

THE MADEIRA INTERNATIONAL BUSINESS CENTRE

 MadeiraManagement

A GENERAL OVERVIEW

The Madeira International Business Centre (MIBC) is an established and important international business hub, wholly within Portugal and thus part of the European Union, with full access to the EU market. It consists of a Free Trade Industrial Zone, an International Services Centre and an International Shipping Register.

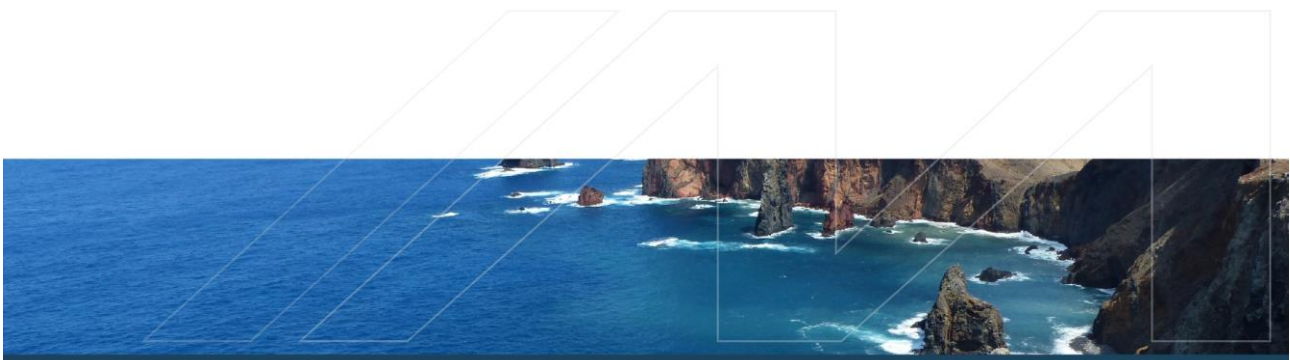
Having been expressly approved by the European Union, the MIBC is certainly a credible and stable location for international operations, providing an extremely competitive low corporate income tax rate of 5%, guaranteed until the end of 2027.

The new **Tax Regime IV** provides the following main tax benefits:

- a reduced corporate tax rate of 5%, guaranteed until 2027;
- exemption of withholding tax on dividends paid to non Portuguese resident shareholders (corporate or individuals), as long as these are not resident in a black listed jurisdiction;
- No withholding tax on interest and other forms of payment for shareholders' loans, capital allowances or advances made by the shareholders to the company, as long as the shareholders are non-residents in Portugal.
- Worldwide participation exemption regime applicable to dividends, reserves, capital gains and losses;
- Exemption of withholding tax on royalties, services fees or interest paid to third parties;
- Capital gains tax exemption on the sale of participations held in the Madeira company;
- Tax Credit to avoid International Double Taxation under certain circumstances;
- Exemption of notarial and registration fees;
- 80% reduction on the rate of Stamp Duty, municipal transaction taxes and municipal property taxes;
- 80% reduction on regional and municipal surcharges.

To be entitled to these benefits, licensed companies should comply with one of the following substance requirements:

- (a) creation of one to five jobs in the first six months and a minimum investment of €75,000.00 in the acquisition of tangible or intangible fixed assets, during the first two years; or
- (b) creation of six or more jobs in the first six months.



Furthermore, the referred reduced tax rates will only apply to certain limits of the annual taxable income, which depend upon the number of employees engaged by the MIBC company in each tax year, as follows:

- 1 to 2 jobs: € 2,730,000.00;
- 3 to 5 jobs: € 3,550,000.00;
- 6 to 30 jobs: € 21,870,000.00;
- 31 to 50 jobs: € 35,540,000.00;
- 51 to 100 jobs: € 54,680,000.00;
- More than 100 jobs: € 205,500,000.00.

The portion of the year's taxable income which exceeds the *plafond* applicable, taking into account the number of employees engaged by the MIBC company, will be taxed at the general income tax rate applicable in Madeira, currently 14,7%. A MIBC company can also carry out activities in Portugal, however all income obtained from Portuguese sourced activities will be taxed at the standard corporate income tax rate.

