





CONTENTS

I. Introduction	3
1.1 Take a look at Portugal	4
1.2 Portugal: competitive advantages	7
1.3 Getting the Feel of Portugal	10
II. CORPORATE	15
2.1 Introduction: The Instant Company Service	15
2.2 Types of Companies	15
2.3 Proceedings on incorporation	18
2.4 Venture Capital Market	26
2.5 Mergers and Acquisitions	27
III Lanon	22
III. LABOR	33
3.1 Forms of Employment Contract	34
3.2 General Rules on Hiring workers	36
3.3 Social Security contributions	41
IV. TAXATION	42
4.1 Introduction	42
4.2 Corporate Income Tax (IRC)	43
4.3 Personal Income Tax (IRS)	47
4.4 Value Added Tax (VAT)	49
4.5 Real Estate Taxation (IMI and IMT)	51
4.6 Stamp Duty (IS)	53
4.7 Portuguese Free Trade Zones	54
4.8 Especially Attractive Features of the Portuguese Tax Regime	55
4.9. Golden Residence Permit Program	57
4.10. The Portuguese "D7" Visa	61
4.11. Double Taxation Agreements	63
V. REAL ESTATE INVESTMENT	
5.1 Acquiring or Selling Real Estate	66 66
	69
5.2 Real Estate – When Something Goes Wrong 5.3 The New Renting Law – More Confidence	73
5.4 Real Estate Investment Funds	75
5.5 Share Investment Funds	75 76
5.5 Share Threstment Funds	70
VI. DISPUTE SETTLEMENT	77
6.1. Traditional Justice	78
6.2. Alternative Dispute Resolution (ADR)	79
VII. CONCLUSION	80
VIII. Sources	81
IX. CONTACT US	83





I. INTRODUCTION

With this document Ferreira Leite, Rua, Pontes & Associados wishes to offer its friends and clients an objective set of key guidelines to invest in the many areas of investment in Portugal.

Our intention is to provide brief but systematic information on how to invest in Portugal from a corporate, tax and labor law point of view and also highlight the benefits of investing in Portugal.

The information provided by this Guide does not free the investor from the need to take further specific legal advice.

Please feel free to contact us in case you need any further information concerning this subject.

Lisbon, April 2021 Nuno Ferreira Leite Rua Managing Partner



1.1. Take a look at Portugal

Official Name - Portuguese Republic

Founding of the Portuguese State - 1143

Founding of the Republic - 1910

Political System - Parliamentary Democracy

Language - Portuguese

Constitutional System - A Republic ruled by a Constitution.



The President is the head of State and the Government is headed by a Prime Minister. The unicameral Parliament (Assembleia da República) comprises elected members up to 230. The President is directly elected every five years and the Members of Parliament every four years.

Political Parties represented in Parliament - Social Democratic Party (Partido Social Democrata), Socialist Party (Partido Socialista), Popular Party (Partido Popular), Communist Party (Partido Comunista), Left Block (Bloco de Esquerda) and Ecologist Party, The Greens (Partido Ecologista, Os Verdes), Nature and Animals Party (Partido Animais e Natureza), Liberal Initiative Party (Partido Iniciativa Liberal), an independent deputy elected by Free Party (Partido Livre) and Enough (Chega).

Territorial Organization - 18 districts in the Continent and two Autonomous regions (Azores and Madeira islands).

Capital - Lisbon (Lisboa)

Area - 92.142 km2

Population - 10.28 million

Working population – 5.252,6 million

Currency - Euro (divided into 100 cents)

Language - Portuguese is the sixth most widely spoken European language in the world and is mother tongue to about 205 million people.

Countries in which Portuguese is the official language: Angola,

Cape Verde, Guinea-Bissau, Mozambique, S. Tome and Principe in Africa, Brazil in South America and East Timor in Asia. There are also Portuguese-speaking communities in other countries: important communities of recent immigrants in Europe (France, Luxembourg and Germany), the Americas (United States, Canada and Venezuela), Africa (South Africa) and Australia, as well as small groups of people in former colonies such as Goa and Macau.

In Portugal, most people in business circles speak at least one foreign language, typically, English, Spanish and / or French.





International Relations

United Nations - since 1945

(Founding Member)

NATO - since 1949

(Founding Member)

Council of Europe - since 1976

European Union - since 1986

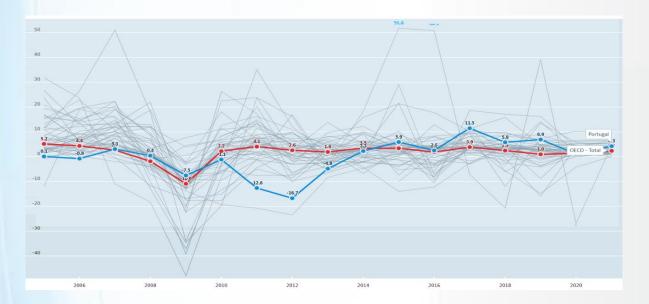
Community of Portuguese Speaking Countries - since 1996 (Founding Member).

Portugal has established diplomatic relations with over 180 countries.

Economic Overview

Remarkable Convergence

Notwithstanding the current context of international crisis, according to the OECD, the Portuguese investment forecast ratio is slightly above the OECD average.



Beyond OECD's report, according to the Portugal Bank's (Banco de Portugal) previsions to 2020-2022, Portugal has a good environment to invest.





	% do PIB	BE junho 2020		BE março 2020 ^(d))		
	2019	2019	2020 ^(p)	2021 ^(p)	2022 ^(p)	2019	2020 (#)	2021 ^(p)	2022 ^(p)
Produto Interno Bruto	100	2,2	-9,5	5,2	3,8	2,2	-5,7	1,4	3,4
Consumo privado	64,1	2,2	-8,9	7,7	3,0	2,3	-4,8	1,8	3,7
Consumo público	16,9	1,1	0,6	0,7	0,8	0,8	3,0	-2,0	1,1
Formação bruta de capital fixo	18,3	6,3	-11,1	5,0	4,5	6,4	-14,9	3,4	9,3
Procura interna	99,9	2,8	-8,2	6,0	2,9	2,8	-5,5	1,4	4,2
Exportações	43,9	3,7	-25,3	11,5	11,2	3,7	-19,1	7,4	5,6
Importações	43,8	5,2	-22,4	13,5	8,5	5,2	-18,7	7,5	7,4
Contributo para o crescimento do PIB líquido de importações (em pp) ^(a)									
Procura interna		1,5	-3,2	3,3	1,4	1,5	-1,5	0,2	2,4
Exportações		0,7	-6,2	1,9	2,4	0,7	-4,2	1,2	1,0
Emprego (b)		0,8	-4,5	2,0	1,5	0,8	-5,2	1,2	2,8
Taxa de desemprego (c)		6,5	10,1	8,9	7,6	6,5	11,7	10,7	8,3
Balança corrente e de capital (% PIB)		0,9	0,3	0,3	0,3	0,9	2,0	2,9	1,4
Balança de bens e serviços (% PIB)		0,4	-0,5	-1,3	-0,5	0,4	1,0	1,0	0,3
Índice harmonizado de preços no consumidor		0,3	0,1	0,8	1,1	0,3	-0,1	0,5	0,7

In terms of GNP (PIB), we can see a clear evolution of our internal productivity, such as a great development of our exports and imports and an unemployment decrease starting in 2020. Beside the analysis of other parameters, these previsions demonstrate how the country can settle good investment bases.

Another good example is the Portugal 10Y Bond Yield. Portugal 10Y Bond Yield was 0.38 percent on Monday September 7, according to Trading Economics' website. A bond is a safe investment modality where there's a guarantee of paying a debt with interests over the years (In the case above, 10 years). It consists in debt securities and as the table shows, Portuguese government's ability to guarantee those payments is raising, meaning a lot more facilities in investing in Portugal.

Bonds Yield Day Month Year Date Portugal 10Y 0.38 ▲ 0.035% 0.096% 0.131% Sep/07 Portugal 52W -0.49 ▼ -0.004% -0.015% 0.012% Sep/04 Portugal 20Y 0.79 ▲ 0.007% 0.118% -0.055% Sep/07 Portugal 2Y -0.54 ▼ -0.011% -0.113% 0.081% Sep/04 Portugal 30Y 1.11 ▲ 0.004% 0.056% -0.070% Sep/07 Portugal 3M -0.45 ▲ 0.021% 0.003% 0.080% Sep/04 Portugal 3Y -0.40 ▼ -0.020% -0.098% 0.036% Sep/04 Portugal 5Y -0.15 ▲ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 ▲ 0.019% 0.009% 0.048% Sep/07 Portugal 7Y 0.10 ▲ 0.003% 0.090% 0.088% Sep/07							
Portugal 52W -0.49 ▼ -0.004% -0.015% 0.012% Sep/04 Portugal 20Y 0.79 △ 0.007% 0.118% -0.055% Sep/07 Portugal 2Y -0.54 ▼ -0.011% -0.113% 0.081% Sep/04 Portugal 30Y 1.11 △ 0.004% 0.056% -0.070% Sep/07 Portugal 3M -0.45 △ 0.021% 0.003% 0.080% Sep/04 Portugal 3Y -0.40 ▼ -0.020% -0.098% 0.036% Sep/04 Portugal 5Y -0.15 △ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 △ 0.019% 0.009% 0.048% Sep/04	Bonds	Yield		Day	Month	Year	Date
Portugal 20Y 0.79 △ 0.007% 0.118% -0.055% Sep/07 Portugal 2Y -0.54 ▼ -0.011% -0.113% 0.081% Sep/04 Portugal 30Y 1.11 △ 0.004% 0.056% -0.070% Sep/07 Portugal 3M -0.45 △ 0.021% 0.003% 0.080% Sep/04 Portugal 3Y -0.40 ▼ -0.020% -0.098% 0.036% Sep/04 Portugal 5Y -0.15 △ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 △ 0.019% 0.009% 0.048% Sep/04	Portugal 10Y	0.38		0.035%	0.096%	0.131%	Sep/07
Portugal 2Y -0.54 ▼ -0.011% -0.113% 0.081% Sep/04 Portugal 30Y 1.11 △ 0.004% 0.056% -0.070% Sep/07 Portugal 3M -0.45 △ 0.021% 0.003% 0.080% Sep/04 Portugal 3Y -0.40 ▼ -0.020% -0.098% 0.036% Sep/04 Portugal 5Y -0.15 △ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 △ 0.019% 0.009% 0.048% Sep/04	Portugal 52W	-0.49	•	-0.004%	-0.015%	0.012%	Sep/04
Portugal 30Y 1.11 △ 0.004% 0.056% -0.070% Sep/07 Portugal 3M -0.45 △ 0.021% 0.003% 0.080% Sep/04 Portugal 3Y -0.40 ▼ -0.020% -0.098% 0.036% Sep/04 Portugal 5Y -0.15 △ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 △ 0.019% 0.009% 0.048% Sep/04	Portugal 20Y	0.79	A	0.007%	0.118%	-0.055%	Sep/07
Portugal 3M -0.45 △ 0.021% 0.003% 0.080% Sep/04 Portugal 3Y -0.40 ▼ -0.020% -0.098% 0.036% Sep/04 Portugal 5Y -0.15 △ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 △ 0.019% 0.009% 0.048% Sep/04	Portugal 2Y	-0.54	•	-0.011%	-0.113%	0.081%	Sep/04
Portugal 3Y -0.40 ▼ -0.020% -0.098% 0.036% Sep/04 Portugal 5Y -0.15 ▲ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 ▲ 0.019% 0.009% 0.048% Sep/04	Portugal 30Y	1.11	A	0.004%	0.056%	-0.070%	Sep/07
Portugal 5Y -0.15 ▲ 0.043% 0.012% 0.104% Sep/04 Portugal 6M -0.45 ▲ 0.019% 0.009% 0.048% Sep/04	Portugal 3M	-0.45	A	0.021%	0.003%	0.080%	Sep/04
Portugal 6M -0.45 ▲ 0.019% 0.009% 0.048% Sep/04	Portugal 3Y	-0.40	•	-0.020%	-0.098%	0.036%	Sep/04
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	Portugal 7Y	0.10	A	0.003%	0.090%	0.088%	Sep/07

Image 4 - Portuguese Government Bonds



1.2. Portugal: competitive advantages

Strategic Location

The combination of Portugal's economic openness, strong ties with the EU and unique geo-strategic location, make it a natural gateway between the EU and world markets.

The country's ties with the African continent, Brazil and the transatlantic link to the USA provide a cost-effective base for internationalization.



The industrial platform covers a total area of nearly 8 sq. miles (c. 2000 hectares), representing an excellent option for investors wishing to supply the EU market and to ship products by way of the most western deep-sea ports in Europe.

Adding to that, Lisbon is considered a target for investment in terms of retail and offices (2019/2020, Cushman & Wakefield European Cities Monitor).

Low-cost Workforce

Portuguese employees are known for their versatility and commitment to work, with a positive attitude towards the adoption of new technologies and practices.

Workers proposed and adopted a flexible working regime, agreed with top management, which optimizes efficiency according to market demand. According to the USA Today, in 2020 Portugal is in the international average in terms of labor hour numbers and productivity.

In addition, Portugal had in 2019:

- 1) One of the lower hourly labor costs within the EU 27 members;
- 2) The average unemployment levels in Europe.





Excellent environment to live and work

Living in Portugal is extremely agreeable. Residents and their families enjoy a quality of life that is enviable and rare in a modern society, with safe urban centers and open surroundings felt by all who live in the country.

American Express Global Business Travel puts Lisbon on the top locations for meetings and events, at the 10th position for people and companies to meet and plan growth and investment opportunities in 2019.

In 2020, Forbes magazine included Oporto as the 5th best European city to invest due to its areas with growth potential and gains in real estate.

Portugal presents extremely low crime rates when compared with other European countries.

Infrastructures

During the past decade Portugal has invested heavily in modernizing its communications infrastructure: the result is an extensive network of land, air and maritime route facilities. The bigger cities like Lisbon and Oporto have major seaports and are very well connected by highways, railroads and airports. In July 2012, Lisbon has achieved a higher level in terms of infrastructures, since it opened the Metropolitan in the Lisbon International Airport, allowing a better arrival and transportation to the people who visit Lisbon in business or leisure.

International Sports Events

Portugal has been a chosen country to receive important international events due to its infrastructures for the several modalities of sports.

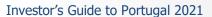
In 2020 the country welcomed many international events such as UEFA Champions League in Lisbon, and 2020 Portugal MotoGP and F1 in Portimão, which are to take place again in Portugal in 2021. The characteristics of the country place us in a dynamic and constantly evolving business world rich in opportunities in areas as sports.

EU Integration

As Portugal rapidly integrates into the EU and Portuguese economic development approaches the level of other economies in the Union, the number of business opportunities increases and the country becomes a more attractive destination to exporters and investors.

Imports have been growing because industrial modernization requires a large volume of machinery, equipment and instruments and consumers require more and better products.

Inter-EU import duties have been abolished and import duties vis-à-vis third countries have been greatly reduced.





Studying in Portugal

Portugal has many qualified manpower and is also known for the quality of teaching in Public and Private Universities.

Many of Professors in Public Universities have PhD's and the number of graduated students has increased along the years, particularly in Science, where Portugal is the European country with the largest increase of graduates in the past decade.

