Chandrawat & Partners

Guide to do business in

PORTUGAL

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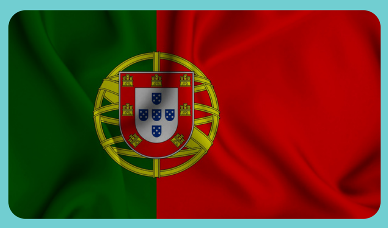

ABOUT PORTUGAL

Lying along the Atlantic coast of the Iberian Peninsula in southwestern Europe, Portugal, officially known as Portuguese Republic, Portuguese República Portuguesa. Portugal occupies one-sixth of the Iberian Peninsula at Europe's southwestern perimeter. EU countries are Portugal's principal trading partners, with Spain, Germany, France, Italy, and the United Kingdom accounting for roughly half of imports and exports. Among Portugal's chief exports are automobiles and transport components, machine tools, textiles, clothing, footwear, paper pulp, wine, cork, plastic molds, and tomato paste. The most important sectors of Portugal's economy were wholesale and retail trade, transport, accommodation, and food services and public administration, defence, education, human health and social work activities and industry. Portugal has been a WTO member since 1 January 1995 and a member of GATT since 6 May 1962. It is a member State of the European Union

ADVANTAGES

Economy

The economy is currently dominated by the services sector, particularly in the tourism industry, followed by the industrial sector, which employs about 25% of the working population and contributes 12% of GDP. The agricultural sector comes in last place, representing about 2.1% of Portugal's GDP and employing 6% of the active population. The dominant industries in Portugal are as follows:

- Metallurgy.
- Mechanical engineering.
- Machinery.
- Electrical and electronics.
- Textile.
- Forest-based industries (wood, cork, pulp, and paper).
- Construction.

Business Culture

Generally, Portuguese entrepreneurs are open to doing business. Although there is a downward trend, many businesses in Portugal are still based on family structures. This is not the case for international groups based in Portugal. The business culture is focused on creating relationships of loyalty and trust.

Foreign Investment

There are no specific authorization requirements for foreign investment. There are no restrictions on foreign shareholders. The same rules apply to both Portuguese and foreign investors.

Grants and Incentives

In an effort to globalise the Portuguese economy, investment in Portugal is supported by incentive mechanisms offered through the National Strategic Reference Framework for the next planning period of EU-level economic and social cohesion funds. Incentive mechanisms usually consist of:

- Repayable incentives (fixed-term interest-free loans).
- Non-repayable incentives (grants).
- A repayable incentive may be replaced by interest rate benefits, if these are provided for in a call for tenders, or converted into a non-repayable incentive, depending on the performance of a project, as set out in the applicable incentive rules.
- Incentive mechanisms must also comply with the applicable EU state aid rules.

Restrictions or prohibitions on doing business

There are no restrictions on doing business with certain countries or jurisdictions. However, anti-money laundering and counter-terrorist financing regulations apply to any company or individual doing business in Portugal.

Exchange control or currency regulations

There are generally no restrictions on foreign exchange operations in Portugal. Under the EU principle of free movement of capital, all restrictions on capital movements and payments between EU member states are prohibited. Therefore, there are no exchange controls or currency regulations affecting inbound or outbound investment, the repatriation of income, capital or dividends, the holding of currency accounts, or the settlement of currency trading transactions between Portugal and others EU member states.

SIMPLE TAX REGIME

Individual - Taxes on personal income

IN Portugal, residents are taxed on their worldwide income at progressive rates varying from 14.5% to 48% for 2023.Non-residents are liable to income tax only on Portuguese-source income, which includes not only that portion of remuneration that can be allocated to the activity carried out in Portugal but also remuneration that is borne by a Portuguese company or permanent establishment (PE).

Non-residents are taxed at a flat rate of 25% on their taxable remuneration in 2023.

