assets > €20 million;
2. Annual turnover > €40 million;
3. Number of employees > 250

Economic and fiscal incentives

The Portuguese government offers different incentive schemes in various sectors to support companies in their business operations, either domestic or abroad.

In fact, apart from economic incentives, such as award of grants, financing or loans with special conditions, preferential rates, or non-refundable rates, are also foreseen tax incentives or benefits that companies and other legal persons can apply for.

With reference to tax incentives, it is worth notice and highlight, and among others, the “participation exemption” or the “patent box” tax regimes.

In fact, if certain circumstances are meet, these two specific tax regimes are very attractive to investors because allow that a significant reduction of the tax burden for investor or no taxation at all.

Incentives foreign investors/ local investors

Under the guidance of the Portuguese Authorities together and in accordance with European Authorities, foreign and local investors can benefit from European Funds for different regions in Portugal aiming and subsidizing different projects to develop areas related with innovation, low-carbon economy, internationalization, human resources or agriculture or digital agenda.

Currently the next economic incentives programme is being discussed and prepared: Portugal 2030 as well the Resilience and Recovery Program within the EU, to boost the economy following the Covid-19 pandemic.

Taxation

The tax system in any given country is invariably an extremely important criterion when it comes to companies finding a country of incorporation. The view taken by the Portuguese government is that the tax system may under no circumstances form an impediment for companies or individuals wishing to invest in Portugal.

In that framework, it is possible to obtain in advance certainty regarding the fiscal qualification of domestic and international corporate structures in the form of Tax Rulings, including advance pricing agreements. In addition, Portugal has also signed tax treaties with many other countries to prevent the occurrence of double taxation.

At the same time, its vast network of tax treaties offers instruments for international tax planning.

In general terms, the Portuguese tax system can be divided into taxes based on income, property, excise duties, vehicles, consumption, and stamp duty.

VAT – A Brief Overview

As a rule, transfers of goods, provisions of services, imports of goods and intra-EU purchases of goods and services are subject to VAT in Portugal. In the case of goods, onerous transfers in Portugal may benefit from exemptions, as is the case with exports and intra-EU transfers of goods. In the case of services, those that are rendered to purchasers headquartered/residing in Portugal or to purchasers who are not subject to VAT are taxed in Portugal. Otherwise, taxation takes place in the country of consumption.

The issuance of invoices by entities that carry out business in Portugal is subject to specific requirements as to the form of issue and its reporting to the Tax Authority. As a rule, invoices must be issued either directly on the website of the Tax Authority (in the case of natural persons) or through software previously certified by the Tax Authority (natural and legal persons). These invoices must be reported monthly, until the 12th of the following month, or at the time of issue, in real time. Transport documents, such as delivery notes, are also subject to mandatory reporting, in this case, prior to the commencement of transport.

VAT – Tax Rates

For VAT purposes, different VAT tax rates are applicable on Portugal Mainland, Azores and Madeira and can range between 4% to 23%.

In short, the VAT tax rates in force in Portugal are as follows:

	Portugal Mainland	Madeira	Azores
General Tax Rate	23%	22%	16%
Intermediate Tax Rate	13%	12%	9%
Reduced Tax rate	6%	5%	4%

It is worth mentioning that self-employed persons, such as freelancers, who undertake a commercial activity or provide services that are subject to VAT on Portuguese territory may be exempt from paying this tax, provided that the following circumstances are met cumulatively:

- They do not have organized accounting and are not obliged to have it.
- They do not perform operations pertaining to import, export, intra-Community transfers of goods or intra-Community supply of services.
- They have not attained a turnover totaling EUR 12,500.

Otherwise, the taxpayer shall be included in the quarterly regime and must pay VAT when invoices are issued.

Personal Income Tax – Tax Residence

There are two main criteria for being considered a resident in Portugal: residents in Portugal are (1) people who have stayed in the country for more than 183 days in a single year; or (2) people who have housing in Portugal on any day of the year and intend to maintain and occupy it as a usual residence.