Portugal Exportations

According to Portugal's Base of Data (PORDATA), in 2019 the exportation was one of the sectors that wasn't reached for the economic crisis of the last years. The export of goods and services continued to grow higher, which led to the continued increase in market share of exports, with special accuracy in extra EU market.

The Portuguese government and the European Union continue to support investments in Portuguese industry and services and are giving priority to projects concentrating on "dynamic competition factors" such as quality improvements, training and modernization.

Renewable Energy Sources

Portugal is investing heavily in renewable energy sources seeing green power not just as a way of cutting greenhouse gas emissions, but as a way of starting an industrial transformation. In fact, Portugal has one of the biggest solar power stations in the world, being one of the European leaders in renewable energy, with about 45,5% of its electricity coming from renewable such as wind and hydro, as advanced by REA.





1.3. Getting the Feel of Portugal

Healthcare

There are reciprocal health agreements established with most European countries, with a nominal fee charged for medical treatment at health centers. Visitors wishing to use these benefits should inform the doctor that they wish to be seen under EU social security arrangements, prior to treatment.

The Portuguese National Health Service is run by the Ministry of Health. Contributions to the national health system are deducted directly from employees' salaries. All persons covered by the general social security scheme are entitled to receive free public medical care.

The minors under 18 years of age will be exempt from paying the value of the general consult in the local health centers.

Portugal also has private Health Insurances that also provide medical care in all medical specialties. Our Social Security System also has also made available for the European Citizens, the European Card for Sickness Insurance, which is a document that ensures the provision of health care when beneficiaries of a social security system of State of EU, European Economic Area or Switzerland temporarily move in this space.

Taxes

All employees and foreign property owners are required to have a tax card with a unique fiscal number, which can be obtained at the local tax office. The fiscal number must be quoted in all taxable transactions and it also used by service or good providers for issuing their receipts.

Portugal has a monthly Pay-As-You-Earn system of personal income tax for employees, with a scale of rates from 14,5 to 48,0 per cent, with special low rates for pensioners.

Individuals living in Portugal are taxed on their worldwide income and non-residents must pay tax on income received in Portugal. All employees make mandatory monthly contributions to the Portuguese Social Security system of 11 per cent of their gross monthly salary.

Cost of Living

Portugal is one of the cheapest countries to live in the EU, with a high quality of life being easily achievable.

Working in Portugal

Working conditions are well balanced between employees and employers - particularly with the enforcement of the new Labor Code in 2009, which has suffered a major change in June 2012. In





2013 was introduced an amendment to the regime of compensation fund and guarantee of compensation fund when an employee is dismissed, providing employers with structural and financial help for compensations.

The working week is usually 40 hours, although this is flexible and employees are entitled to a maximum of 22 working days of annual vacation.

The main goal of the labor code changes that have been appearing until 2019 is to turn more flexible the working relations between workers and employers.

Gender Equality

In Portugal, the government and employers have been trying to implement a higher equality between men and women in matter of job access and salary earned. Equality has been an important question in our public debates, therefore we can offer a protective environment of equality between genders.

Transports

In this matter, Portugal is very well equipped with means of transportation in terms of trains, trams, metropolitan and ferryboats. The cities of Lisbon and Oporto are the main centers of business in the country. The distance that separates both cities is about 300km, which can be done in two hours, by the train "Alfa Pendular", or even in 30 minutes by airplane thru the "Air Bridge" between Lisbon and Oporto with around 13 daily flights.

Lisbon International Airport

Portugal has its flag airport located in Lisbon, the capital of the country. When arriving in Lisbon, anyone can get to one of the major business centers in less than 15 minutes, due to the new metropolitan station.

It is one of the best Airports in Europe and the close location to the center of the city is a higher motive for business travels.

Entry Requirements

Nationals of the EU and certain other European Countries can live and work in Portugal without a visa or work permit. Non-EU nationals require a visa to enter Portugal if they plan to stay longer than 90 days or intend to work or study here. Visas should be applied for, well in advance, from a Portuguese consulate or embassy in your home country.



Public Holidays

New Years Day	1 January
Good Friday	March or April
Liberty Day	
Labor Day	1 May
Easter SundayFirst Sunday after the fir	st full moon that occurs after the Spring Equinox
Body of Christ	Sixty days after Easter
Portugal Day	10 June (also Camões & Communities Day)
Feast of the Assumption	15 August
Establishment of the Portuguese Republic	5 October
All Saints Day	1 November
Independence Day	1 December
Immaculate Conception	8 December
Christmas	

Climate

In mainland Portugal, average temperatures are 55°F (14°C) in the North and 64°F (18°C) in the South. Madeira and Azores, due to their location in the Atlantic, are humid but have a narrower range of temperatures over the year.



Portugal is one of the warmest European countries.

Spring and summer months are usually sunny and the temperatures relatively high during July and August, with the highest in the center of the country at 85-95°F (30-35°C), reaching sometimes as high as 115°F (46°C) in the southern interior. Autumn and winter are typically rainy and windy, yet sunny days are not rare either, the temperatures rarely fall below 41°F (5°C), usually staying at an average of 50°F (10°C). Snow is common in the mountainous areas of the north. Portugal's climate is classified as Atlantic-Mediterranean.

Leisure

In which concerns leisure, Portugal is known for its wonderful beaches, with quality water and with very good accesses. Not even the pandemic stopped the World Travel Awards, where Portugal, "the best destination" for three successive years, totaled 60 nominations. Lisbon, Porto, Azores, TAP, Dark Sky Alqueva, Passadiços do Paiva and luxury hotels were the great portuguese representatives. Portugal performed strongly in the 2020 winners, with Madeira voted 'World's



Investor's Guide to Portugal 2021

Leading Island Destination', Lisbon named 'World's Leading City Break Destination' and The Algarve picking up 'World's Leading Beach Destination'.

Portugal also offers a large number of museums, art exhibitions and many cultural events, in all areas, being widely famous for its literature and its authors. Back in 1998, author José Saramago won the Nobel Prize for Literature for his remarkable literary career, which allowed countries around the world to translate, publish and read Portuguese literature more than ever before.



In 2012, the national music sung in Portugal, namely "Fado", was considered Intangible Heritage of Humanity, by UNESCO.

In 2014, the traditional music sung in Alentejo, in Portuguese "canto alentejano", was also considered Intangible Heritage of Humanity, by UNESCO. It was an important achievement to the people of Alentejo, and also to Portugal.

Europe's Best World Destination 2014 - Lisbon

Portugal was the winner in 2014 of the Europe's Best World Destination Award. This award exists to acknowledge, reward and celebrate excellence across all sectors of the tourism industry.

European Best Destination 2014 - Oporto

The city of Oporto has received the European Best Destination for 2014 Award from the European Consumers Choice. Among several European cities, Oporto has been rewarded by its "people, its pride, its energy and its enthusiasm."

Winner of 15th UEFA European Championship – Euro 2016

In 2016, Portugal won the 15th UEFA European Championship, commonly referred to as Euro 2016. Portugal was already recognized for its contributions to football history and amongst its most famous players are Eusébio, Luís Figo and Cristiano Ronaldo.





Winner of Eurovision Song Contest Kyiv 2017

In 2017, Portugal has won the Eurovision Song Contest Kyiv 2017, with its ballad "Amar pelos dois", by Salvador Sobral. It was the first time Portugal was given such an award and the contest was hosted in Lisbon the following year.



Useful Tips

Portuguese business people like to deal business issues in person.

Business negotiations may be conducted in English, French or even German, but it is advisable to check whether an interpreter is required. The Portuguese like to entertain.

Lunch usually takes place between noon and 2pm, dinner between 7pm and 10pm. Lunch is an event where many crucial business deals are made - getting to know your business associate personally is viewed as very important in this Latin culture.

The Portuguese are extremely courteous, helpful and open to foreigners. They also are very open to new kinds of business due their entrepreneurial spirit.

In Portugal, as in any other country, presentation is important in making business.





II. CORPORATE

2.1. Introduction: The Instant Company Service¹

As soon as all the required documentation is made available to our office, a company can be incorporated and fully operational within 48 hours (with an off-the-shelf corporate name and articles of incorporation, which imply, namely, the nomination of one manager and the entire payment of the initial share capital amount chosen).

2.2. Types of Companies

Corporations in Portugal generally assume one of the two most common forms.

1. "SA" or "Sociedade Anónima": Public Limited Corporation or joint-stock Corporation

The "SA" designation and form provide the positive image of a large corporation (there are, however, additional administrative and legal burdens for such a corporate format, such as the mandatory need of an Auditor) and gives prestige and contractual strength to the investment made. Also, it provides the capitalization of funds for projects requiring financial backing, together with the possibility of easy integration of new partners in the structure, since stocks are bearer instruments (unlike for private limited corporations).

A public limited corporation, ordinarily, must have at least five shareholders, individuals or companies, national or foreign. However, it is allowed the establishment of an SA for a foreign company which is initially the sole owner of the shares representing the total share capital. The capital is divided into shares and each shareholders liability is limited to the value of held shares and subscribed.

In public limited corporations, payment of subscriptions may be deferred up to 70% of the nominal capital, for a period not exceeding five years. The subscriptions in cash already made must be deposited in an account credit institution on behalf of the future company. But the total nominal value of subscriptions in cash and assets must correspond to the minimum capital for a public limited corporation as defined by law, currently corresponding to the amount of 50.000,00 €.

Página 15 de 83

¹The "Serviço Empresa na Hora".





2. "LDA" or "Limitada" or "Sociedade por Quotas": Private limited corporation

Private limited corporations are generally of a smaller dimension when compared to public limited corporations. Their legal structure favors the personalization of the business, providing it with a personal nature or a group nature.

In general, those companies should be made up of at least two partners and may persist only with one partner for a period not exceeding one year. However, the constitution by a single shareholder is possible, whether individuals or company, who shall hold the entire share capital. These companies are called sole proprietorship and must include this designation in its name.

In a private limited corporation, the capital is divided into quotas representing each individual or corporate partner's share of the total capital stock. On a subsequent capital increase, each partner subscribes to a new quota or increases their initial quota. Creditors can claim only against the corporation's capital stock.

The amount of capital is freely set in the partnership agreement, corresponding to the sum of shares subscribed by the members. The share capital is represented by quotas which may or may not have the same value, but their total value shall not be less than 1,00 €.

In private limited corporations, payment of subscriptions may be deferred for up to 50% of the nominal capital.

Foreign corporations, just like Portuguese corporations, may invest in any sectors they wish to. Nevertheless, specific restrictions, like the need of a concession contract for private investors who want to operate in sectors under public administration, may appear.

Although in Portugal there is no legal restriction to the entry of foreign capital and foreign investors are not required to have a Portuguese partner, foreign investment projects have to comply with special legal requirements if they could in any way affect public order, security or public health. Projects of this nature require an assessment of their compliance with the legal conditions and prerequisites set out in the Portuguese Law2.

These instruments intend to ease administrative formalities and procedures as well as to adjust procedural rules governing incentives for private investment. Although a number of initiatives have been taken in recent years, there remain red-tape and other "contextual costs" associated with company operations that must be dealt with, especially in structuring investments where bureaucratic formalities and procedures can be complex.

To be considered for the PIN system, projects must fulfill the following criteria:

a) Represent a total investment exceeding €25 million (art 6 DL 154/2013)

² Foreign Corporations are also entitled to take the investment opportunity offered by the Portuguese PIN Projects System. The Portuguese government approved a model for dealing with large scale investment by establishing the System of Recognition and the Monitoring of Projects of National Interest (abbreviated to PIN) and for Projects of National Strategic Importance (abbreviated to PIN +).





- b) Create at least 50 direct jobs
- c) Are presented by promoters of recognized reputation and credibility

The verification of the reputation and credibility of the abovementioned promoters is made in accordance with the following parameters:

- 1. Recognized Economical Viability:
 - a) Suitable support of the prerequisites associated with the income of exploration, namely, concerning prices and quantities, which should be justified in terms of market analysis;
 - b) Suitable quantification of exploration costs, namely from suppliers and external services and from personal costs:
 - c) Identification of predicted financing sources, namely own equity and debt instruments, showing that the investment necessity is adequately covered;
 - d) Adequate financial autonomy levels with adequate coverage of assets with equity;
 - e) Adequate liquidity ratio, in order to guarantee a correspondence between circulating assets and liabilities
 - f) Adequate reimbursing capability, through analysis of coverage of cash flows on debt.
- Susceptible adequate environmental and territorial sustainability:
 - a) Compatibility with the applicable territory management instruments or susceptibility of compatibilization, in accordance to the Law
 - b) Compatibility with present natural resources and values, namely protected areas and with "Rede Natura 2000" and respective sectorial plan, or susceptibility of minimization/compensation in a way of reaching such compatibilization;
 - c) Compatibility with the values that justified the classification of the National Ecological Reservation, National Agricultural Reservation and hydric public domain or susceptibility of minimization/compensation in a way of reaching such compatibilization
 - d) Utilization of eco-efficient technologies and practices, that allow reaching such high levels of environmental performance, namely in the areas of water, energy, soil, residue and air;
 - e) Minimization of green house gas emission
 - Compatibility of the potential effects on human health and on the environment, in case of accident, with the elements present and envisaged in the surroundings, or the susceptibility of minimization/compensation in a way of reaching such compatibilization.
- Production of transactionable goods and services of innovative character and in markets with growth potential:
 - a) Innovation of services, processes and products, taking into account the degree of novelty in terms of company, region or sector;
 - b) Production of goods and services that can be subject to international trade or subject to external competition.
 - c) Insertion of innovative technological production or collaboration with entities of the scientific and technology system;
- Introduction of innovative technological production or collaboration with entities of the scientific and technology
 - a) Participation in cooperation agreements of relevance with higher education institutions, technological centers and other entities within the scope of scientific and technological development in new processes, products and services or its significant improvement;
 - b) Creation of common structures for investigation and development.
- 5. Insertion in intelligent specialization strategies of the region and or contribution for the revitalization of low economic density territories:



2.3. Proceedings on incorporation³

Basic Procedures of Incorporation

1. Identification of Foreign Shareholders

- a) Localization in regions subject to priority treatment within the scope of systems of investment incentives;
- b) Relevant impact in the local/regional production structure in terms of consolidation or diversification of the productive basis.
- External Economical Balance:
 - Positive impact in the exchange relations in the region's economy and the level of exposition to external
- 7. Energetic efficiency and or favorable treatment of renewable energy:
 - a) Implementation of the measures of the Energetic Efficiency in the State program, included in the National Plan of Action for Energetic Efficiency, that involves the participation of private investors, such as companies of energy services;
 - Diversification of energy sources, privileging electric production from renewable energy sources, based on mature technology, competing with non renewable energy sources.
 - Execution of joint projects, as defined by the Law Decree n.º 39/2013, of 18th of March.
- Effects of dragging on activities up and downstream, specifically in small and medium companies:
 - a) Valuing of the supply chain as a way to incorporate structuring effects, namely in conception, design, quality systems certification, environment, hygiene and safety and health in the work place and social responsibility.
 - b) Stimulate the opening of new distribution channels, as well as the process of internationalization of suppliers
 - Valuing endogenous resources, namely renewable ones, and waste with valuing of situations associated to the reduction of environmental impact.
- Creditworthiness and credibility of the promoter:
 - Expectation of a safe and prudent management, considering particularly the economic viability of the project;
 - b) Expectation of a efficient implementation of the project and its' future viability;
 - Among other relevant circumstances, it can be considered as an indicator of lack of creditworthiness, within the scope of the previous paragraphs, as long as duly justified:
 - i) The sentencing of the promoter, as final judgment, in Portugal or abroad, embezzlement, swindling, extortion, malicious insolvency, bribery, corruption, money laundering;
 - ii) Inadequacy of the economical financial situation of the promoter, considering the participation amount that he declares holding;
 - iii) Justified doubts on the legality of the source of funds used in the acquisition of the participation, oor on the true identity of the holder of those funds.

