

# Portugal\*

## Solutions for shipping companies Opportunities in Portugal

With a remarkable history as a maritime nation, Portugal has been included in the 2006 Paris MOU White List in the 9<sup>th</sup> position, a rise of 11 places from its 20<sup>th</sup> position in 2004, overtaking international Flag states of recognised quality such as Denmark (10<sup>th</sup> position), Italy (16<sup>th</sup> position) and the United States (20<sup>th</sup> position) and keeping ahead of countries such as Belgium (27<sup>th</sup> position), Spain (29<sup>th</sup> position), Japan (38<sup>th</sup> position) and Ireland (40<sup>th</sup> position).

In fact, Portugal has been steadily rising in the MOU Lists since 2002, consolidating its position as a credible and high quality flag as a result of the excellent performance of the International Shipping Register of Madeira – MAR.

S.D.M. – Sociedade de Desenvolvimento da Madeira, S.A. and the Technical Commission of MAR are committed to maintaining the safety culture of Madeira's shipping register, contributing to its international recognition as a high standard register and reinforcing quality as one of MAR's greatest assets.

### Portugal – Shipping tax regime

From a tax perspective, there are currently in force two favourable tax regimes for income derived from qualifying shipping activities carried out within the Madeira International Business Centre ("MIBC"). Accordingly, until 2011, qualifying shipping income may be either exempt from corporate income tax (1987 Madeira Tax Regime) or subject to a reduced rate of 2% in 2006 and 3% from 2007 until 2011 (2003 Madeira Tax Regime).

Other (withholding) tax exemptions apply for shareholders of the qualifying entities, other entities and crew members.

These beneficial tax regimes are recognised by the European Commission as authorised regional state aid under the EU Treaty. Portugal is negotiating an extension of the current tax regime for shipping/international transport activities after 31 December 2011.

For the purpose of MIBC regime, income derived from the shipping activity shall qualify for purposes of the above-referred corporate income tax exemption or reduction to the extent that it does not derive from the transportation of people and goods between national harbours.

### International Shipping Register ("MAR")

The main characteristics of the MAR are the following:

- All vessels are registered in MAR shall fly the Portuguese flag;
- All International Conventions ratified by Portugal are part of and are complied with by MAR;
- Commercial vessels, including platforms, may be registered in MAR;
- Registrations in MAR benefit from the Notary Registry Office of Madeira, which assures a fast process of registration without bureaucratic delays;
- MAR allows the registration of vessels owned by companies or partnerships, whether incorporated in Portugal or established through branches, agencies or legal representations, licensed or not to operate within the MIBC;
- Mortgages benefit from a special regime, where the parties are allowed to agree that the legal system of a given country shall apply.

50% of the crew of the registered ships should be citizens of any of the EU member States or of the countries where Portuguese is the official language. However, under special circumstances, this requirement may be softened upon authorisation of the Portuguese government.

### Shipping tax regime

To benefit from the provisions of the 1987 Madeira Tax Regime entities must have obtained a license to operate in the MIBC before 31 December 2000. We understand that it is still possible to acquire a company with a Shipping License issued before 31 December 2000.

To benefit from the provisions of the 2003 Madeira Tax Regime entities must obtain a license before 31 December 2006.

Shipping companies may obtain a MIBC license which, besides the international transport activities, also excludes from corporate income taxation other activities, to the extent that the profit stems from transactions carried out with non-residents. This means that the profit from other activities performed or services rendered by the shipping company are also eligible for the MIBC tax benefits.

#### 1987 Madeira Tax Regime for shipping companies

Shipping companies engaged in the international transport of people and goods, licensed up to 31 December 2000 to operate in the MIBC, benefit, until 31 December 2011, from an exemption of corporate income tax in respect of income derived from qualifying shipping activities.

Additionally, such companies shall benefit from an exemption from taxation on capital gains realized on the sale of fixed assets, as well as stamp duty exemption on any loans or other documents or acts; any other local rates or taxes and exemption of property transfer tax.

At the level of the shareholders, dividends received shall be exempt from taxation to the extent that they derive from qualifying income. Exemption may also apply in case of interest paid in connection with loans granted by non-resident shareholders, to the extent that the loans are granted with the purpose of financing the normal business activity of the shipping company.

No withholding tax is levied on royalties and services paid to non-resident entities.

Crew members of ships registered in MAR shall benefit from Personal Income Tax exemption on any income received, as well as from Portuguese Social Security contributions, to the extent that they are covered by a voluntary insurance or foreign social security system.

#### 2003 Madeira Tax Regime

Shipping companies engaged in the international transport of people and goods, which are duly licensed between 1 January 2003 and 31 December 2006, to operate in the MIBC, shall benefit, until 31 December 2011, from a reduced corporate income tax rate (3%). The application of such reduced tax rates depends on substance requirements, as the creation of new jobs in the first six months and the investment in fixed assets.

## Contact

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