Additionally, a new licensed Regime IV company will also need to ensure that its tax benefit is subject to one of the following additional annual maximum limits:

- a) 15,1% of the annual turnover; or
- b) 20,1% of the annual gross value added; or
- c) 30,1% of annual costs incurred with the workforce.

As referred above, a MIBC company can also apply the [worldwide participation exemption regime](#) introduced in 2014 and which provides a full tax exemption on dividends or reserves received by any Portuguese company, under the following conditions:

- the participation in the subsidiary is equal or superior to 10% and held for at least 1 year;
- the entity distributing dividends is NOT located in a black listed jurisdiction;
- the entity distributing dividends is subject and not exempt to Portuguese income tax (when the subsidiary is located in Portugal), to a tax referred in article 2 of the Parent/Subsidiary Directive (when the subsidiary is located within the EU) or, in other cases, to a tax identical or similar to Portuguese corporate income tax and is subject to a tax rate that is no less than 60% of the normal Portuguese tax rate (i.e. no less than 12.6%);

This participation exemption regime is also applied to capital gains or losses resulting from the sale of participations under the conditions mentioned above.



Capital gains derived by non residents from the sale of participations of a Portuguese company continue to be exempt from taxation in Portugal, unless the non resident is domiciled in a black listed jurisdiction or the Portuguese company holds real estate located in Portugal.

As a Portuguese company, it will also be subject to Portuguese VAT registration, thus benefiting from the rate of VAT in Madeira – currently 22%.

Madeira companies may generally be used for:

- invoicing and trading operations
- holding investments
- accessing Portugal's double tax treaty network
- utilising the EU parent subsidiary directive
- holding intellectual property
- owning commercial and residential properties
- shipping and yacht registration,
- Internet delivered services

It is well worth noting that Madeira has reduced operational costs, when compared to other EU countries, as well as high quality support services. We therefore like to consider Madeira an [onshore domicile of excellence](#).

Madeira Management's main activity is developed in the Services Sector of the Madeira IBC, in which we incorporate and manage a large number of commercial companies, operating in a varied number of activities.

Madeira Management was one of the first management companies to be licensed by the local government and has more than **30 years** experience of operations in Madeira. The expertise and know how accumulated over the years makes us your ideal partner in Madeira.

In addition to providing all services required for the incorporation of a Madeira IBC company and ongoing administration, our well experienced legal and accounting staff are able to assist our clients with all the tax and accounting obligations of a Portuguese company, optimising the possibilities and advantages that can be used.

Madeira Management can provide a *co-working* location for client companies, as well as all legal, accounting and human resource services for the hiring of staff, thus encompassing all services required for their physical presence in Madeira. If preferred, we can also assist clients who wish to find an independent office space.

Further information can be provided on request.



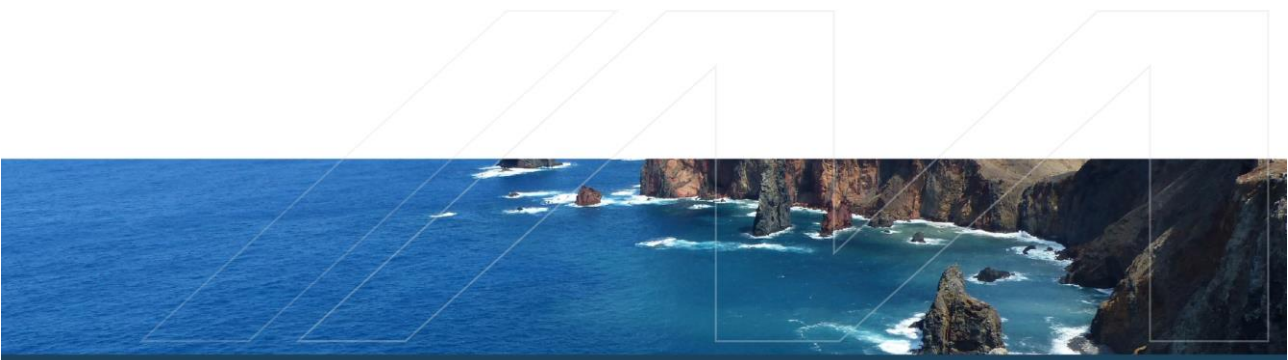
INTERNATIONAL FREE TRADE INDUSTRIAL ZONE

Besides benefiting from the existing tax regime applicable to a MIBC company, specific tax advantages are also available to industrial companies operating within the MIBC's Industrial Zone.