Projects below the 25 million euro limit can exceptionally also be recognized as PIN projects if they include a strong Research and Development investment or applied innovation, or if they have a recognized environmental significance. Such projects must also fulfill the conditions stated above.

³ Applicable to both kind of corporations.

Página 18 de 83





(i) If a Foreign individual

In case of a foreign individual wishing to incorporate a Company in Portugal, the identification, with the following documentation (in principle, duly translated into the Portuguese Language and duly certified / appostilled) is needed:

- 1) Copy of Identification Document;
- 2) Copy of Taxpayer card;
- 3) Copy of Social Security card; and
- 4) Address in country of origin.

(ii) If a Foreign Company

In case of a Foreign Company wishing to incorporate a company in Portugal, the following documentation is needed (in principle, duly translated into the Portuguese Language and duly certified / appostilled):

- 1) Company's By-Laws;
- 2) Updated Commercial Registry Certificate;
- 3) Tax Registry Certificate issued by the Tax Authorities of the State of Residency;
- 4) Identification documents of its representatives (identification card, tax card and social security card); and
- 5) General Shareholders' Meeting's Minute approving the incorporation of a fully owned subsidiary in Portugal).

2. Registration of non-resident shareholders and managers in Portugal for tax Purposes

In case of a Foreign Company wishing to incorporate a company in Portugal, prior to its shareholder quality, a Portuguese Collective Entity Identification Number is needed, to be required before the RNPC in Portugal.

Furthermore, in case any of the managers to be appointed is non-resident in Portugal for tax purposes, its tax registration in Portugal is mandatory. For such purpose, a tax payer number should be requested near the Tax Offices, and a resident tax representative should be appointed in case the foreign manager is not an EU-resident.

3. Defining the Basics of the Articles of Incorporation

1) Type of Company

The first information we will need concerns the kind of Company you would like to incorporate, deciding between a "SA" or "LDA".





2) Corporate Name

Although the name could be chosen by an off-the-shelf list, if it is requested prior to the incorporation date (around 15 days), the interested parties can incorporate a company within 48 hours after the chosen name is accepted and certificated at the Portuguese National Registry for Collective Entities.

The corporate name request requires the indication of one corporate name and two other alternative corporate names (in case the first choice is not available). All registered names benefit from the exclusivity principle in Portuguese territory.

After the approval of the corporate name, the Registry will issue a certificate of registration together with a provisional tax registration card, which indicates the corporation's tax number, also referred to as the Collective Person Identification Number.

3) Head Office's Address

Portuguese Companies must have their head offices in a Portuguese Address. If in your interest, we also provide domiciliation services for the companies we incorporate in Portugal.

4) Company's Activity

You must indicate what activities you want the company to develop in Portugal (more than one activity can be chosen). In some specific cases, this may imply a specific authorization for the development of the chosen activities.

5) Share Capital initial amount

At least the minimum amount must be chosen. In case of "SA" Companies, you should also indicate how much shares you want to represent the total amount of the share capital (and therefore their nominal value).

6) Number of Directors

Each Director to be appointed must be completely identified: name, date of birth, marital status (in case the administrator is married, name of wife and regime of marriage is also required), residency, identification card copy, tax card copy, and social security card copy.

7) Accountant

Portuguese Companies must have a Portuguese accountant. If in your interest, we will be glad to provide you a list of Portuguese Accountants we can work with for such purpose.





8) Auditor

Auditors are only mandatory for SA Companies. If in your interest, we will be glad to provide you a list of Portuguese Auditors we can work with for such purpose.

4. Public Deed of Articles of Incorporation & its Commercial Registry

After receiving all data mentioned in the previous steps, and after eventual registration of nonresident shareholders and managers in Portugal, the incorporation act is possible, upon a Public Notary that immediately proceeds with commercial registration of the Company.

5. Opening of mandatory Portuguese Bank account and deposit of initial share capital amount

Immediately after the Public Deed and Registry, it is possible to proceed with the opening of a Portuguese bank account in the name of the Company, where it should be immediately deposited the amount of the share capital. This includes the filling of some official forms and presentation of some documentation that we will possess after the referred registry. The shareholders may of course freely decide what is the financial institution we should use for such purpose.

6. Declaring Start of Activity for Tax Purposes

Once the incorporation has been carried out, the declaration of start of activity of the corporation, signed by the official accountant responsible for the company's accounting, has to be delivered before the local Tax Authorities.

7. Declaring Start of Activity for Social Security Purposes

After tax registration, takes place the registration for Social Security purposes of the Company and of its Directors, near the regional Social Security office. Should the Directors not earn any salary for their functions, there must be a Shareholders' General Assembly's Minute declaring such, in order to prevent the regular mandatory discounts over the amount earned. Minimum discounts can be exempted, in case the Directors already discount for any Social Security system in any EU country. If one of the objectives of the Company is to have workers in Portugal, the start of activity for each worker must also be registered in the Social Security System, in forms available for that effect.





8. Declaring Start of Activity for Social Security Purposes

After all registration procedures, the final step for the Company to be fully operational is to issue its official documentation.

(i) General Shareholders' Meetings' Book is mandatory. Companies may also have a (ii) Board of Directors' Meetings' Book. In case of "SA" Companies, it also mandatory to have its share capital represented by (iii) Share Titles, and may optionally have a (iv) Share Registration Book. After issuance of such official documents, the Portuguese Company is ready to start to operate!

9. Regime of Actual Beneficiary

The Central Registration for the Actual Beneficiary (Registo Central do Beneficiário Efetivo (RCBE)), identifies the actual people that, directly or through other, hold ownership or the effective control of juridical entities.

The RCBE was created by the Law no 89/2017, of august 21st, and is regulated by the decree no 233/2018, of august 21st.

The RCBE declaration should be filled by any entity constituted in Portugal, or that are to be constituted here.

For entities constituted after the 1st October 2018, the declaration should be produce within 30 business days after:

- Constitution of the company at the Commercial Registry 1)
- 2) Definite registration at the Central File of Legal Entities, for entities not subject to registration with the Commercial Registry
- 3) After obtaining the Fiscal Identification Number, granted by the Portuguese Tax Authority, if the entity is not to be inscribed at the Central File of Legal Entities.



Information Needed

	Identify the Shareholders					
	Provide total information on Shareholder's Identification:					
	- <u>If an individual person:</u> Name, date of birth, marital status (in case the					
1.	shareholder is married, name of wife and regime of marriage is also required),					
	residency, identification card copy, tax card copy, social security card copy)					
	- <u>If a Foreign Company:</u> Name and further By-Laws information					
2.1.	Identify the type of Company (SA or LDA)					
2.2.	Identify at least three alternative names for the Company					
2.3.	Identify the Portuguese address for head office of the Company					
2.4.	Identify the activity to be developed by the Company					
2.5.	Identify the Share Capital Initial Amount					
	Identify the number of Directors					
2.6.	- Name, date of birth, marital status (in case the administrator is married, name					
2.0.	of wife and regime of marriage is also required), residency, identification card					
	copy, tax card copy, social security card copy)					
2.7.	Identify the Accountant					
2.8.	Identify the Auditor					

Documentation Needed

1.	Power of Attorney (provided by attorney for the purpose of incorporation)				
	Shareholders:				
	If an individual foreign person:				
	(1) Proof of residency				
	(2) Copy of Identification Card				
2.	(3) Coy of Tax Identification				
۷.	(4) Copy of Social Security Identification Card				
If a Foreign Company:					
	(1) Copy of Company's By-Laws				
	(2) Updated Commercial Registry Certificate				
	(3) Tax Registry Certificate issued by the Tax Authorities of the State of Residency				





	(4) Identification documents of its representatives:
	- identification card
	- tax card
	- social security card
	(5) General Shareholders' Meeting's Minute approving the incorporation of a fully
	owned subsidiary in Portugal).
	<u>Directors</u> :
	(1) Proof of residency
3.	(2) Copy of Identification Card
J.	(3) Copy of Tax Identification (if the appointed Director is from outside EU, a tax
	representative appointment will be needed as well)
	(4) Copy of Social Security Identification Card
4.	Accountant:
Τ.	- Provide one contact
5.	Auditor:
J.	- Provide one contact

Incorporation Costs⁴

	SA	LDA
		1,00 € freely set
		in the partnership
		agreement,
Share Capital Amount (Suggested)	50.000,00 €	corresponding to
		the sum of shares
		subscribed by the
		members.

Página 24 de 83

⁴ On transferring the funds for incorporation, the total amount of the share capital shall also be transferred, so that we can immediately transfer such amount to the Company's bank account at the moment of incorporation (Public Deed).



Mandatory Administrative Costs⁵

RNPC (obtaining Collective Entity Identification Number)	50,00 €	50,00 €
<u>Tax Office</u> (obtaining a tax payer number for one Foreign Director)	14,00 €	14,00 €
Notary Public in Instant Company Incorporation Service (Public Deed of Incorporation)	360,00 €	360,00 €
Stamp Duty (0,4% of Share Capital, if not exempted)	200,00 €	20,00 €
Commercial Registry Office (Company Registry and Registry's Certificate of Incorporation)	360,00 €	360,00 €
Opening of Bank Account Charges	20,00 €	20,00 €
Tax Offices (Declaring Start of Activity Forms)	0,50 €	0,50 €
Social Security (Declaring Start of Activity Forms)	0,50 €	0,50 €
General Shareholders' Meetings' Book	15,00 €	15,00 €
Incorporation Juridical Services (20:00) ⁶	1.965,00 €	1.965,00 €
TOTAL COSTS ON BASIC SERVICE	2.841,00 €	2.661,00 €

Optional Costs

RNPC (obtaining Name Registration for the Company)	56,00 €	56,00 €
Administration Board Meetings' Book	15,00 €	15,00 €
Share Registry Book / Share Titles (SA Companies)	85,00 €	
Social Pact Amendments subject to Registry (Change of By-Laws / Nomination of New Directors) - each act	200,00 €	200,00 €
TOTAL COSTS for FULL INCORPORATION SERVICE	3.197,00 €	2.932,00 €

⁵ Estimated costs updated to the year of 2020, and based on the Share Capital amount suggested (if subject to tax).

⁶ If the Option of Annual Juridical Assistance is requested, this cost will be included on Corporate Services to be rendered and invoiced monthly (600,00 € / month).



2.4. Venture Capital Market

1. Venture Capital Market

A venture capital market is already well established in Portugal and may be a good vehicle for financing corporations which are operating in emerging sectors, are at a high risk stage of their development or do not have direct access to capital markets.

The setting up of venture capital syndication funds will encourage the creation of new corporations focused on innovation and high productivity, strengthening and mobilizing the capital of existing corporations. The funds seek to expand the range of financial instruments targeted at increasing the competitiveness and capitalization of SMEs by supporting alternative and innovative financing mechanisms.

Measures designed to support the creation and strengthening of specialized venture capital instruments, taking into account the alterations introduced by the PRIME program, have the same objective. They are aimed particularly at the creation of corporations focused on innovation, as well as at strengthening or mobilizing the capital of existing SMEs by making it possible for them to acquire vital fixed assets.

2. Legal Framework

Concerning the activity of market operators, Portuguese law aims to simplify, clarify and support the building, management and development of a venture capital market in Portugal. Its special aim is to:

- 1) Simplify and facilitate the setting up and operation of venture capital corporations, enabling them to be classified as financial corporations registered and supervised only by the Portuguese Securities Market Commission (Comissão de Mercado de Valores Mobiliários - CMVM);
- 2) Redefine the aims of venture capital firms as commercial corporations set up as limited corporations with the objective of investing or promoting investment and acquiring share holdings for a maximum period of 10 years in corporations with a high potential for growth and increased value;
- 3) Develop a new concept of venture capital funds with their own specific legal regime, increasing their value as specialized venture capital instruments that can be promoted and traded in accordance with clearly defined regulations among a wider range of investors. To this end, two separate types of venture capital funds have been created, bearing in mind different types of investors:
- I) Closed Funds: funds whose investment units are designed to be sold only to institutional investors;
- II) **Open-ended Funds**: funds whose investment units are designed to be sold to the public at large.



2.5. Mergers and Acquisitions

1. Acquisitions

As in other jurisdictions, there are two main ways of acquiring an already established corporation in Portugal: "Business Acquisition" and "Stock Acquisition".

a) Business Acquisition

Through a Business Acquisition, the buyer acquires all assets (plant and machinery, vehicles, inventory, goodwill, etc.) that make up the business. The business is transferred but the selling corporation itself remains in the same hands.

The buyer may not wish to acquire the entire business, and therefore can limit the said transaction to certain assets. However, in this case this operation may not be considered as a business acquisition but a mere assets acquisition.

Main aspects of the legal framework of a Business Acquisition⁷:

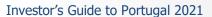
- Several tax advantages (such as VAT exemption and Capital Gains and Capital Income relief);
- Labor law consequences (automatic transfer of employees' contracts entered into before the operation, whether the buyer likes it or not).

b) Stock Acquisition

Through a stock acquisition, the buyer acquires the stocks of the corporation that owns the business and not the business itself. In this case, the stocks of the corporation are transferred to the buyer and the business remains in the ownership of the corporation. From an outsider's point of view, very little will appear to have changed and customers and suppliers will usually be content to carry on dealing with the corporation as before.

The choice between a Business Acquisition and a Stock Acquisition will depend on the investor's purpose and on the results of the investigation of the target corporation. To the extent that a lawyer is involved in the transaction, the lawyer may identify risks of a legal nature and seek to protect the investor from the risks as far as possible. A lawyer may also bring valuable input into the commercial aspects of the transaction. In this way - and since it is so difficult to isolate the legal aspects from the commercial aspects - most lawyers prefer to be involved as early as possible in parties' negotiations. This is particularly so when the lawyer is asked to give taxation advice in relation to the acquisition. The way the acquisition is structured can have significant bearing on the parties' tax position: if the client delays in instructing the lawyer, it may be too

Note that the above-mentioned will not apply in case the acquisition is considered to be a mere sale of assets.





late to choose the most tax effective method. Another function, which the lawyer may carry out for an investor, is to coordinate the various professional advisers involved in the proposed acquisition.

c) Due diligence

Before the buyer enters into a contractual commitment to buy the target business or corporation, it is advisable to acquire as much information as possible. The process of collecting data about the target corporation – due diligence – is a fundamental procedure, even in a precontract period to decide the heads of agreement.

Concerning these transactions - Business Acquisition and Stock Acquisition - Ferreira Leite, Rua, Pontes & Associates often prepares due diligence reports. Based on our experience, we set out below a summary of our standard due diligence questionnaires in order to fill its report.

1) Main features

- Name, registered number and registered office; date of incorporation;
- Authorized and issued capital on incorporation and details of changes thereafter;
- Names and addresses of managers and holders of its issued capital with the number of stocks held (copies of stock certificates); whether such stocks are not fully paid.