A tax resident in Portugal is taxed on the total income earned, both in Portugal and abroad. In the first year of tax residency in Portugal, income will be taxed from the first day when the relevant tax residency is obtained, the so-called "partial residency".

Personal Income Tax – Tax Base Residence

The tax base for personal income tax ("*IRS*") purposes is divided into the following:

1. Income from dependent employment (Category A);
2. Income from self-employment and business or professional income (Category B);
3. Investment income (Category E);
4. Rental income (Category F);
5. Capital gains (Category G);
6. Pensions (Category H).

Personal Income Tax – Self-Employment and Business or Professional Activity

A natural person can carry out a business or professional activity without having to register a company. Taxation is done according to the rules of the simplified regime or organised accounting (chartered accountant required). The organised accounting regime may apply, optionally, for income up to € 200,000 and is mandatory for income from this amount. Under the simplified scheme, income subject to taxation results from the application to the gross income of the coefficients set forth by law:

Income	Taxable income rate
Sale of goods	15%
Catering and beverage services and hotel activities	15%
Professional activities (advertising, commission agents, architects, etc.)	75%*
Other services	35%*
Income from intellectual or industrial property, income from capital, property income, balance of capital gains and losses and equity increases	95%
Non-operating subsidies	30%
Operating subsidies and other income	10%*
Services to companies with which there are special relations	100%

*Reduced by 50% and 25%, respectively, in the year of commencement of activity and in the following year if there is no income from dependent work or pensions.

In the case of organised accounting, the accounting result is calculated based on the accounting rules, and the provisions of the Corporate Tax Code apply to adjust the accounting result to the taxed result.

Personal Income Tax – General and Special Tax Rates

In general, the taxable income arising from the sum of the different categories is subject to a general tax rate ranging between 14,5% and 48% in Portugal mainland. In the Azores the tax rate ranges between 10,15% and 38% and in Madeira ranges between 10,15% and 48%.

Alongside the personal income tax rates, is also applicable to the taxable income an additional solidarity surcharge and it is applicable on the taxable income exceeding €80,000.00, as follows:

Taxable Income	Additional Solidarity Surcharge Rate
> €80,000.00 – ≤ € 250,000.00	2,5%
> €250,000.00	5%

Certain types of income may benefit from the application of a special tax rate of 28%. In other words, a fixed rate of 28% may be used as an alternative to the progressive Income Tax rates (14.5% to 48%). Examples of income that may benefit from this rate: dividends; capital gains on the sale of securities (e.g., shares and bonds); income from rent; and interest.

Personal Income Tax – Non-Habitual Tax Regime

Beside the general regime applicable to individuals, the Personal Income Tax Code stipulate a special tax regime designated as "Non-Habitual Tax Regime".

This regime is applicable to all individuals that become tax resident in Portugal without having been so in the last 5 years and entitles the beneficiaries of this regime, if the conditions and provisions stipulated in the IRS Code are fulfilled, to the following:

- Taxation at a flat rate of 20% on Portuguese-sourced income obtained based on dependent or independent work and related to activities with high added value of artistic, scientific or technical nature;
- Exemption from taxation of foreign-source income from dependent work, independent work related to activities with high added value of artistic, scientific, or technical nature, pensions (in the terms mentioned bellow), capital, property, or capital gains, provided that are obtained abroad and if all requirements are met.

It should be stressed that since 2020 <u>the exemption of pensions income is applicable only to the following individuals</u>:

1. Already enrolled and benefiting from the Non-Habitual Tax Regime; or,
2. With applications submitted until 31st, 2020; and or,
3. Considered as tax residents as of March 31st, 2020 and submit their application to the Non-Habitual Tax Regime until March 31st, 2021.

Apart from abovementioned cases, the pensions income obtained abroad is, in general terms, subject to a flat tax rate of 10%.

