

# Portugal approves new Madeira International Business Centre special tax regime

July 8, 2015

## In brief

The Portuguese Parliament has approved the new special tax regime for the Madeira International Business Centre (MIBC). The regime applies to entities licensed to operate in the MIBC between January 1, 2015, and December 31, 2020.

The regime also has been approved by the European Commission as authorized State Aid. That approval protects the regime through December 31, 2027.

The new regime preserves the main benefits of the previous MIBC regime — promoting the continuity and stability of this popular tax regime, particularly its 5% corporate income tax (CIT) rate.

Companies licensed to operate under the previous regime (i.e., companies licensed through December 31, 2014) may transition to this new regime.

## In detail

### Eligible entities

The new MIBC regime applies to entities licensed between January 1, 2015, and December 31, 2020, to operate in the Madeira (an autonomous region of Portugal) Free Trade Zone. This includes the International Service Centre, the Industrial Free Trade Zone, and the International Shipping Register.

### Eligible activities

The new MIBC tax regime applies to income obtained by licensed entities carrying out various activities, including:

- services
- holdings
- wholesale trading
- transport (including by sea and air) and communications
- real estate
- rentals

### Activities excluded from the MIBC regime

The new MIBC tax regime does not apply to other activities, including intra-group services, financing, and insurance.

### Available tax benefits

The new MIBC tax regime provides the following tax benefits:

### Benefits for licensed entities

- 5% CIT rate on qualifying income (generally income derived from transactions with non-residents and with other MIBC entities)
- exemption from stamp duty, property tax, property transfer tax, and regional and municipal surcharges

(subject to an 80% limitation per tax, transaction, or period).

**Benefits for non-resident shareholders (excluding residents in Portugal and in black-listed jurisdictions)**

- exemption from withholding tax on dividend distributions, regardless of the percentage of ownership or holding period, with respect to the part of the underlying income derived from transactions with non-resident entities (other than transactions with black-listed jurisdictions)
- exemption from withholding tax on interest due on shareholder loans and credits.

**Benefits for non-resident entities dealing with MIBC companies**

- exemption from withholding tax on interest, royalties, technical assistance, and service income.

**Limitation on benefits**

The total tax benefits available to MIBC entities are capped at the highest of:

- 20.1% of annual gross added value
- 30.1% of annual staff costs or
- 15.1% of annual turnover.

Applicability of the 5% reduced CIT rate is limited based on the number of jobs created and maintained by the taxpayer for the tax year, as follows:

Jobs	Taxable income (EUR in millions)
1-2	2.73
3-5	3.55
6-30	21.87
31-50	35.54
51-100	54.68
+100	205.50

**Requirements for applying the MIBC regime**

A company must start its activity within six months after the issuance date of its MIBC license (one year in the case of industrial, shipping, and air transportation) and meet either of the following two requirements:

- create one to five jobs within the first six months of activity and make a minimum investment of EUR 75,000 on tangible or intangible assets in the first two years of activity or
- create six or more jobs within the first six months of activity.

**Other benefits**

Entities operating under the MIBC regime also may take advantage of: the Portuguese participation exemption rules, applicable to dividends and capital gains; the benefits of international agreements entered into by Portugal; EU Directives, and the majority of Portugal's double tax treaties.

**The takeaway**

The MIBC offers a special taxation regime for companies established within its boundaries. The new MIBC tax regime provides several tax benefits for the company and its shareholders, making the MIBC an attractive location for international investment structures, especially because of its protected status through 2027.

## **Let's talk**

For a deeper discussion of how this may affect your business, please contact:

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