2) Articles of Association and Resolutions

- Particulars of the articles of association of Target Corporation as filed on incorporation and subsequent changes;
- Particulars of main resolutions: Stockholders/Board of Directors (date/subject).

3) Options, Stockholder Agreements, etc.

- Particulars of any options (whether exercisable now or in the future) to call for the allotment, issue, sale or transfer of any stock or loan capital of the Target Corporation (including conversion rights and rights of pre-emption);
- Copies of stockholders' agreements and Annual Reports and details of dividend policy.

4) Target corporation's Accounts and Records

5) Business since the latest audited accounts

- Particulars in relation to the Target Corporation in respect of any of the following since the date of the latest audited accounts: transactions entered into, liability assumed or payment made which is not in the ordinary course of business; if it has ceased or altered in nature or manner any of its businesses; issued, or agreed to issue, any stock or loan capital; and declared, made or paid any dividend or other distribution.



6) Licenses

- Particulars and copies of all licenses, consents, permits and authorities (public and private) held or applied for by the Target Corporation required to conduct its business.

7) Litigation

- Particulars of any litigation, arbitration proceedings or product liability claim in which the Target Corporation is engaged or which are pending or threatened by or against the Target Corporation or of any facts likely to give rise to any litigation or arbitration.

8) Insurance

- Particulars of all insurances maintained by the Target Corporation, including date(s) of expiry of policies and evidence of latest premium payments.

9) Grants and subsidies

- Particulars of any grants or subsidies received by the Target Corporation from any authority whether from Portugal or the EU (including copy documentation).

10) Powers of Attorney

- Particulars of any power of attorney currently in force given by Target Corporation.

11) Associations

- Specifics of any Trade or Business Association that Target Corporation is a member.

12) Assets, Title Retention/Encumbrances

- Particulars and copies of all hire, purchase, credit sale, leasing or rental agreements.

13) Intellectual Property

- Particulars of intellectual property used by the Target Corporation, namely patents, trademarks, service marks, rights (whether registered or not) in any designs, etc.

14) Computer systems

- Specifics of the IT systems (hardware/software/ownership/related contracts).

15) Property

Address, report, and estimated area of property owned or leased.

16) Environmental

- Environmental Reports of the Business

17) Material Contracts

- Particulars of any agreement, transaction, obligation, commitment, understanding, arrangement or liability of the Target Corporation, which is disabled/terminable/frustrated;
- Particulars of any partnership, joint venture, consortium or other unincorporated association of which the Target Corporation is a member.

18) Customers and Suppliers

Any standard terms of business on which the Target Corporation carries on dealing.



19) Debtors

- Details of standard discount and credit terms.

20) Guarantees

- Particulars of any quarantee of a security given, surety, comfort letter or other obligation by any person other than the Target Corporation.

21) Banking

- Facilities: details of overdrafts, loans, debentures, debenture stock or other financial facilities outstanding or available to the Target Corporation;
- Banking: name and branch address of all banks at which the Target Corporation has an account and account numbers. Details of any pooled banking arrangements.

22) Employees

- A schedule of present employees showing length of service, age, salary, holiday entitlement, benefits, position and qualifications; standard terms/conditions of employment, staff handbooks and corporation rules and disciplinary procedures;
- Terms of employment of, and fees paid to, all directors and senior executives;
- Details of any trade union or other collective agreements and codes of conduct.

23) Investments

- Name of all corporations in which the Target Corporation holds stocks stating percentage and particulars of total issued capital so held, and details so far as known of other stockholders in such corporations.

2. Mergers

According to Portuguese Law, two or more corporations may join together, becoming a single corporation.

This operation should be preceded by a Merger Proposal containing all necessary or useful elements to enable complete financial and legal understanding of the operation. Later, the Merger Proposal should be submitted to the corporation's supervisory board. This regime is now significantly faster, easier and cheaper.

Following the normal procedures of incorporation⁸ for the new entity resulting from the merger, the registry will extinguish the merged corporations.

Most mergers actually benefit competition and consumers by allowing firms to operate more efficiently. However, the merger of two or more corporations may raise issues of competition law. Generally, at least two conditions are necessary for a merger to have a likely

⁸ Please see 2.2.





anticompetitive effect: the market must be substantially concentrated after the merger; and it must be difficult for new firms to enter the market in the near term and provide effective competition.

Types of Merger

1) Horizontal merger - It involves two competitors. The acquisition of a competitor could increase market concentration and increase the likelihood of collusion.

The elimination of head-to-head competition between two leading firms may result in unilateral anti-competitive effects.

2) Vertical merger - A vertical merger involves firms in a buyer-seller relationship. A manufacturer merging with a supplier of component products, or a manufacturer merging with a distributor of its products. A vertical merger can harm competition by making it difficult for competitors to gain access to an important component product or to an important channel of distribution.

This is called a "vertical foreclosure" or a "bottleneck" problem.

3) Conglomerate merger (potential competition merger) - A potential competition merger is the acquisition of a corporation that is planning to enter a market and compete with the acquiring corporation (or vice versa). This results in the elimination of a potential competitor and that can be harmful to the market, preventing the entrance of new firms or competitors.

On the other hand, a firm can have a pro-competitive effect on competition simply by being recognized as a possible entrant. The elimination of the potential entrant through a merger would remove the threat of entry and make anti-competitive pricing a real possibility.

EU Rules on Mergers and Acquisitions

There are several rules relating to this kind of corporate operation in the EU area, aimed at maintaining substantial competition between the remaining corporations, in case these operations acquire a "EU dimension".

This means that if (i) the combined aggregate worldwide turnover of all the undertakings concerned is more than A5 billion; and (ii) the aggregate European Union-wide turnover of each of at least two of the undertakings concerned is more than A250 million; the operation must be notified to the European Commission before initiating the formal proceedings and submitted to a "substantive test" through which it decides whether the operation must be challenged or not. These specific merger cases are assessed in a single procedure (also called the "one stop shop" principle), thus avoiding numerous EU national procedures, as well as reducing costs,





bureaucracy and legal uncertainty.

The notification made to the European Commission will allow it to decide if the operation can or cannot be made, bearing in mind that EU-specific Directives on this matter and the General Competition Rules established by the Nice Treaty state that this kind of operation must be blocked if it would "significantly restricting effective competition", that is, if it creates a dominant position and is therefore likely to generate higher prices or reduced choice and innovation.





III. LABOR

Given all the negative consequences of having a wide range of laws regulating labor rules in Portugal, a great effort was made to systematize all legislation and diplomas in one unified Code. Thus, the Labor Code has been published and entered into force in 2003.

In 2009, a new Labor Code entered into force, which implied some relevant changes in the existing legislation at that time.

However, following the new necessities brought by the international crisis, a new revision of the Labor Code occurred in 2012, particularly focused on the amount of the compensations due upon termination of the contracts.

After that there were two more revisions of the Labor Code, occurred in 2014. They introduced few changes, concerning some types of dismissal already in place.

In 2015, the maternity and paternity leave have been strengthened and gender identity in fields of equal opportunities in the access to the labor market was established.

In October 1st, 2019, a new labor law come into force aiming to combat the precariousness of the sector, with direct measures for the labor market, both for companies and workers, attempting to address the needs of modern corporations, readjusting labor law to current market forces and stimulating productivity, foreseeing a greater degree of flexibility in the labor relation, in order to keep up with the increasingly global economy.



3.1. Forms of Employment Contract

1. Indefinite Term Contract

This is the main and general form of employment contract made in Portugal. Employer and employee do not preset a time limit to the contract and it can only be terminated under the terms set down by law.

2. Fixed Term Contract

These kinds of contracts can only be entered into to fulfill a corporation's temporary need and only for the exact time that this need lasts. These agreements may be of definite, or indefinite fixed term. The extent of these contracts is in principle what the interested parties agree upon, but as a general rule there is a legal minimum term of six months, except for the situations set out in the legislation.

The 2019 reform reduced the Fixed Term Contract maximum duration to 2 years, up to a maximum limit of 3 renewals with a term equal to or less than the initial one, as long as the total duration of renewals does not exceed the duration of the initial period.

The law also foresees the possibility of entering into very short term contracts. In 2019, very short-term contracts are extended from 15 to 35 days and their use is widespread in all sectors, and is no longer limited to agriculture and tourism, for example. It is possible to use these contracts (which do not need to be written) alleging an exceptional increase in activity or changes in the annual cycle for exceptional reasons attributable to the market.

Definite Fixed Term

Here, the contract stipulates a specific time period and terminates on completion of that period. However, such a contract may be renewed, up to a total maximum period of 2 years, after which the contract automatically converts into an indefinite term contract if any of the parties end it.

Indefinite Fixed Term

In this case, the employer and employee specify that the agreement should terminate with the occurrence of a specific event to take place at an uncertain date - for example, the return of an employee from maternity or sick leave, or the completion of a project. The contract continues in force until the event specified in the contract occurs. Its duration cannot exceed 4 years.

Again, the contract can be automatically converted into an indefinite term contract if the





contracted employee continues working more than 15 days after the specified event has occurred.

Intermittent Contract

A new form of employment contract was created with the 2009 Labor Code, in which the employee only works during a part of the year, but maintains an indefinite term contract throughout the year ("contrato intermitente"), even when he does not perform any work. During this period he is entitled to a compensatory payment (periods of inactivity in which the employee receives 20% of the base salary). The 2019 reform reduced the minimum work period per year, which now has to be equal to or greater than 5 months (full time) in which 3 of them must be consecutive.

3. Provision of Services Contract

This is a contract where one of the parties is required to supply the other with a result of its intellectual or manual work. In this case no working relation will bind the two parties.

This differs from employment contract rules in that the service supplier is not under a form of dependency or subordination to the other party - it is not an employer-employee but a customer-supplier relationship. The only commitment of service suppliers under such a contract is to provide assured outcomes from their actions, being free to organize and implement their work and strategies as they see fit in order to achieve these ends.



3.2. General Rules on Hiring workers

1. Working hours

Timetable

A normal period of a day's work has a maximum of 8 hours and cannot go beyond 40 hours per week. Supplementary work due to unforeseeable causes does not count for the referred limits.

Since the 2019 reform, the "Hour Bank" system can no longer be foreseen by individual Employment Agreements, but can still result from Collective Labor Regulation instruments or from an Employer's proposal, as long as it's approved by at least 65% of the workers.

A concentrated working timetable may also be agreed, in which the weekly working period of forty hours is concentrated in four days and the daily working period may go up to twelve hours.

Supplementary Work (Overtime)

Work carried out outside the normal working timetable is called supplementary work (i.e. overtime). It can only be used when an employer needs to respond to the occasional and temporary circumstances of increasing work that does not justify the hiring of another worker. The daily limit for supplementary work is legally set at a maximum of 2 hours, except when performed in a resting day or holiday. Medium and large corporations cannot exceed 150 hours of supplementary work per year but micro and small enterprises can go up to 175 hours. However, even this limit may be raised by a Collective Bargaining Agreement up to a limit of 200 hours. These limits do not stand for indispensable cases to prevent losses or damages. The due payments for the overtime are calculated over the value of the hourly value, according to the following rules:

- 25% for the first hour or its fraction and 37,5% per hour or subsequent fraction, on a i) working day;
- 50% for each hour or its fraction in a non working day (for rest day, holiday or ii) complementary rest).

Resting Periods

Portuguese Labor law gives employees the right to at least one day's rest per week and a minimum of eleven hours of uninterrupted rest between two successive daily work periods.





Parental Leave

After the birth of their child, both parents have the right to a parental leave between 120 days and 150 days to be shared among them, although there are periods that should be mandatorily enjoyed only by one of them. Should the mother give birth to more than one child, the law insures an extra leave period of 30 days for each child beyond the first one.

2. Probation Period

For any employment contract, the law establishes an initial period during which either party can terminate the contract without prior notice and without requiring justification (although the cases in which the probation period exceeds 60 days, a prior notice shall be provided by the employer to end the contract). Such a termination does not give the other party the right to compensation, except when there is a written agreement stating otherwise.

The general probation period in indefinite term employment agreements is 90 days, but it can also be extended up to a maximum of 180 days for employees carrying out technically complex jobs, holding a high level of responsibility or in a special position of trust (for example, personal assistants to top management, treasury managers and so on) or 240 days for directors and top management positions. These legal time limits can be reduced or excluded by the individual employment agreement.

After the 2019 reform, the probation period for workers looking for their first job and for longterm unemployed people was extended up to 180 days duration. This increase was intended to compensate the fact that this reform has prohibited the conclusion of fixed-term contracts due to their first job or long-term unemployment. Therefore, the employment contract is concluded for an indefinite period, but with a longer probation period.

Another novelty is that professional internship now counts as probation period, as long as it is the same activity and has been carried out in the same employer.

3. Wages

Wages can be fixed, variable or a mixture of both – a fixed part and a variable part. All workers are entitled to a minimum monthly wage, which is set each year. Since January 2021, the minimum wage is set at 665,00 € gross per month.

While on vacation, employees are entitled to their full regular wage.

Workers are also entitled to a Christmas bonus and a Vacation bonus, each equivalent to a full month's wage each.

Supplementary work provided on the time of daily rest gives the employees the right to a





compensatory rest equivalent to the worked hours, enjoying in one of the following three working days.

In case a Collective Bargaining Agreement expressly allows it, overtime work may be compensated only by resting days or vacation days.

Night working is the one that takes place between 10 pm and 7 am of the following day and entitles workers to receive an addition of 25% above normal daytime wages, although a Collective Bargaining Agreement may change these time limits and additional rates.

4. The right to Strike

The right to strike is a collective right expressed as a Constitutional right. It may be exercised by a wide group of workers, based upon a need to defend specific interests, as expressed through any Trade Union or Employees' Association.

Such bodies must give a minimum of 5 working days notice of intended strike action to the employer or the employer's association and to the relevant labor ministry either directly in writing or through major national printed news media.

Such a notice must contain a proposal for securing indispensable services for equipment safety and maintenance. Where a strike is to take place in an organization providing vital social services, the strike warning must also contain a proposal for the provision of minimum services.

5. Holidays

Employees have the right to a certain yearly period of paid leave that is currently set on 22 workdays per year.

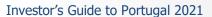
In the first year of the contract, the worker has the right to a vacation period equivalent to two workdays for every completed month of the contract up to a maximum 20 days period.

6. Contract Termination

End of Contract Term

Fixed Term contracts terminate when the stated period is over (definite fixed term contracts) or the specified terminating event occurs (indefinite fixed term contracts) but the employer must declare the intention to terminate it with a 7, 15, 30 or 60 days prior notice in writing to the employee, depending on the duration of the contract.

Indefinite term contracts may be terminated in very specific conditions established by Labor law, such as: proof of fair grounds for individual dismissal; retirement, illness or death of the employer (for an individual employer); the liquidation or closure of the corporation. It shall be pointed out that proving fair grounds - or "just cause" - for dismissal is often very difficult in





the Portuguese Labor Courts under present law. See the definition of just cause in the relevant paragraph below.

Termination by mutual agreement

The parties of an employment contract may also terminate it by mutual agreement. However, in such a case, the employee is entitled to revoke the termination agreement by written declaration within 7 days after its signing.

Termination and dismissal

a) Employee termination

An employee may terminate an employment contract whenever he has just cause. In this case, such an employee is entitled to a compensation to be established by the court between 15 and 45 days base salary for each year of work.