Personal Income Tax – Non-Habitual Tax Regime and Freelancers

With reference to freelancers, these are individuals who perform an activity to supply services or for commercial or industrial purposes and, as a result of such activities, obtain income which is qualified, for tax purposes, as derived from self-employment or independent work and business income (category B).

The income derived from independent work may be taxed under the rules of the Not-Habitual Tax Regime, if the activity rendered is to be considered as of high added value of artistic, scientific or technical nature.

This means that the Portuguese-source income is subject to a flat tax of 20%. The foreign source is exempted, if:

- it can be taxed in the country of origin in accordance with the double taxation agreement signed between Portugal and the other country;
- or it can be taxed in the other country, territory, or region, in accordance with the OECD Model Tax Convention on Income and on Capital, in cases where there is no convention for eliminating double taxation that has been signed with Portugal, if the country, territory or region is not included in the Portuguese list of tax havens.

If the activity is not to be considered as of high added value of artistic, scientific, or technical nature, the income is subject to a progressive rate that may be as high as 48%.

Corporate income tax – A Brief Overview

The Corporate Tax taxation scheme depends on the activity carried out, and, in certain circumstances, the simplified taxation scheme, similar to that in force for Income Tax, can be chosen.

In general terms, an entity is either engaged in a non-profit activity (association, foundation) or a for-profit activity (company). As a rule, non-profit entities are taxed on subject and non-exempt income, according to the rules set forth for Income Tax categories. In the case of for-profit entities, the amount subject to tax is determined according to the accounting rules, with the corrections provided for in the Corporate Tax Code. For-profit entities may be taxed according to the general regime, according to the simplified regime or even according to the tax transparency regime, in which the taxable amount is attributed to the owners of capital to be taxed.

The option for the simplified regime depends on the fulfilment of the following requirements:

- Annual gross income equal to or less than €200,000.00
- Balance sheet total equal to or less than €500,000.00
- They are not required to audit the financial statements.
- The share capital is not held in more than 20%, directly or indirectly, by an entity that does not comply with the conditions set out above.

The amount subject to taxation is calculated as follows:

Income	Coefficient
Sale of goods	4%*
Catering and beverage services and hotel activities	4%*
Professional activities (advertising, commission agents, architects, etc.)	75%
Other services and operating subsidies	10%*
Non-operating subsidies	30%
Income from intellectual or industrial property, income from capital, property income, balance of capital gains and losses and equity increases	95%
Positive variations on Equity	100%
Local accommodation	35%

**Reduced by 50% and 25%, respectively, in the year of commencement of activity and in the following year.*

Corporate income tax – Tax Transparency

The Tax Transparency regime is mandatory for the following companies:

- Professional companies: companies that perform an activity normally carried out by natural persons on a freelance basis and comply with the other requirements set forth by law.
- Simple asset management companies: companies that manage their own properties and comply with the other requirements set forth by law.

Corporate Income Tax – General and Special Tax Rates

In general, the legal persons subject to corporate income tax ("*IRC*") are taxed by its profit and subject to a rate that can go up to 21%, being a municipal surcharge ("*Derrama Municipal*") and a state surcharge ("*Derrama Estadual*") levied on corporate income tax.

In short, the corporate income tax rates are as follows:

Legal Entities	Portugal Mainland	Madeira	Azores
Resident entities and PE's of non-resident	21%	14,7%	16,8%
Resident entities & PE's of non-resident, certified small / medium companies	17% (for the first €25,000 of taxable income) 21% (for the remaining taxable income)	11,9% (for the first €25,000.00 of taxable income) 14,7% (for the remaining taxable income)	13,6% (for the first €25,000.00 of taxable income 16,8% (for the remaining taxable income)
Resident entities that do not carry out commercial, industry or agricultural activities as their main activity	21%	14,7%	16,8%

It should be highlighted that for companies acting and registered on the International Business Center of Madeira, the corporate income tax rate remains 5%.