Resident income tax rates

Income from EUR 0 to EUR 7,479 is liable to taxed at a rate of 14.5%;
Income from EUR 7,479 to EUR 11,284 is liable to taxed at a rate of 21.0%;
Income from EUR 11,284 to EUR 15,992 is liable to taxed at a rate of 26.5%;
Income from EUR 15,992 to EUR 20,700 is liable to taxed at a rate of 28.5%;
Income from EUR 20,700 to EUR 26,355 is liable to taxed at a rate of 35.0%;
Income from EUR 26,355 to EUR 38,632 is liable to taxed at a rate of 37.0%;
Income from EUR 38,632 to EUR 50,483 is liable to taxed at a rate of 43.5%;
Income from EUR 50,483 to EUR 78,834 is liable to taxed at a rate of 45.0%; and
Income above EUR 78,834 is liable to taxed at a rate of 48.0%.

To be continued.......

For the purpose of applying the tax rate, the taxable income is divided by two if the taxpayers are married and not judicially separated, as well as in the case of de facto marriages, whatever the circumstances, should they opt for joint taxation.

Special rates apply to capital gains and investment income.

Additional solidarity rate

In 2023, an additional solidarity rate, which varies between 2.5% and 5%, applies to taxpayers with a taxable income exceeding EUR 80,000.

Corporate - Taxes on corporate income

Resident companies in Portugal are taxed on their worldwide income. There is an optional regime to exclude from taxation the profits and losses allocated to a foreign PE of a company resident, for tax purposes, in Portugal.

CIT is also applicable to Portugal-source income attributable to a PE of a non-resident company in Portugal. Special withholding tax (WHT) rates apply to income generated in Portugal that is attributable to non-residents without a PE in Portugal (see the Withholding taxes section for more information).

A flat CIT rate of 21% applies on the global amount of taxable income realised by companies resident for tax purposes in mainland Portugal.

Surtaxes

The state surtax is levied on resident taxpayers carrying on commercial, industrial, or agricultural activity and by non-residents with a PE in Portugal. The state surtax is paid in three installments.

Autonomous taxation

Autonomous taxation applies at different rates on certain expenses incurred by entities subject to CIT. It is self-assessed in addition to CIT (even if no CIT is due) at the following rates:

- Representation and entertainment expenses: 10%.
- Mileage allowance: 5%.
- Per diem allowance: 5%.
- Non-documented expenses: 50% (70% for partially or fully exempted taxpayers).

Company car expenses (including depreciation, rentals, leasing, insurance, maintenance, repairs, fuel, and taxes) except vehicles allocated to public transport, or vehicles that are taxed as income in kind for personal income tax (PIT) purposes, depending on the type of vehicle , the acquisition cost, and regardless of the year of acquisition,

PORTUGAL COMPANIES

When a foreign investor decides to set up a company in Portugal, he/she must decide from the beginning upon the type of company he wants to establish. The Company Law in Portugal sets several types of structures from which a foreigner can choose.

Private limited company (sociedade por quotas - LDA)

This type of company is the most common in Portugal. It is usually chosen by foreign investors who want to set up a small business in Portugal. At least two shareholders can establish a private limited company in Portugal, only if they provide a minimum share capital of EUR 5,000. Liability of the founders for company's obligations only extends to their own contributions to the initial capital.

Public company (sociedade anónima - SA)

Foreign investors who want a medium or large sized company choose this type of structure. Public companies in Portugal require a minimum share capital of EUR 50,000 and at least five shareholders in order to be incorporated. Still, the founders are liable for the company's obligations only to the extent of their contributions.

limited partnership (sociedade em comandita - SC)

Partnerships in Portugal are only formed between at least two partners. In order to set up a limited partnership in Portugal, no minimum capital is required. Its particularity is that one partner has to be general and have full liability for the company's obligations (socios comanditarias), while the other one must have limited liability (socios comanditados).

General partnership (sociedade em nome collectivo - SNC)

Just like the limited partnerships, general partnerships also need at least two partners to incorporate them. No minimum capital is required here either. As opposed to the limited partnerships, all the members in a general partnership in Portugal are fully responsible for the company's obligations and they are able to make decisions on behalf of the company and manage the company.

Single shareholder (EIRL) entity

When only one founder decides to set up a company in Portugal, the only type he can incorporate is a company with a single shareholder. This type of structure is quite simple to set up, but it is rather rarely formed. The founder is liable only for the company's assets.