Just cause is interpreted as unacceptable conduct by the employer towards the employee including: failing to punctually pay the salary; breaching the employee's legal or agreed guarantees; lack of adequate workplace's safety, hygiene and health conditions; offense to the employee's property or his/her physical or moral integrity, liberty, honor or dignity, punishable by law, practiced by the employer or his legal representative.

With the 2019 reform, it becomes a "just cause" for termination of the contract by the worker, the practice of harassment on that worker, by the employer or by other workers.

Employees also have the right to terminate an employment agreements even when they do not have just cause, as long as they previously state their intention to do so, by written notice to the employer within 30 or 60 days, depending on if they have been working for two or more years.

b) Dismissal of the employee for just cause

In this case, just cause is defined, roughly speaking, as inappropriate conduct of an employee which is sufficiently serious to make continuance of the working relationship fundamentally untenable.

c) Collective dismissal and Redundancy

Dismissal of a group of employees, whether at the same time or spread out over a period of up to three months, is allowed under the following circumstances: the closure of a business unit or operational section; significant financial or economic changes such as severe financial difficulties, changes in the field of business activity, major restructuring of the organization,





significant alterations of products or product lines; important technological changes such as changes in the structure of the supply chain, changes in manufacturing processes, automation of production, control or transportation, computerization of services or communications systems; major market changes such as significantly reduced demand or new barriers to entry into the market. Group dismissals of this kind are much easier to carry out than individual dismissals for just cause.

Individual dismissals in case of redundancy carried out based on one of the aforementioned grounds is also possible, however, it is usually harder to carry out.

In case of collective dismissal or redundancy, the employees are entitled to a compensation in the minimum of 12 days of base salary per complete year of work.

d) Dismissal for Inadequacy

It is also allowed the dismissal for inadequacy even in situations in which have not been introduced modifications in the job, as long as certain requirements are fulfilled. It is also allowed in the case of the employee does not reach previously established objectives.

7. Foreign workers in Portugal

Any foreign worker in Portugal who holds the necessary work permits has exactly the same rights under Portuguese law as a local worker. However, a copy of the written employment contract must be filed with the appropriate Government department and there is the need to fulfill a number of additional legal requirements. These special conditions do not apply to workers from other EU countries or countries which also waive any special conditions to Portuguese workers.

A foreign worker who is not a citizen of the EU and who is living outside Portugal may only be hired after the submission of an application for a work visa before entering Portugal. Before making an application for a work visa, the prospective worker must submit a copy of the signed formal offer for work to the Portuguese Employment and Professional Training Institute (Instituto de Emprego e Formação Profissional). The visa application must then be made at a Portuguese Consulate or consular representative, together with a copy of the signed formal offer for work in Portugal and the ruling of the Portuguese Authority for Labor (Autoridade para as Condições do Trabalho).



3.3. Social Security contributions

The Portuguese contribution system consists of a general contribution scheme for employers and employees and special contribution schemes. Under the general contributions scheme, social security contributions are payable on all salaries, wages, regular bonuses and other regular income. The rates are:

- a) 11% of an employee's wages is deducted at source by the employer the "Employee's Social Security Contribution";
- b) In addition, the employer pays a further 23,75% of the employee's gross salary the "Employer's Social Security contribution."

Social security contributions of Board Members ("Administradores"), Registered Managers ("Gerentes") and other members of corporate bodies are based on their respective monthly salaries, with a maximum limit of 12 times the national Indexante de Apoios Sociais"("IAS"):

- a) Board Directors, Registered Managers and other members of corporate bodies contribute 20,3% of their salary (deducted at source by the employer);
- **b)** The employer contributes 9,3% of the Directors', Managers' (etc) gross salary. Foreign investors – just like Portuguese investors – who make indefinite term employment contracts with:
- i) long-term unemployed people, or
- ii) workers aged between 16 and 30 years old, may benefit from a 3-year exemption from social security contributions (amounting to 23.75%) on wages paid to those workers.

Foreigners working temporarily in Portugal (up to two years) and contributing to a compulsory social security scheme in their home countries are exempt from Portuguese social security contributions.

If the employer opts for a rendering of services contract, it has to pay 5% of the social security contribution born by the services' supplier. The goal of this measure is to avoid the celebration of fake rendering of services' contracts instead of employment contracts.

Independent Workers Contributions

The independent workers are also included in the Social Security System, with mandatory contributions at a rate of 21,4% of the monthly declared income. The contribution value is calculated over a standard value of 438,81 €, named "Indexante de Apoios Sociais ("IAS").

Independent workers are also protected in case of unemployment as long as they receive in the same year a significant amount of their annual total income from the same company.



IV. TAXATION

4.1. Introduction

The Portuguese tax system comprises a number of taxes, namely personal and corporation income taxes, consumer tax (VAT) and local taxes.

As we have seen, Social Security contributions are also mandatory.

The most important taxes in Portugal are:

- 1. Corporation Income Tax ("IRC"), with rates of 17% up to 21%
- 2. Personal Income Tax ("IRS") with rates from 14, 5% to 48%
- 3. Value Added Tax ("IVA") with rates from 6% to 23%
- 4. Real Estate Sales Tax ("IMT") with rates up to 10%
- 5. Municipal Real Estate Tax ("IMI") with rates from 0, 3% to 7,5%
- 6. Stamp Duty ("IS") with rates from 0, 0125% to 35%
- 7. Municipal Surcharge on Corporation Income ("Derrama") with rate up to 1,5%



4.2. Corporate Income Tax (IRC)

Who is subject to IRC

Corporate tax (IRC) applies to corporations and other legal entities with their registered office or an effective place of management in Portugal that carry out commercial, industrial or agricultural activities. These entities are resident in Portugal.

Legal entities that do not have their registered offices or effective place of management in Portugal are also subject to IRC in two situations:

- i) When those entities have a branch or a permanent establishment in Portugal⁹, the income resulting of the activity of that branch is subject to tax in Portugal;
- ii) When those entities earn any sort of income considered by law to be income obtained in Portuguese territory.

Income Liable to IRC

Residents and non-residents with a permanent establishment in Portugal

These entities are subject to tax regarding all income and capital gains obtained during the tax year (generally matching the calendar year), including income or capital gains obtained in other countries as a result of activities carried out by the resident corporations or by the permanent establishment.

IRC is based on the principle that tax is levied on real profits and therefore the income subject to tax will be the result of the accounting profits adjusted in compliance with cost deduction rules ("Organized Accounting Method")¹⁰. Consequently the profit subject to tax will be the gross profit, deducted from eligible costs (allowable expenses).

Profit subject to tax = Profit - Eligible costs (allowable expenses)

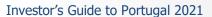
Net profit is generally subject to a 21% tax rate.

Subsequently, the taxpayer is also entitled to deduct certain amounts such as:

- i) tax credit (international double taxation);
- ii) tax benefits;
- iii) amounts withheld (in certain conditions);

⁹ A permanent establishment is a fixed premises or permanent representation used for the exercise of any commercial, industrial or agricultural activity and is subject to the same tax regime as resident entities.

 $^{^{10}}$ A Simplified Assessment Method can also be applied to resident corporations provided that the total annual return does not exceed 200.000,00 €, that they are subject to and not exempt from IRC and do not require external account auditing. In such cases the IRC rate is 21%.





It should be added the municipal surcharge to the profit subjected to tax, that may be up to 1.5% when it comes to municipal "Derrama" and also the state "Derrama" that may be up to 7%.

Non-residents without a permanent establishment in Portugal

Each income or capital gain obtained in Portugal will be subject to corporate income tax at a rate of 21% (except income subject to specific tax rates). In this case, a cash basis is used, rather than the normal accrual basis as for residents and permanently established entities – i.e. tax is paid upon receipt of income. In these cases, tax falls on global income (the sum of all incomes specified on IRS - Personal Income Tax) that is usually taxed by withholding.

Non-resident companies, but with head offices in European Union, may, as in the case of Personal Income Tax, request the reimbursement of the tax withheld and paid in the amount that is superior to the amount paid by companies with head offices in Portugal.

Adding to the Corporate Income Tax (IRC) exemption already foreseen for income derived from interest on loans granted by non-resident financial institutions to resident credit institutions, as well as on incomes obtained by those credit institutions with swap operations, forward foreign exchange operations may now also benefit from such exemption.

General Rates and Specific withholding tax rates for non-residents

The general rate for non-residents is 25% while the specific withholding tax rate for nonresidents is 21%.

Tax Benefits

The **System of Tax Reserves for Investments** consists in a deduction of 10% to 25% on the amount due as corporate income tax. The amount deducted must be put in an account and invested during the following two years in fixed assets or in R&D.

Portuguese law establishes that certain **Investment Projects** can benefit from tax incentives, determined by contract, within a period of 10 years. Such projects can benefit from the following various tax incentives:

- 1. Tax credit of 5% to 20% of the amount invested in the project, deductible for corporate income tax purposes.
- 2. Exemption or reduction on Property Transfer Tax and Municipal Real Estate Tax due for all property used in the implementation of the investment project.
- 3. Exemption from or reduction of Stamp Duty due for all acts or contracts necessary to the implementation of the investment project.

This regime applies to investment projects with a value equal or superior of 3.000.000 € carried





out until December 31st, 2020. The investment project must be made in certain business sectors such as IT and related activities.

These tax incentives cannot be granted simultaneously with other tax benefits of the same nature that could be granted to the same investment project.

In Portugal there are also tax incentives for projects that Create New Jobs for long-term unemployed workers and young people looking for their first job.

Expenses on Research and Development are strongly supported through a tax benefit regime applicable to corporations liable to income tax. In order to benefit from this regime the main activity of the corporation must be a commercial, industrial or agricultural activity.

This regime consists of a tax credit to investment in R&D. About 20% of qualifying expenses can be deducted on the amount due as corporate income tax. Expenses not deducted due to insufficient taxable profit can be carried forward during the following six years.

Non-residents without a permanent establishment are, when complying with certain criteria, exempt from tax on capital gains resulting from sale or purchase of stocks.

These are also attributed to non-residents tax benefits on capital gains, when they are obtained, for example, with:

- i) Transfer of shares of the Portuguese company.
- ii) Autonomous warrants issued by Portuguese companies and transacted on the Stock Market.
- Assets traded on the Stock Market. (iii

Non-residents also have a tax benefit on interest loans when those are obtained in Resident Financial Institutions. One of the mentioned tax benefit is an exemption on the income obtained in some investment funds.

Municipal Surcharge (Derrama)

Municipal Surcharge is levied in addition to corporate income tax up to a maximum rate of 1.5% on the taxable income.

Rates vary from municipality to municipality. The decision on the rate applicable for each year has to be taken the year before by the appropriate municipal assembly.



Holding companies

Withholding Taxes on incoming dividends

As a member of the EU, Portugal is governed by the provisions of the EU's Parent-Subsidiary Directive, whose effect is that, where a Portuguese holding company controls at least 10% of the stock of an EU subsidiary for a minimum period of 24 months, any dividends remitted by the EU subsidiary to the Portuguese holding company are free of withholding taxes.

Where the provisions of this directive do not apply, Portuguese holding companies can rely on an extensive network of double taxation treaties¹¹.

Corporate Income Tax on Dividend Income Received

Income received by Portuguese holding companies from foreign subsidiaries is subject to the standard rate of IRC. However dividend income can be exempt under the terms of the EU Parent-Subsidiary directive:

- The foreign subsidiary must be a corporate body as per the definition set out in the EU Parent-Subsidiary directive.
- The Portuguese holding company must hold its stockholding in the foreign subsidiary for a minimum period of 12 months.
- There is a minimum holding percentage of 10% applicable¹².

When dividend income paid by a foreign subsidiary to a Portuguese holding company meets the above-mentioned criteria, no further tax is payable in Portugal on the dividend income received. When the holding in the subsidiary is held for less than 12 months, 50% of the amount received is subject to tax.

Capital Gains Tax on the Sale of Stock

The capital gains and losses realized through the onerous transfer of shares, as well as other equity instruments, held uninterruptedly for a period of not less than 12 months, do not contribute to the determination of taxable profit. Among other requirements, the taxable person holds not less than 10% of the share capital or voting rights.

¹² Meeting some criteria, there are no minimum percentage required.

¹¹ See chapter 4.9.



4.3. Personal Income Tax (IRS)

Income Liable to IRS¹³

Portuguese residents are subject to personal income tax on a worldwide income criterion.

Non-residents are only subject to personal income tax on income received in Portugal.

The non-residents in Portugal, but with residence in European Union, may choose the tax regime applicable to residents, concerning dependent, professional or corporation work income or pensions.

Non-residents will also be able to request, in some cases, the reimbursement of the withheld and paid part of the tax that is superior to the amount paid by residents in Portugal.

Categories of Income

IRS applies to several categories of income:

- A Dependent employment income;
- B Business activities and supply of services;
- E Capital income;
- F Property income;
- G Capital and other gains;
- H Pensions.

Tax Rates

Residents: All Income

Interval	Income Band	Rates (Marginal)	Average
1.0	Less than € 7.112	14,50%	14,50%
2.0	Between € 7.112 and € 10.732	23,00%	17,367%
3.0	Between € 10.732 and € 20.322	28,50%	22,621%
4.0	Between € 20.322 and € 25.075	35,00%	24,967%
5.0	Between € 25.075 and € 36.967	37,00%	28,838%
6.º	Between € 36.967 and € 80.882	45,00%	37,613%
7.0	Over € 80.882	48,00%	-

¹³ As in IRC, there are two methods to determine the taxable income: (i) simplified assessment system; and (ii) organized accounts system.



Plus, there is an additional solidarity tax applicable to the earned incomes:

- From 80.000 up to 250.000 2,5% i)
- ii) More than 250,000 - 5%

Non-residents: Income received in Portugal by applying definitive withholding tax rates.

Withholding Income	Tax Rate
Cat. A	25%
Cat. B	25%
Cat. E	25% (applied to equipment rental and Royalties earned by the non-
	originating holder / Technical assistance)
	28%
Cat. F	25%
Cat. G	28%
Cat. H	25%

Non habitual residents: According to this special taxation regime, qualified individuals (if considered to be acting under high value activities) are taxed under a fixed tax rate of 20%. Foreign source income may be exempt from taxation (or beneficiary of a 10% rate in the case of pensions), in certain circumstances.

Capital Gains

Non-residents are exempt from IRS on capital gains resulting from sales of holdings in corporations, warrants and other financial instruments, when complying with certain legal criteria.

Tax regime for Non-Habitual Residents - 10 year - Tax Exemption // Tax Reduction

This especial tax regime is part of the Investment Tax Code and those that are considered as Non-Habitual Residents will be taxed at a special rate of 20% of the income obtained from dependent and independent work resulting from an activity with scientific, artistic or technical nature, as said before. They will also benefit from an exemption of foreign income, as the income obtained from dependent and independent work, capital gains, interests and dividends. This regime is applicable for 10 consecutive years and shall be applied to taxpayers who acquire tax residence in Portugal and who did not have this status in Portugal in any of the five previous years. Non-habitual resident status is acquired with the inscription of this quality in the register of taxpayers in the tax authority until March 31 of the following year that they become tax resident in Portugal.



4.4. Value Added Tax (VAT¹⁴)

VAT is an indirect tax paid by the final consumer of tradable goods and of services rendered. There are three rates of VAT on mainland Portugal: a reduced rate of 6%, an intermediate rate of 13% and the standard rate of 23%.