The municipal surcharge ("*Derrama Municipal*") is determined by each municipality and can go up to 1,5% of the taxable profit and the state surcharge ("*Derrama Estadual*") is applicable to a taxable profit higher than €1,500,000.00 in the following limits:

Taxable Profit	Portugal Mainland	Madeira	Azores
> €1,500,00.00 – ≤ €7,500,00.00	3%	2,1%	2,4%
> €7,500,00.00 – ≤ €35,000,000.00	5%	3,5%	4%
> €35,000,000.00	9%	6,3%	7,2%

Finally, non-resident entities without PE's in Portugal that obtain income here are taxed in accordance the rules foreseen for personal income tax, in accordance the type of income obtained.

In addition to taxation on profit, companies are also subject to taxation of certain types of expenses they bear. These taxes are intended to discourage certain types of expenses, namely:

Expenditure	Rate
Charges for light passenger cars, light goods vehicles, motorcycles or motorcycles using diesel or gasoline	Between 10% and 35%, for purchase cost from € 27,500
Representation expenses	10%
Undocumented expenses	50%
Allowances and Km paid to workers and not invoiced to customers	5%
Bonuses paid to managers above certain limits, payment of which is not deferred for a minimum period of 3 years, subject to positive performance	35%

These rates are increased by 10% in calculating tax losses in the period. This increase does not apply in the period of commencement of activity and in the following period.

Corporate income tax – Special Tax Scheme for Groups of Companies

If there is a group of companies, the special taxation scheme may apply to groups that, as an alternative to the individual taxation of each company, tax the companies of the Group as if they were a single company. A group of companies exists when a company holds, directly or indirectly, at least 75% of the capital of another or other companies, provided that it also has more than 50% of the voting rights.

Corporate income tax – Special Tax Scheme for Groups of Companies

In operations carried out between an entity and entities in a situation of special relations, prices and conditions apply as if they were independent entities. Entities with an income of € 3,000,000.00 or more are required to have a file containing a description of the operations carried out, as well as the methods used to determine transfer prices. Entities monitored by the Larger Taxpayers Unit are required to deliver the transfer pricing documentation to the Tax Authority. The Larger Taxpayers Unit is a department of the Tax Authority that monitors the largest entities operating in Portugal.

Corporate income tax – Registration procedures

Private persons and companies are registered before the tax authorities and are given a fiscal registration number, including for VAT purposes.

Communication with the tax authorities by way of tax returns and tax assessments is done, as a rule, in an electronic way, through "Portal das Finanças".

Corporate income tax – Parent-Subsidiary Directive (Participation exemption)

Participation exemption is one of the main pillars of corporate income tax.

In general, reserves and profit distribution between companies are exempted from tax.

A participation refers to a situation where a company is the owner of at least 10% of the nominal paid-in capital of a company that is based either in Portugal or abroad (the subsidiary).

This tax regime is also applicable to capital gains obtained with the disposal of shares, if have been held uninterruptedly for a period of 12 months and represent also at least 10% of the share capital or voting rights.

Beside shares, this regime is also applicable to capital gains obtained with the transfer of equity instruments related with the shares transferred and to the transfer of shares and other equity instruments, if in corporate operations such as mergers, divisions or capital contributions, the tax neutrality regime is not applicable.

Corporate income tax – Interest and Royalties Directive

As Portugal is a member state of the European Union, Community directives that allow tax exemption apply when interest or royalties are paid under the conditions set forth by law.

Wage tax

Wage tax is a withholding tax and as such it is an advance payment on income tax and its rate depends on family and personal circumstances and the amount paid, ranging from 0% to 44,2%.

Non-residents who obtain income in Portugal from dependent employment or work are subject to a final withholding tax of 25%.

For freelancer residents in the Portuguese territory who benefit from the Non-Habitual Tax Regime and who render services/ activities considered as of high value-added artistic, scientific or technical nature, the withholding tax is 20%.In all other cases, the withholding tax is applied in accordance to the activity performed, ranging between 11,5% and 25%.