Subsidiary company

A subsidiary is a legal entity that can run under the rules of an LDA if it is a small or medium business or as a joint stock if it is a large company. In any case, a subsidiary is an independent entity from the parent company, it can have the same name or another one as long as it operates with the same activities as the company from abroad. Just like for all companies, a subsidiary must have a representative agent who needs to have residency in Portugal.

Branch Office

Setting up a branch in Portugal is subject to an easy incorporation and the whole process can be supervised by our team of consultants. A branch is dependent on the parent company in a foreign country.

Shelf companies

Shelf companies are ready-made companies already registered and at the disposal of local and foreign entrepreneurs. This kind of company runs as a limited liability company and can be purchased by investors who do not want to start a business from scratch and deal with the formalities of such incorporation. There are no financial activities linked to a shelf company, and therefore, no liabilities. This is another solid benefit of a shelf company that is known by international entrepreneurs.

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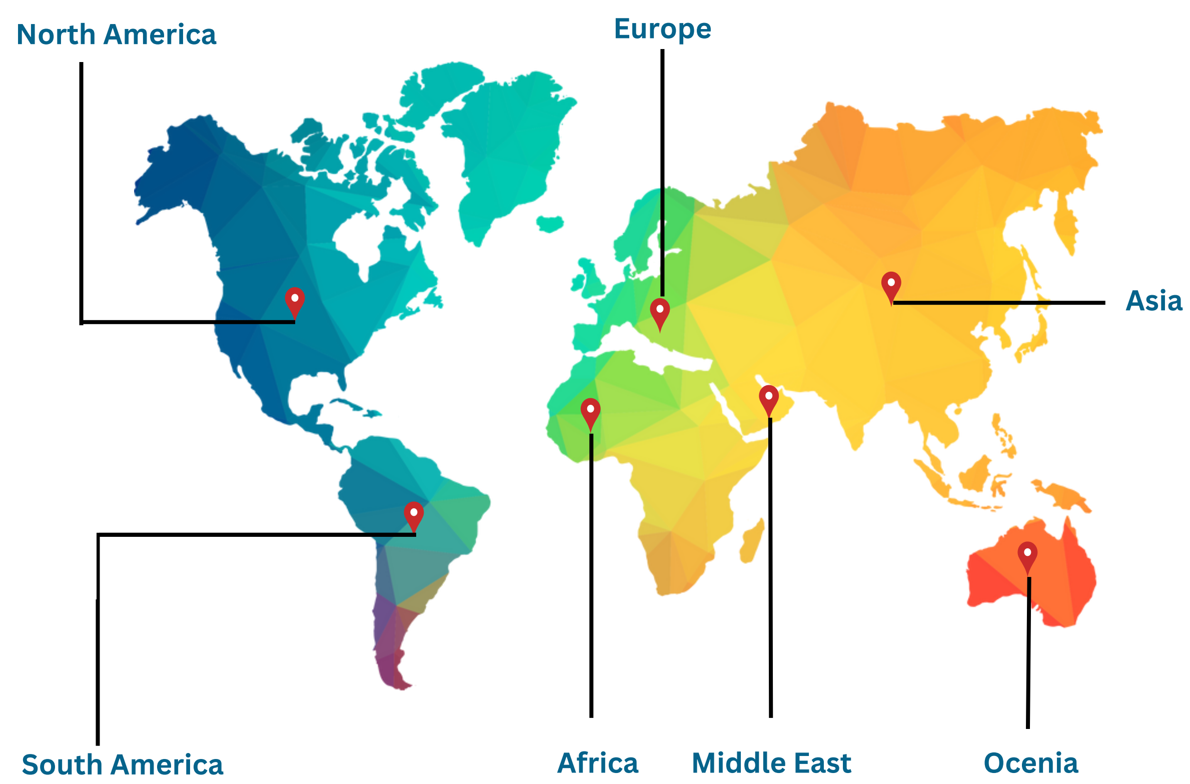
SERVING CLIENTS WORLDWIDE



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