The rate has been changed over some tradable goods and services through the years.

As an example, the goods defined as essential goods are subject to the reduced rate of 6% and the most expensive goods subject to the maximum rate of 23%.

In the intermediate rate of 13% is applicable to Culture shows.

Some transactions are exempt from VAT. Exempt transactions that do not grant a right to deduct the input VAT are "incomplete exemptions". The transactions that, although exempt, grant a right to deduct the input VAT are "complete exemptions".

Incomplete exemptions

The supply of hospital and medical care, the provision of education, the supply, leasing or letting of immovable property, subscriptions by non-profit making organizations, certain financial services, insurance and reinsurance transactions and the supply of restaurant and catering services by the employer to its employees are the main transactions exempt from VAT. For some of these transactions, if certain conditions are met, it is possible to opt to charge VAT. Waiving the VAT exemption allows that the VAT incurred is deducted.

Are also exempt from VAT the supply of services (and the supply of goods closely linked thereto) provided by:

- bodies governed by public law or by other recognized organizations having their aim to supply services and/or goods closely linked thereto in relation with children's or young people's education, welfare and social security work, including those supplied by old people's homes, protection of children and young persons and social wellbeing;
- bodies governed by public law or by non-profit making organizations relating to congresses, conferences and fairs of a scientific, cultural, educational or technical nature.

Complete exemptions

The following transactions are exempt from VAT:

- intra-Community supplies of goods;
- exportations, deemed exportations and international transport services;

¹⁴ "IVA" in Portuguese.



Investor's Guide to Portugal 2021

- supplies of goods which are intended to be placed under customs warehousing arrangements, warehousing other than customs warehousing and similar arrangements and supplies of goods carried out under one of the referred arrangements; and
- supplies free of charge of goods that will be provided to disadvantaged people by the State, by other recognized organizations or by non-profit making organizations; books provided to the governmental departments for culture and education, to organizations with a cultural and educational aim and to educational institutions for social reinsertion and to prisons.



4.5. Real Estate Taxation (IMI and IMT)

Real Estate Sales Tax (IMT)

This tax is levied on the sale of real estate and must be paid by the acquirer.

The rates are variable (depending on value of the asset or its nature and use), from 0% to 8%, but whenever the acquirer is a resident in a country, territory or region with a tax regime that is clearly more favorable, a tax rate of 10% is levied as an anti-avoidance measure.

Sales of rural property are taxed at a rate of 5%.

Sales of urban property not for habitation are taxed at a rate of 6.5%.

The acquisition of holdings representing at least 75% of the share capital of a public limited company, which is not admitted to trading on a regulated market, when the assets comprise more than 50% of properties located in Portugal, is subject to IMT, with exception if the properties are used for commercial, industrial or agricultural activity, other than the purchase and sale of properties.

Sales transfer on urban property exclusively for residential use are taxed at the following rates:

Dates Marginal	Амонадо	
Rates Marginal	Average	
0%	0%	
2%	0,5379%	
5%	1,7274%	
7%	3,8361%	
8%		
6% (single rate)	-	
7,5% (single rate)	γ -	
	2% 5% 7% 8% 6% (single rate)	





Sales transfer on urban property secondary residential use are taxed at the following rates:

EUR	Rates Marginal	Average
Taxable value	Rates Marginal	Average
Up to 92.407	1%	1%
92.407 to 126,403	2%	1,2689%
126,403 to 172,348	5%	2,2636%
172,348 to 287,213	7%	4,1578%
287,213 to 574.323	8%	
574.323 to 1.000.000	6% (single rate)	-
Above 1.000.000	7,5% (single rate)	-

Real Estate Tax (IMI)

IMI is a Municipal Tax on the value of each real estate property located within determined municipal boundaries and is payable by the owner or beneficiary of the property.

IMI is levied on the taxable value of each property and according to the following rates (except if the beneficiary is located at a tax haven jurisdiction):

Rural property	0,8%
Urban buildings	0,3% to 0,45%



4.6. Stamp Duty (IS)

Stamp Duty is charged on purchase of goods, rental agreements, bank checks, bond guarantees, gambling, financial operations, insurance policies, credit securities, business acquisitions, property, usufruct or surface right on urban property and land for construction with tax registration value above € 1,000,000 and other acts which occur in Portugal and are not subject pr exempt from VAT.

This duty is usually charged at a variable rate and depending of the value of the transaction, but in case of bank checks is charged at a fixed value regardless of the value of the transaction involved.

Among others, the following items are subject to stamp duty:

Items subject to stamp duty	Rate
Onerous or gratuitous acquisition of real estate	0,8%
Bond guarantees, including sureties, cautions, bank guarantees,	
deposits, mortgages, warrants, pledges and insurance cautions	From 0,04% to 0,6%
Any type of credit	From 0,04% to 1,6%
Premiums and interest charged on bills of exchange and drafts issued	4%
in Portuguese markets or on any transfer	
Fees charged for providing guarantees	3%
Other fees and commissions for the provision of financial services	4%
Insurance policies	2%
Credit securities (with a minimum value of 1 EUR)	0,5%
Sale of business	5%
Ownership, right of use or building leases of urban properties whose taxable value is higher than 1.000.000,00 € - for housing purposes	1%



4.7. Portuguese Free Trade Zones

General Advantages

The Portuguese Free Trade Zones are not offshore jurisdictions. Companies located there and duly licensed are deemed as Portuguese entities, being subject to all rights and obligations effective in Portugal which grant them great credibility, since they are not located in a jurisdiction included in the so-called tax haven "black lists" issued by several countries.

They benefit from lower rates of VAT, when compared to mainland Portugal, as well as several income tax exemptions, such as on loan interests (as long as the product of these loans is intended for investment of the borrowers); on revenues from the lease or temporary transfer, to non-resident in Portuguese territory entities, of inventions, exploration licenses, utility models, designs and industrial designs, trademarks, names and businesses signs, manufacturing processes or products conservation and similar rights; on income earned from services rendered by non-residents and not attributable to a permanent establishment located in Portuguese territory outside the Free Trade Zones, since due from entities installed in them with respect to the activity developed, or on income paid by companies and branches of offshore trust installed in Free Trade Zones to users of their services, since these entities are installed in Free Trade Zones or are non-resident in Portuguese territory.

Free Trade Zone of Madeira: specific benefits

Along the years, Madeira Free Trade Zone benefits from a Special Tax Regime. In accordance with the law into force also for 2021, companies duly incorporated specially in the sectors of industry, commerce, sea transport, and services benefit from a special rate on income taxation as it follows:

Companies licensed between 2015 and 2021 – rate of 5% (one of the lowest rates in the EU) until 2027 (IRC)

The above referred entities also benefit from a maximum value of taxable amount, which depends on the number of jobs created in the company and maintain it for a period of 5 years. Fulfilled some conditions, these companies may be qualified for a deduction of 50% of this taxable amount.

Many companies have used this type of tax benefit to export their business into Portugal through Madeira Portuguese Island.





4.8. Especially Attractive Features of the Portuguese Tax Regime

In Portugal there is no Inheritance Tax. This is in fact a characteristic that makes Portugal a very appealing jurisdiction to settle in for anyone with high personal wealth. At the same time, if you decide to reside in Portugal you can also benefit from tax exemption on capital gains resulting from the sale of corporate stocks held for more than 12 months.

Inheritance and Gift Tax

In Portugal, since 2004, Stamp Duty replaced Inheritance Tax, therefore most part of inheritances are exempt. From August 3, 2005, Stamp Duty is levied on gratuitous transfers of money at a tax rate of 10%. However, gratuitous transfers to parents, spouses and children are not subject to Stamp Duty and are therefore tax exempt. This exemption applies whether the gratuitous transfer results from inheritance or from a gift.

Therefore, if you are a resident and decide to donate to your children a great amount of properties, stocks, money and so on, they will be tax exempt.

Capital Gains on Sales Transfers

According to Portuguese law, it is possible to benefit from an exemption on capital gains resulting from the sale of stocks and bonds if some criteria are met. This is a really appealing feature of the Portuguese tax framework and is considered an advantage for those who decide to invest in Portugal.

With the above-mentioned advantages, a temperate climate, a European location, easy access to every European capital (at least daily flights), political stability, Portugal presents itself as an attractive country to invest in.

Special Tax benefits for Portuguese Foundations

Portuguese Foundations are legal entities that are recognized by the State for advancing social interests and not having commercial or industrial activity as a main purpose.

A Portuguese Foundation can be private or public and be owned by private or public entities.

They can have a social purpose or an economic purpose. If a Foundation has profits derived from interest, warrants or dividends, it will be taxed on such profits.

However, Portuguese Public Foundations and Foundations considered to be legally equivalent to Public Social Solidarity Entities by having a public utility (i.e., following exclusively scientific,



Investor's Guide to Portugal 2021

cultural, charity, beneficial aims or environmental defense), may be income tax exempt for social purpose activities.

Total exemption from Real Estate Tax and Stamp Duty may be achieved under certain conditions, namely if the social, environmental or traditional art protection activity of the Foundation is considered to be legally equivalent to the activity of Public Social Solidarity Entities and if the real estate acquired is used for the statutory purposes of the Foundation.



4.9. Golden Residence Permit Programs

Since October 2012, Portugal has being applying a new and innovative measure to captivate investments which is called: "Golden Residence Permit Program" (commonly known as "Golden Visa" Program).

Golden Visa offers residency in exchange for substantial investment in one or several destinations designated by the government. If the applicants manage to submit all the required documents and qualify after an evaluation process, they and potentially their dependents are granted residence permit for a limited amount of time. Some programs, as a result of successful compliance with all the rules for a period of time, may grant the right to apply for permanent residency or citizenship.

Since its application, many foreign investors have used this incentive to invest in real estate properties in Portugal and start doing business in Portugal through the incorporation of new companies in the country.

As of 2020, 94% of the Portugal Golden Visa applicants used the real estate acquisition route in order to qualify for the program. As a curiosity, the list of main foreign investor nationalities in Portugal is: 21% (French), 18% (UK), 18% (Brazil), 9% (Germany) and 7% (China).

Who can apply?

Any individual above the age of 18 that is not a European Union, European Economic Area or Swiss citizen can apply for the program. The only requirement is that the applicant has to make a qualifying investment during a minimum of five years. The list of possible investments include, among others, those who transfer capital (1 million euro), create jobs (at least 10 new full-time jobs in a Portuguese company), acquire real estate (minimum of € 500.000, 00), a minimum investment of 350, 000 euro in a qualifying Portuguese fund or in a property older than 30 years old and renovating the property.

How to request the Golden Visa Portugal

The application for the granting of the Gold / ARI Visa must be made online on the website of the Foreigners and Borders Service. If preferred, the applicant can be represented by a lawyer. In this case, the request can be made by the legal representative. This representative must have a Forensic Power of Attorney, and, after registration, submit it to SEF.

The application must be formalized by the applicant, upon presentation of a declaration. In this, under a commitment of honor, it must certify the fulfillment of the minimum quantitative and temporal requirement of the investment activity.

This declaration and all the necessary documentation are presented at the time of requesting the granting of a Residence Permit and / or its renewal.





The presentation is made in person at the competent SEF regional office. The decision to grant the Gold / ARI Visa is the responsibility of the SEF National Director, upon proposal by the Regional Director of the same body.

The scheduling of the date and time for delivery of the ARI request at the SEF service location is done through its own portal, upon pre-registration.

After successfully obtaining the Portuguese residence permit, the holder should renew their visa at the end of the first and the third years.

It's important to notice that Portugal allows dual citizenship. So, residents on a path to citizenship do not have to worry about this. However, if the original country of citizenship does not allow dual citizenship, the applicant may have to resign that passport in order to be able to be granted Portuguese citizenship. It is a good idea to check this information before starting the process towards Portuguese citizenship.

Required Documents

Firstly, it will be essential to prove that the necessary investment has been made. In addition, you must submit the following documents:

- Valid passport;
- Photos 3×4 ;
- Certificate of Criminal History from the country of origin;
- Permission for SEF to consult the criminal record in Portugal.

Finally, the fee for the order must be paid, the amount depending on the circumstances.

Remember that documents issued in other countries may need to be handout. And, if there is the presentation of a document written in another language, it must be translated as well.

How much do Golden Visa fees cost?

Fees required to the analysis of the request and, in case of approval, to the Residence Title's emission are the following:

- Reception and analysis of the application for the granting or renewal of a residence permit for the investment activity - 532,70 €
- By issuing the first residence permit for investment activity 5324,60€
- Renewal of residence permit for investment activity 2662,30€
- For the first residence permit for family members grouped with the residence permit holders for the investment activity — 5324,60€;





For the renewal of the residence permit for family members grouped with holders of residence permit for the investment activity — 2662, 30€

Investor/Golden Visa Owner's Taxation Regime

According to the circumstances, Golden Visa Owners and investors will enjoy a privileged taxation method. This regime offers many advantages to who wants to live in Portugal but has incomes out of the country. Therefore, to these cases will apply the Non-Habitual Resident regime, depending on some requirements:

- Being considered a resident in Portuguese territory to taxes effects in the year you're applying;
- Not had been considered resident in Portuguese territory in any of the previous 5 years
- Belong to the professional categories listed

The advantages of this regime will be more or less noticed according to the type of income you own but, in any way, you'll always be able to avoid the double taxation - if you already pay taxes in other country, you won't be taxed in Portugal. This is a big advantage of getting Golden Visa in Portugal.

This regime is valid for ten years and it's important to notice that the inscription request must be made until March, 31st of the year after the one when you started living in Portugal.

Significant Benefits

The Holders of a Golden Residence Permit (ARI) for the purposes of investment activity have the right to family regrouping (including husband/wife), live, study or work in Portugal and may even gain access to a permanent residence permit, as well as to a Portuguese citizenship in accordance with the current legal provisions.

The major advantage of this Program is the fact that EU citizens do not need to live in the country - Portugal - only must have a minimum stay of 7 days in Portugal and therefore they can circulate in the Schengen area of EU countries even if they do not have their real place of residence in Portugal. We must also refer that in the subsequent years, the Golden Visa owner must stay, not 7, but 14 days minimum in the country to keep the benefits. After five years of living in Portugal they can apply for permanent residence permit, and after six years of living in Portugal to receive the Portuguese Nationality.

Portugal is a highly developed European country with state-of-the-art medical facilities and plenty of opportunities to get some of the best education on the world. It is a part of the EU thus getting residency in Portugal means being eligible to live and work in many more countries





that share the Schengen area. Moreover, Portuguese passport is one of the best in the world and if you do end up acquiring it you can travel to 164 countries without a visa.

2020 Updates

As of February 2020, the Portuguese Parliament will enable the Portuguese Government to introduce changes in the Portuguese Golden Visa Program with the intention of promoting investment in low-density areas, urban renovation, cultural heritage and job creation. This plan came up because many Portuguese families were forced to move out of Lisbon and Porto due to the increasing real estate prices they couldn't afford.

So, Golden Visa will no longer be available through investment in real estate property in major cities like Lisbon and Porto. Real estate property acquisition in local interior communities and the autonomous regions of Azores and Madeira will still be a valid investment route to attain Golden Visa though. The provision does not clarify if the 350.000 Euro investment route through real estate renovation will still be available or not. It is also unclear if investment into Portuguese funds will be affected by the changes. It is possible that the minimum amount of investment may be increased for the remaining options.