Withholding taxes

With relation to tax withholding, it is worth to notice that dividends are, in general terms, subject to a withholding tax rate of 25%.

However, and within the European Union, the dividends are generally tax free under the participation exemption regime. The same may apply to other countries, depending on the provisions of each Tax-Treaty entered between Portugal and other countries.

Tax incentives for investment made by companies

Tax benefits for productive investment

This is a contractual tax benefit, with a duration of up to 10 years, for investment projects with an eligible investment of € 3,000,000 or more. This measure is subject to fulfilment of access conditions related to financial and economic ratios, and to investment in certain business sectors. The tax benefits of this measure include a deduction from tax collection between 10% and 25% of the investment eligible and made. It also includes exemption or reduction of taxes on real estate or acts and contracts.

Investment support tax scheme (RFAI)

RFAI is a tax benefit for investments in certain regions of Portugal, which provides for deductions from tax collection and exemption or reduction of taxes on real estate or acts and contracts. The deduction from tax collection corresponds to 25% or 10% of the eligible investment made, depending on the region of Portugal in question.

Deduction for retained and reinvested profits (DLRR)

This is a tax benefit for retained and reinvested profits. This benefit applies only to small and medium-sized companies. It operates by deducting from tax collection 10% of retained profits applied to eligible investments. This benefit is applicable up to € 12,000,000 of retained profits.

Tax incentive system in business research and development (SIFIDE II)

This is a tax benefit for research and development activities, acknowledged as such by the Portuguese State. The tax benefit attributed corresponds to a deduction from tax collection based on a double percentage:

- Amount of total expenditure on research and development in the period: 32.5%
- Amount of increase in expenditure in the year, compared to the average of the previous two years, up to € 1,500,000: 50.0%

In the case of SMEs active for less than two years that do not benefit from the 50% incremental rate, an increase of 15% applies on the rate of 32.5%, changing it to 47.5%.

Among the eligible investment, we highlight holding capital in research and development institutions and contributions to investment funds to finance companies dedicated to research and development. This tax benefit depends on the submission of an application.

Tax benefits for the hinterland

It is a tax benefit that aims to encourage the installation of companies in territories in the hinterland of Portugal. This benefit applies only to small and medium-sized companies. The tax benefit corresponds to the reduction of the reduced Corporate Tax rate, applicable to the first 25,000 € of the tax base, from 17% to 12.5%.

Tax incentives for investments made by natural persons

Seed Programme

This is a tax benefit for investment in the capital of SME Start-ups. The benefit corresponds to a deduction from the tax collection of 25% of the eligible investment with a limit of € 100,000. Capital gains resulting from the sale of these investments may also benefit from non-taxation, if held for at least 48 months and if there is reinvestment in the same type of companies. The investment made must be more than € 10,000 per company, and less than 30% of the capital or voting rights. In Portugal, capital gains on the sale of shareholdings in SMEs are reduced by 50%.

Real estate taxation

The purchase and sale of properties located in Portugal may be subject to three taxes, the Municipal Property Tax (IMI), which taxes property, and the Municipal Property Transfer Tax (IMT) and Stamp Duty, which tax the transfer of property. The seller will also be taxed on capital gains, under income tax.

Municipal Property Tax (IMI) and Additional to IMI

IMI is payable by the owner, and the rates are different according to the type of property in question (rustic or urban) and the municipality where the property is located. Rustic properties are subject to a rate of 0.8%, and the rate for urban properties varies between 0.3% and 0.45%, depending on the municipality. These rates triple for vacant properties. The IMI rate is 7.5% if the owner is based in the so-called “tax havens”, as set forth in an Ordinance by the Minister of Finance. This rate also applies if the owner is directly or indirectly controlled by an entity with headquarters in a tax haven. Real estate may also be subject to an additional IMI rate (AIMI) if it exceeds the aggregate value of € 600,000, in excess, or over the entire estate, depending on whether a natural or legal person is at stake. This additional rate does not apply to certain types of property, such as commercial, industrial or services. The AIMI rates applied are as follows:

Taxpayer	Limit	Rate
Natural persons	> € 600,000 and ≤ € 1,000,000	0.7%
	> € 1,000,000 and ≤ € 2,000,000	1.0%
	> 2 000 000 €	1.5%
Legal persons	-	0.4%/Rules for natural persons*
Legal persons in tax haven	-	7.5%

* Properties for private use.