It's important to notice that this will not have a retroactive effect. The potential change in the law will only have an effect on the Foreigners Act. The Portuguese Citizenship Act, on the other hand, will stay intact; thus, all criteria to apply for the Portuguese citizenship will remain as is. The existing holders of residence permits will be able to submit their renewal applications.

This changes however may only appear in 2021, after the law being approved and published, so we can trust that the regime will stay the same until new updates come.

Portugal is almost completely recovered from its crisis back in 2008. This means that soon enough its ever-growing real estate market will come to a halt or start crowing slowly. But for now, Portuguese real estate market is still a booming one and professionals argue that it will remain so in 2020. Buying a house in Portugal for a Portuguese residency as early on as possible in the year can yield a lot of profits to its investor even at the end of the year, after a mere 12 months. It would be wise to make use of this program while it still exists and reserve your own spot in Portugal and enjoy its benefits and advantages.



4.10. Portuguese "D7" Visa

The "D7 Visa" residence visa is a special Visa for retired foreign citizens or foreign citizens who are holders of income who wish to live in Portugal.

The procedure consists in two stages: the first one before the Consulate or Embassy of Portugal in the country where the applicant resides and the second one before the Immigration Service (SEF) in Portugal. The D7 Visa allows its holder to enter Portuguese territory in order to apply for a temporary residence permit. It must be requested at the Embassy of the country of origin, and only with a valid residence visa you can travel to Portugal.

The average time for obtaining a residence visa varies between 30 to 60 days.

After the visa is granted, it will be valid for two entries into Portuguese territory and for a period of 4 months.

In Portugal, once a temporary residence permit is granted, it is renewable for successive periods of 3 years, after 5 years, the applicant may acquire the permanent residence permit, and after 6 years the applicant may acquire the Portuguese nationality.

The holder of a residence permit resulting from the D7 Visa, cannot remain outside of Portugal more than **6 consecutive months** or **8 intercalated months**.

Required Documents

- ✓ Self-declaration: Declaration signed by the applicant, specifying the reason for the visa application, the period he intends to stay in Portugal, the place of accommodation and indication of references in Portugal (name, address and telephone number of family and / or friends), if applicable;
- ✓ Proof of means of subsistence:
- ✓ Proof of Accommodation in Portugal: Proof of purchase or lease of housing in Portugal; Invitation letter made by a citizen legally residing in Portugal, with a photocopy of the identity of the inviting person; or Proof of hotel reservation for a minimum period of one week.
- International travel medical insurance: valid for the period of stay in Portugal.
- ✓ Criminal record valid for 90 days;
- √ Two pictures;
- ✓ Simple copy of Passport;
- √ Visa Application Form;





What are the necessary requirements?

One of the necessary requirements is proof that the applicant has the minimum income provided by law that allows him to reside in Portugal, for a period of not less than 12 months, which are:

- ✓ 1st Adult (applicant): 100% of the current minimum wage (€ 665) x 12 months;
- ✓ 2nd or more adults: 50% of the current minimum wage x 12 months;
- ✓ Children and young people under 18 and dependent children of legal age: 30% of the current minimum wage x 12 months.

Family reunification

The holder of a residence permit is entitled to have family members who lived with him in another country, who depend on him or who cohabited with him, regardless of whether family ties arose before or after the resident's entry, reunited in Portugal. Thus, these family members will be able to live together with the holder of the residence permit in Portugal, while the permit remains valid.

The request for **family reunification** is made in Portugal, before SEF and the applicant must prove his relationship with the holder of the residence permit, as well as that he has accommodation and means of subsistence.

How much do "D7" Visa fees cost?

Fees required to the analysis of the request and, in case of approval, to the Residence Title's emission are the following:

- Cost of initial order analysis: € 90.00
- Cost of application and granting of Residence Permit D7 per person: € 155.00
- Cost of issuing a D7 residence permit per person: € 45.00

To request renewal of these residence permits:

- Cost of analysis of the renewal request: € 33.60
- Cost of issuing the Residence Card: € 45.00



4.11. Double Taxation Agreements

Listed below are all the Double Taxation Agreements Portugal has entered into:

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Country	Status	
South Africa	Into force since 22.10.2008	
Germany	Into force since 08.10.1982	
Angola	Into force since 22.09.2019	
Algeria	Into force since 01.05.2006	
Andorra	Into force since 23.04.2017	
Austria	Into force since 28.02.1972	
Barbados	Into force since 07.10.2017	
Bahrain	Into force since 01.11.2016	
Belgium	Into force since 19.02.1971	
Brazil	Into force since 05.10.2001 (effects since 01.01.2000)	
Bulgaria	Into force since 18.07.1996	
Cape Verde	Into force since 15.12.2000	
Canada	Into force since 24.10.2001	
Chile	Into force since 25.08.2008	
China	Into force since 08.06.2000	
Colombia	Into force since 30.01.2015	
Costa do Marfim	Into force since 18.08.2017	
Croatia	Into force since 28.02.2015	
Cyprus	Into force since 16.08.2013	
Korea	Into force since 21.12.1997	
Cuba	Into force since 28.12.2005	
Denmark	Into force since 24.05.2002	
United Arab Emirates	Into force since 22.05.2012	
Slovaquia	Into force since 02.11.2004	
Slovenia	Into force since 13.08.2004	
Spain	Into force since 28.06.1995	
United States of America	Into force since 01.01.1996	
Estonia	Into force since 23.07.2004	
Ethipoia	Into force since 09.04.2017	





Finland Into force since 14.07.1971 France Into force since 18.11.1972 Georgia Into force since 18.04.2016 Greece Into force since 13.08.2002 Guinea-Bissau Into force since 05.07.2012 Holland Into force since 11.08.2000 Hong Kong Into force since 03.06.2012 Hungary Into force since 08.05.2000 India Into force since 05.04.2000 Indonesia Into force since 11.05.2007 Ireland Into force since 18.12.2006 Iceland Into force since 11.04.2002 Israel Into force since 18.02.2008 Italy Into force since 03.06.2012	
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Title force since 05.00.2012	
Kuwait Into force since 05.12.2013	
Latvia Into force since 07.03.2003	
Lithuania Into force since 26.02.2003	
Luxemburg Into force since 30.12.2000	
Macao Into force since 01.01.1999	
Malta Into force since 05.04.2002	
Morocco Into force since 27.06.2000	
Mexico Into force since 09.01.2001	
Mozambique Into force since 01.01.1994 (Protocol into force since 21.08	3.2009)
Moldova Into force since 18.10.2010	
Montenegro Into force since 07.12.2017	
Norway Into force since 15.06.2012	
Panama Into force since 10.06.2012	
Pakistan Into force since 04.06.2007	
Peru Into force since 04.04.2014	
Poland Into force since 04.02.1998	
Qatar Into force since 04.04.2014	
United Kingdom Into force since 20.01.1969	





Country	Status
Czech Republic	Into force since 01.10.1997
Romania	Into force since 14.07.1999
Russia	Into force since 11.12.2002
San Marino	Pending
Sao Tome and Principe	Into force since 12.07.2017
Saudi Arabia	Into force 01.09.2016
Singapore	Into force since 16.03.2001
Sweden	Into force since 19.12.2003
Switzerland	Into force since 18.12.1975
East Timor	Pending
Tunisia	Into force since 21.08.2000
Turkey	Into force since 18.12.2006
Ukraine	Into force since 11.03.2002
Uruguay	Into force since 13.09.2012
Venezuela	Into force since 08.01.1998
Vietname	Into force since 09.11.2016

The Double Taxation Agreements ("DTA") assure a better and more transparent commercial relation between countries.

Between Portugal and these countries are special rules for taxation of income for profits, royalties, interests and dividends.

With the celebration of DTA the main objective is to avoid the double taxation of individuals and companies, once they benefit from exemption of taxation in one of the involved countries or from a credit, given by the State where the tax was first paid.

The DTA follows a Model given by OECD (Organization for Economic Co-operation and Development), so it is very easy to read and understand the signed Agreements.



V. REAL ESTATE INVESTMENT

5.1. Acquiring or Selling Real Estate

Legal Procedures

The first step in acquiring a real state is to obtain all the necessary legal documents. In Portugal in order to buy a real estate property, for example a flat, several legal documents are needed:

- 1. Obtain Usage / Construction / Habitation Licences: Obtain a copy of the Usage License (or Construction License in case the property is not yet completely developed) from the local Town Hall. For residential property you will also need a Habitation License. Check that the description on habitation license is totally in accordance with what you are buying;
- 2. Obtain Real Estate Registry Identification Document: Having chosen a property, have your representative search the local land Registry to check the development status of the construction, and that the Seller has clear title of ownership, that anyone else has rights over it, that it is exactly described and that it is free of charges or mortgages;
- 3. Obtain the Real Estate Tax Identification Document: Obtain the Real Estate tax identification document relating to the property from the seller and check that the description of the property (number of rooms, area of the house, area of the land, etc.) is the same as in the real estate registry identification document.
- **4. Personal Tax Number:** If the purchaser is a non-resident entity, he will have to establish a tax representation in order to obtain a Portuguese tax number at the local tax office. It will come in the form of a card which you will need, at least for the payment of real estate tax. The second step is to enter into a contract of real estate transfer. This contract needs to be performed before a Public Notary.

After that you will have to request the inscription of the ownership in the Public Land Registry and in the Real Estate Tax Document.

5. Energy Certification of the property: Since 2013 it is compulsory to obtain an Energy Certificate. Thus, it will provide energy performance assessment through energy performance labels in order to raise awareness of energy consumption, address market failures and use





complementary measures by time of the decision to purchase a property.

6. Technical Record of the property: it became mandatory to provide the purchaser with all acts of the deed involving the acquisition of ownership of a residential building or fraction,

without which it cannot be celebrated.

7. License of use of the property: a copy of the usage license from the Local Town Hall

allows to check if the property is approved for the purposes of the original building permission.

For residential property it is necessary to have a habitation license. For non-residential it is

necessary to have a commercial or industrial license. This usage license document needs to be

presented at the stage of signing the "promissory buying and selling" contract.

8. Method of payment: this is a new requirement for preventing and combating money

laundering and it is now mandatory to mention the check number or destination bank account.

If you are thinking about acquiring a Real Estate you should also enter into a **Promissory**

Purchase and Sale Contract.

This type of contract it is legal foreseen and it must be drawn up to be signed by you and the seller. It should include all the terms and conditions of the final sale. You will normally have to pay the seller a signal (a determined percentage of the final full purchase price) at this stage. The contract should be signed in front of a Notary. It is legally binding on both buyer and seller. If the buyer defaults he forfeits the deposit. If the seller defaults he has to pay the buyer

double the deposit.

One way to ensure that the promissory buyer will receive the amounts paid in advance in case

of definitive breach by the developer, is:

(i) to request a bank guarantee from the developer, in the same value of the amounts paid;

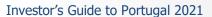
(ii) to request that the amounts paid in advance are kept in an escrow account until the date of

completion.

Payment of Real Estate Transfer Tax (IMT) and Stamp Duty

Real Estate Transfer Tax is payable n the acquisition, in accordance with the txes foreseen

under 4.5. above.





Enter into Final Purchase and Sale Contract

After completion of the property and existence of all necessary licences, this contract also needs to be signed in front of a Notary.

Request the inscription of the ownership

After the purchase, the purchaser shall provide inscription of ownership within the tax office (updating Real Estate Tax Identification Document) and within Real Estate Registry Office (updating Real Estate Registry Identification Document).



5.2. Acquiring Real Estate – Conveyancing Procedure (due diligence), or if it did not take place, what to do when something goes wrong

You have found the perfect spot for your Real Estate Investment.

A spot in a Paradise Beach or in the perfect city, quiet, trendy and with all your necessities assured by the Developer.

It has been presented to you a very nice architectural project, a speedy construction and development plan, the correct timing and the perfect price for purchase, having in mind to enjoy the final result, or to rent or resale it.

It is all in paper, and the marketing for such place is perfect. You have a promise that everything will be there in around two years, for yourself or for the ones you decide that will enjoy such place.

You enter into a reservation contract for such future place and / or a promissory purchase and sale contract. What really matters is that you already paid in advance at least 25% of the Final Purchase price...

Even if you have paid in advance (after all, every investment has its own risk), you believe everything will run smoothly until the date of delivery and completion. Nevertheless, for guarantee of your investment, most of the times you have requested the attorneys recommended by the Developer (which in principle are their own attorneys) to proceed with the checkup of the Development and make sure every legal aspects of your investment were correct.

You believe the attorneys have checked the legal aspects of your contract; have checked the insurance that your advanced payments (in fact, the most important part) are guaranteed by bank guarantee or in an escrow account until completion; and also that they have checked the credibility of the Developer, its legal and financial capability, the ownership of the property and that all aspects concerning the Development Plan are duly approved near the Registry and the Town Hall... Well, sometimes this due diligence is not covered, other times it is not completed thoroughly, and some other times, it is, but new facts arise during the construction development that will not allow the Developer to complete within the agreed time, or even to complete at all.





In such case, you may just decide to lose your investment, or to try to recover it. If you decide for the second option, an attorney may assist you through the process of evaluation of the amount of investment that may be recoverable, and most important, assist you through the extrajudicial and judicial process with such purpose.

Should you have the contract entered into, proof of payment, and evidence of breach from the Developer, you will probably be entitled to recover your investment, and that will, as last resource, most probably be the court decision concerning your specific case.

- 1. You will then need an attorney to eventually check (again, eventually) the credibility of the Developer, its legal and actual financial capability (to return your investment or to, at least, complete the Development);
- 2. You will then need an attorney to eventually check (again, eventually) the current ownership of the Property (and how much of it is already mortgaged in favor of Credit Institutions), and check if all aspects concerning the Development Plan are duly approved near the Registry and the Town Hall, and the construction status;
- 3. You will need an attorney to check all the legal aspects of your Contract (e.g. the validity and enforceability of the contract) and the terms of investment, to make sure that you are well protected and that the breach from the Developer is real and enforceable;
- 4. If so, and if your case is viable, you will need an attorney to contact the Real Estate Developer, first in writing, declaring the breach of contract signed and requesting the restitution of the amounts paid plus legal compensations foreseen;
- 5. You will need an attorney to meet the Real Estate Developer, and try to negotiate an extrajudicial solution for your case (which general rule and according to our experience, will be one of four options clarified below); and ultimately,
- 6. Even if no extrajudicial agreement is reached with the Real Estate Developer, you will need an attorney to submit into Court your Claim against the Real Estate Developer, requesting the breach of contract and in consequence the reimbursement of the advanced payments made, plus any legal compensation foreseen.





The extrajudicial agreement is always the first attempt, in order to avoid a lawsuit in Court. However, many times it is not possible to reach an extrajudicial agreement and the Court claim is the only viable route to follow.

Civil Claim Procedures will start with a presentation in Court of Investor's case. The Developer will have around one month to reply. The investor may pronounce himself concerning what the Developer has said, and the same for the Developer.

After the writing phase, in principle the judge will judge the simple procedural aspects of the cause that may be immediately decided, and will schedule a Preliminary Hearing to see if the parties want to reach an Agreement.

In case no Agreement is reached, he will decide what aspects are already proved, and what aspects should be proved in Court, and schedules the Final Hearing Sessions (where witnesses will be heard, documents will be analyzed, and allegations on the facts and on the applicable law will occur).