Both the IMI rates and AIMI rates are levied on the Tax Asset Value (VPT), which is not equivalent to the purchase value or the market value. VPT is calculated according to the assumptions of the Tax Authority and, as a rule, corresponds to a value below the market value.

Municipal Property Transfer Tax (IMT)

IMT is payable by the purchaser of the property, the rates varying according to the value of the property and its purpose or type. If the property is intended exclusively for own and permanent housing, the following fees apply:

Contract value or VPT, whichever is higher	Rate
Up to €92,407.00	0%
More than € 92,407,00 and up to €126,403.00	2%
More than €126,403,00 and up to €172,348.00	5%
More than €172,348.00 and up to €287,213.00	7%
More than €287,213.00 and up to €574,323.00	8%
More than €574,323.00 and up to €1,000,000.00	6% (flat)
Greater than €1,000,000.00	7.5% (flat)

If the property is intended for housing, but not permanent (e.g., holiday home), the following rates apply:

Contract value or VPT, whichever is higher	Rate
Up to €92,407.00	1%
More than €92,407.00 and up to €126,403.00	2%
More than €126,403.00 and up to €172,348.00	5%
More than €172,348.00 and up to €287,213.00	7%
More than €287,213.00 and up to €550,836.00	8%
Greater than 550,836.00 and up to €1,000,000.00	6% (flat)
Greater than €1,000,000.00	7.5% (flat)

The purchase of rustic properties is subject to a rate of 5% and the purchase of other properties, other than housing or rustic, is subject to a rate of 6.5%.

Under the same conditions applicable to IMI, entities residing, directly or indirectly, in a tax haven are also subject to an increased rate, in this case, 10%.

Unlike IMI, IMT rates are levied on the value of the contract, that is, on the purchase price. This is not the case only if the VPT is higher than the purchase price, in which case the IMT rates will also apply to the VPT.

Stamp Duty

In addition to the IMT, there will be a 0.8% Stamp Duty rate on the purchase value or the VPT, whichever is higher. Payment of IMT and Stamp Duty must be proven when signing the deed of purchase and sale.

In the case of entities that are in the business of purchase and sale of real estate, exemption from taxes on the purchase may apply, provided that the property is sold within three years.

HR/ Labour Law

Employment law

The Portuguese Labour Code stipulates that an employment agreement may be entered for an indefinite or fixed term or can be permanent.

In relation to fixed term agreements, these contracts can only be renewed for a maximum of 3 consecutive times in a 2-years maximum period, allowing both employer and employee to terminate the contract at the end of the agreed term. It should be noted that the total duration of the maximum renewals of the fixed term labour agreements cannot exceed the initial term of the original agreement.

In addition to the types of employment agreements listed above, it is possible to enter a service commission contract that allows the employer to terminate it at any time without the need to invoke just cause of dismissal, provided that the employer pays the compensation agreed in the contract.

The Portuguese Labour Law establishes a maximum of 8 daily working hours and 40 weekly working hours. The Collective Bargaining Agreement may fix fewer working hours per week or day.

The annual vacation period has the duration of 22 business days. Collective bargaining agreements may extend the duration of the annual vacation period.

All employees are guaranteed a minimum monthly wage, annually defined through specific legislation, after consultation with the Standing Committee for Social Dialogue (CPCS).

For 2021 the national minimum wage is € 665,00 gross per month, for mainland Portugal (14 months per year). In addition to other procedures provided for by law, an employment contract may terminate due to:

a. Expiration;
b. Revocation;
c. Dismissal for cause attributable to the employee;
d. Collective dismissal;
e. Dismissal due to elimination of job;
f. Dismissal for inability to adapt;
g. Unilateral termination of the contract by the employee without just cause;
h. Unilateral termination of the contract by the employee with just cause.

Dismissal of the employee without just cause or for political or ideological reasons is forbidden.

Social Security

Participation in a social security program is mandatory for the workers and the employers, including self-employed.

Together with pension rights, and among other benefits, the workers are entitled to for sickness or unemployment benefits.

Even though employer and workers contribute to the social security system, through monthly payments, it is the employer's responsibility to do so, with the monthly submission of the Remunerations Declaration to the Social Security.

The Social Security has different regimes and, consequently, different rates. The general rate is 11% for the worker and 23,75% for the employee in a total rate of 34,75%.

Freelancers, as self-employed persons, are exempt from making social security contributions during their first year of activity. After the first year, they are required to contribute a minimum of EUR. 20 up until the time they submit their first quarterly declaration indicating the total income resulting from the supply of services, being the rate of 21,4%.

Pension

Given the mandatory participation of workers in the Social Security, and as a rule, the retirement pensions are paid by Social Security to the workers.

However, depending on the sector there may be an obligatory pension fund. The premium is paid directly to the pension fund.

Furthermore, and alongside Social Security and pension funds, all workers have the possibility to contract before an insurance company, a pension savings scheme. The age the pension starts varies depending on the future mortality rates but will be at least 66 years and 6 months for 2021.

Payroll

When starting a business and employing staff, the company must register before the Tax and Social Security Authorities and process is rather fast, through internet.

In addition, all tax and social security compliance and reporting obligations are fulfilled by internet, through specific web portals of Tax and Social Security Authorities, including the reporting of admission of workers before the Social Security Authority.

Visa and work permits

Given the fact that Portugal is a member-state of the EU, all EU individuals can work freely in Portugal without a special working permit or visa.

If an EU national from outside Portugal is employed in Portugal, such individual must register with the tax office and a personal tax identification number is allocated. This procedure must be also done before the Social Security.

Individuals outside the EU must apply for a work permit before taking employment in Portugal.

And one of the visas foreseen is the "visa gold" which goal is to grant residence authorizations in Portugal to third countries nationals with the possibility to move freely throughout the Schengen Area, if engage an Investment Activity, such as investment in real estate, transfer of capital or the creation of jobs.

This visa is granted for an initial period of 01year and renewable for additional periods of 02 years and after the minimum period of 05 years, and if all the legal requirements are met, the beneficiary can apply for the (i) Permanent resident authorization, the (ii) Portuguese citizenship, or in parallel, with both options, the (iii) the right to family reunification, benefiting from all rights attributed to Portuguese citizens from the tax, health, education and social security.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Portugal should seek professional advice from our member firms before making any business or investment decision.

Contact our member firms in Portugal to discuss your requirements:

Legal member: (Lisbon)

Azeredo Perdigão & Associados
www.azeredoperdigao.pt

Miguel de Azeredo Perdigão
miguelperdigao@azeredoperdigao.pt
+351)21 887 91 42

Rua de São Nicolau, n.º 23, 2.º andar
1100-547 Lisbon

Accounting member: (Lisbon, Faro & Porto)

Moneris Group
www.moneris.com

Rui Almeida
rui.almeida@moneris.pt
+351 916 762 672

Pedro Neto
pedro.neto@moneris.pt
+351 917 065 078

Centro Empresarial Arquiparque
Rua Dr. António Loureiro Borges,
n.º 1, 2.º piso
1495-1310 Algés

MSI Global Alliance
10 Queen Street Place
London EC4R 1AG
United Kingdom

www.msiglobal.org