After the Final Hearing Sessions, the judge will decide having in mind the applicable law, the proven facts and the facts that were not proved. This decision enables the Executive Claim.

If favorable, the Civil Claim will result in a decision that allows the Investor to execute the Developer through an Executive Claim, which means that the Court authorizes the Executive Agent to freeze bank accounts and any other assets that the Developer may have, in order to proceed with their sale and with the money pay to the Investor - which therefore recovers its investment.

Portuguese Law for Promissory Sale and Purchase contracts

In terms of the Real Estate legislation the Portuguese Law protects the Purchaser when he has paid amounts in advance, the ditto "Sinal" (lit. "Signal") and has happened a breach of contract by the part of the Promissory-Vendor.

The Promissory Sale and Purchase Contract is often used in order to grant a better position to the purchaser in case of breach of the vendor.

It configures a contract where the parties promise each other to execute a contract in the future. The purchaser often advances a partial payment upon execution of the promissory





contract, which is specifically qualified under the law as a "signal" (having this partial advanced payment a specific regime in case of breach of the vendor, as it will be clarified below).

Although not subsidiary of the main contract to be executed, also this kind of contract shall be entered into respecting the same legal formalities that should be observed to the final contract the parties promise to enter into in the future (in case the parties promise to sell and purchase real estate assets, also this contract should be executed before a public notary, under the form of a public deed).

However, in principle, the penalty for not following the legal form foreseen for the final contract is not necessarily the nullity of the promissory contract – although the purchaser may lose its right to the real estate property itself, being only entitled to compensation for termination of the promissory contract based on the vendor's breach (in principle, equal to the amounts paid).

The main advantage / purchaser protection of this kind of contract resides in the fact that in case of breach of the vendor, the amount paid as "signal" should be reimbursed to the nondefaulting party (the purchaser) in double - which means that in case of non compliance, the purchaser shall be entitled to receive twice the amount it has paid as "signal".

However, payments in advance are only presumed to be subject to the specific regime of the "signal" in the promissory contracts. As it concerns any other contracts, it must be expressly stated that the advanced amount shall be subject to the "signal" legal regime.

Considering the above said, this kind of contracts could be defended as valid, and therefore the Purchaser could argue its termination. Here resides the importance of an attorney specialized in rendering assistance on the recovery of your invested amounts when business does not go as previously planned.



5.3. The New Renting Law – More Confidence

Approved in 2006, the Renting Law has had several rental regimes, the current one in force since 2019 in which it stands out for the prohibition of rental "harassment" in order to correct situations of inequality between landlords and the tenant and to strengthen the rental's security and stability and therefore to protect the tenant in a fragile and volatile situation (such as elderlies, people with special needs, etc.).

Rules for Concluding Contracts

The law allows the free conclusion of renting contracts with a minimum period of time of one year (except if there is any justification such as construction works, professional reasons, education, etc.) and a maximum of thirty years. If nothing has been established by the parties in the contract, it is presumed that it is concluded for one year, although its automatic renewal period, if nothing is established otherwise, is three years.

Higher Protection for the Landlord

It is allowed the termination of the contract after 3 months of rent defaults or delay in 4 rent payments over a year, as long as the landlord communicates that intention to the tenant. In the following months, the tenant may pay the missing rent only that one time, through all the contract and the termination is without effect.

In case of default, after this "warning", the renter must leave the apartment almost immediately.

Since November 2015, all the landlords with an annual property income exceeding 87152 euros have to issue an electronic income receipt, under penalty of a fine.

Special Eviction Procedure

There is a special eviction procedure to enforce the termination of the contract when the tenant refuses to leave the apartment in the legal or agreed date.

Therefore, a National Rental Desk (NRD) was created in 2013, in order to take these type of cases out of judicial courts.

If the tenant does not challenges the eviction application made by the landlord or does not proceed with the payment of the following rents, the NRD itself will convert the application into an automatic eviction title.

If the tenant challenges the application and the court considers that the landlord is right, the eviction procedure will take place immediately.





For the Tenant

If the tenant has concluded a contract with undetermined duration and in case the landlord wishes to terminate the contract, he must communicate within the minimum period of 5 years. If the contract has been concluded with undetermined duration and the landlord wants to renovate the apartment - demolishing it or having works done - he only has to communicate it to the tenant. However, if that is just a strategy to take the tenant out of the apartment he will be severely accountable for whatever damages he may cause him.

Updating the Rent

This law also corrects situations of imbalance between tenants and landlords, strengthening the security and stability of urban leases and protecting tenants in situations of special fragility. For instance, before updating the rent, the landlord must negotiate it with the tenant, proposing a new rent amount and the type and the duration of the contract.

Then, the tenant has the opportunity to:

- i) Accept the proposal which will lead to an updated rent amount and to a 5 years contract, unless the parties agree another duration;
- ii) Counterproposal In this case the tenant refuses the proposal and presents a different one. The Landlord may accept the new one. Otherwise, if no agreement is reached, the contract will be considered to be concluded for 5 years and the annual rent amount will be equivalent to 1/15 of the Property Value as established by the Tax Authorities. Alternatively, the landlord may also revoke the contract, paying a compensation to the tenant corresponding to 5 years of the medium value of the proposed rents for each one.

The tenant may claim the gross annual income of his household is less than five national minimum salaries, which may lead to a rent update of a maximum of 25%, 17%, 15%, 13% or 10% of that annual income, for the next ten years.



5.4. Real Estate Investment Funds

The Concept

Portuguese Real Estate Investment Funds (FII) are special vehicles to take into consideration when considering real estate acquisition, construction, sale, resale and rental. FII are considered to be investment vehicles created with the aim of advancing investors' capital in different real estate values following a principle of division of risk between investors and the FII. This structure benefits from several tax incentives, exemptions and tax reductions pursuant to Portuguese Tax Law.

Capital

FII capital should have a minimum real estate portfolio of € 7.5 million, which may be reduced or increased with authorization from the CMVM (Securities Market Commission), if allowed by the management regulation.

FII Tax Regime

Real Estate Taxation

FII Real Estate Acquisition may be fully exempt from Real Estate Transfer Tax (IMT) and also from Real Estate Municipal Tax (IMI) exempt¹⁵.

Rental Income

The annual net rental income is subject to taxation at FII level at 20%, benefiting from exemption from provisional withholding.

Real Estate Capital Gains Income

The annual net tax capital gains resulting from real estate sales are taxed individually at the rate of 25% over 50% of the value corresponding to the positive difference between annual capital gains and losses.

Other Capital Gains Income

The remaining capital gains obtained in or outside Portugal, are taxed individually under the same conditions at a rate of 10% over the positive difference between the capital gains and losses in each year.

The distribution of PU income is exempt from withholding tax.

¹⁵ Although, if some criteria is not met, exemption will be replaced for 50% tax reduction.





5.5. Share Investment Funds

There are also Investment Funds for aggregation and savings applications from individual and collective entities, which apply funds into share values, listed or noted in stock exchange.

This investment is much related to the Bank market, but the principal advantage from this system relies on the fact that the applications are accompanied and managed by professionals in the capital market.

The Concept

The main characteristic of these funds is the reflection of a binomial risk/return, with variable deadlines for the made investments. Therefore, the investor must consider the time in which he is willing to invest and the risk taken. This type of funds are funds that are invested mainly in tradable securities, listed or unlisted and may be open or closed, depending on whether the units are in variable number or fixed number, respectively.

Capital

FIM capital should have a minimum portfolio of € 1.25 million, as from the first six months of activity. If the global net value of collective investment undertakings is lower than € 1.25 million, the entity responsible for management immediately communicates this fact to the CMVM (Securities Market Commission), and measures should be adopted to regularize the situation for a maximum period of six months, unless it is authorized by the CMVM.

FIM Tax Regime

Rental Income

The annual net rental income is subject to taxation at FIM level at 20%, benefiting from exemption from provisional withholding.

Capital Gains Income

The annual net tax capital gains resulting from share sales are taxed individually at the rate of 25%.

Other Capital Gains Income

The remaining capital gains obtained in or outside Portugal, are taxed individually under the same conditions at a rate of 10% over the positive difference between the capital gains and losses in each year.

The distribution of PU income is exempt from withholding tax.



VI. DISPUTE SETTLEMENT

Portuguese courts have been the main formal means of resolving disputes and enforcing property and contractual rights but are commonly considered slow and ineffective.

Therefore, following the memorandum of understanding signed with Troika in May 2011, the Portuguese government pledged to adopt reforms to solve the problem of pending proceedings thus improving the judicial system, essential for the proper and fair functioning of the economy. For this purpose, the Portuguese government undertook, among other measures, to implement a new judiciary map, to amend the law of executive action (debt collection and foreclosures), to extend the civil trial process, to address the issue of bankruptcy and the processes of insolvency, to create new courts for competition and intellectual property rights issues, and to extend and to improve the alternative dispute resolution (including the adoption of a new Arbitration Law), in order to remove more and more cases from the courts.

All these measures were approved and came into force in September, 2013 what turned into a major reform in the court and judicial Portuguese system. Nowadays we only have one type of common civil procedure reducing procedural stages, aiming to become a faster path to solve the issues.

These efforts have allowed the courts to eliminate thousands running processes that involve small amounts but are responsible for clogging the courts.

The implemented measures are now in place and functioning in Portuguese courts.



6.1. Traditional Justice

In Portugal, there are two separate traditional jurisdictions: the civil jurisdiction and the administrative jurisdiction.

There is also the jurisdiction of the Constitutional Court (for matters of legal and constitutional nature) and the jurisdiction of the Court of Auditors (reviewing the legality of public expenditure and of the accounts that the law submit to it).

The judicial division of the national territory, to which it conforms essentially the civil jurisdiction rests, in descending order of coverage, in the judicial districts (Lisbon, Porto, Coimbra and Évora), in the judicial circles and in the counties ("comarcas"), the smallest districts, inspired in the administrative county. Conflicts of jurisdiction between courts are resolved by a Court Conflict, regulated by law.

1) The Civil Jurisdiction

In the civil jurisdiction, the ordinary courts in civil and criminal matters are the judicial courts ("tribunais judiciais"), which also exert jurisdiction over all matters not assigned to any other court order.

These courts are organized into three levels, from the superior and territorially wider to the less hierarchically and territorially more restricted: the Supreme Court of Justice ("Supremo Tribunal de Justiça"), of national responsibility; the five courts of appeal ("Tribunais da Relação"), one per judicial district and two in the judicial district of Porto, and 23 judicial courts ("Tribunais de Primeira Instância").

Although there are exceptions, the Supreme Court (not only of Justice, but also the Administrative below) operates as a body of last instance and the judicial courts as ingress courts.

In judicial courts, the courts assume one of three categories, depending on the subject and on the value of the action: the courts of general jurisdiction, the specialized courts (Criminal Prosecution, Family, Juvenile, Labor, Trade, Intellectual Property, Competition and Maritime enforcement purposes) or specific jurisdiction among the administration of courts ("instância local, instância central")

2) The Administrative Jurisdiction

The administrative jurisdiction is integrated by the Supreme Administrative Court ("Supremo *Tribunal Administrativo*"), of nationwide jurisdiction; the two courts of appeal ("*Tribunal Central*") Administrativo Norte" and "Tribunal Administrativo Sul") and the 15 Administrative and Tax courts (of first instance).



6.2. Alternative Dispute Resolution (ADR)

Many foreign firms routinely seek assistance from lawyers and also prefer to include arbitration clauses in their contracts, that can include any disposable rights, the chosen law to regulate conflicts, and any other domain not exclusively to be dealt by a judicial court, as well as preventing disputes whenever possible through careful drafting of their contracts.

The ADR has allowed, among other things, to respond to the search for swift and effective solutions, particularly with regard to consumption and credit. ADR procedures such as conciliation, and especially mediation and arbitration have been gaining a place increasingly relevant in this new area of conflict.

In conciliation, the intervention of a third party unconnected with the conflict, help litigants to find a platform of agreement, in order to resolve the dispute.

In mediation, a neutral third party provides the parties a proposed agreement or recommendation of its own. While the conciliator merely facilitate communication between them, the mediator goes further and suggests an active content of the agreement to be signed by the parties.

The resolution of commercial conflicts is increasingly discussed in appeal of Arbitration. Under these circumstances the parties create an ad hoc tribunal, pick the judges-arbitrators, set the arbitration clause (court rules), stipulate the deadline for the resolution of the dispute (that cannot exceed six months) and submit themselves to judgment. The decision is then recognized in all Member States that acceded to international conventions on arbitration courts, and the parties may even predefine the refuse to appeal.

In Portugal there are 36 centers for alternative dispute resolution recognized by the Ministry of Justice. These entities settle all kinds of business conflicts: some of them facing the commercial arbitration, with no limit to the amount of processes, others oriented to consumer arbitration, in which the value is low.

Julgados de Paz

The 'Julgados de Paz' are also an option to consider, since they are cost-effectively courts with special characteristics, able to resolve the causes quickly.

Nevertheless, they have jurisdiction in causes of civil nature up to 15.000,00 €, being the matters involving Family Law, Probate Law and Labor Law excluded.

With the reorganization and amendments in the court system, the alternative dispute resolution should be considered the first option to solve the legal issues. The main goal is to leave the most complex cases to the Judicial Court.



VII. CONCLUSION

In the advent of the then European Economic Community membership in 1986, Portugal was still an underdeveloped country with alarming illiteracy rates and levels of economic growth far from the European average. Almost 35 years later, a remarkable effort of modernization brought progress and development to Portugal, proven by the considerable increase of the graduate's rate and by a broad set of infrastructures that have been developed over the years, including road and communication infrastructures, as well as an European leading position in the renewable energy sources market.

Moreover, Portugal's specific geographical position as well as its privileged relations within the Community of Portuguese Speaking Countries which include, among others, Brazil and Angola, represent an unique gateway to Europe, America and Africa.

In spite of the sovereign deficit crisis in the Eurozone back in 2011, several substantial new measures to cut red tape and unnecessary costs were negotiated between Troika and the Portuguese Government and have been implemented through the years with satisfactory results unanimously recognized by the European partners and the Eurogroup. These reforms are essential to balance the budget of the State allowing economic growth in the future and better conditions for investing in Portugal.

In fact, Portugal's Latin culture can mean a strong role of the State. Although this aspect may at times seem rather burdensome, foreign investments often benefit greatly from intervention from government or state-held institutions in a country that is especially welcoming to foreign investment. Furthermore, notwithstanding that role, many bureaucratic barriers have been removed over the last decade, being the "Instant Company Service" its biggest example. Therefore, good technical advice, handled by qualified professionals that understand investors' strict and demanding needs is an essential part of the investment decision process.

At Ferreira Leite, Rua, Pontes & Associados, the foreign direct investment has been an area of special activity from its professionals, which have been developing competences and experience with the purpose of following international clients who seek, in Portugal, enterprises creation/beginning in several industry markets, acknowledging that only private entities can offer efficient responses and adjust to an investor's strict schedule. Therefore, this guide emerges as a result of many years of experience with demanding foreign corporations and investors and intends to give an insight into possible investment opportunities. We hope it to have been of use, and we remain entirely available for any assistance you may need when considering your investments in Portugal or in any Portuguese-Speaking Country!





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Investor's Guide to Portugal 2021

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