In effect, the reduced tax rate of 5% until 2027, also applies to income obtained in Portugal. Furthermore, the withholding tax exemption applied to dividends and interest paid to shareholders, in this case will also apply to shareholders (corporate or individuals) resident in Portugal.

Companies operating in the Industrial Free Trade Zone may also benefit from a 50% reduction on the taxable income, when fulfilling two of the following criteria:

- Contribution to the modernization of the economy through technical innovation, new products and procedures;
- Diversification of the regional economy by introducing new activities of added value;
- Fixation of qualified human resources;
- Contribution to the improvement of the environment;
- Creation of at least 15 jobs, which must be maintained for a minimum period of 5 years.



INTERNATIONAL SHIPPING REGISTER

A wide range of tax and financial incentives are available to shipping companies duly incorporated and licensed to operate within the legal framework of the MIBC.

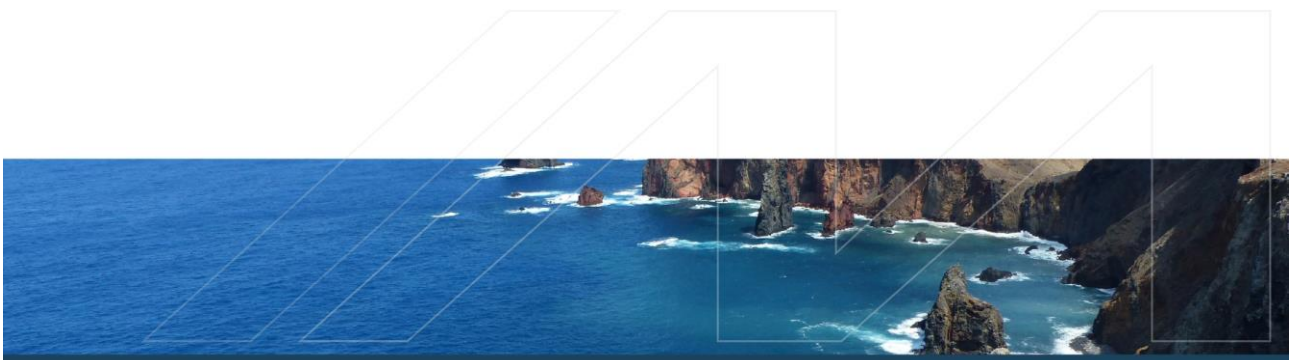
Portugal's second Shipping Registry, based in Madeira, is known as "MAR" meaning "Sea". All vessels registered under MAR fly the Portuguese flag and all international conventions ratified by Portugal are complied with by MAR. Because MAR registered ships fly the Portuguese flag, they can be used for cabotage (coastal shipping, navigation, trade or transport) in EU countries.

The benefits of the new regime will apply on the activities of a vessel operating outside Portuguese territorial waters when it is owned by a company licensed to operate under the free zone legislation.

The non-Portuguese crew of vessels registered with MAR are exempt from paying Personal income tax and are exempt from social security contributions in Portugal, as long as they are covered by another social security or voluntary scheme that covers illness, occupational illness and parenthood..

Yachts can also be registered in MAR.

Madeira Management has extensive experience with the registration of vessels, yachts and the management of shipping companies. Please contact us for further information.



FINANCIAL SECTOR

Banking, insurance, collective investment schemes and other types of financial activities can no longer be licensed in the MIBC.

CONCLUSION

If you individually or, as a professional intermediary have a client who requires a serious jurisdiction for any of the activities referred to in this document or others, Madeira is an option worthy of carefully consideration. Our qualified and professional staff regularly travel to advise and meet with clients. Please contact us to set up a meeting or to discuss your requirements over the telephone.

Important Note

This document has been prepared by Madeira Management for the information of clients and associates. Whilst every care has been taken in its preparation, no responsibility can be accepted for inaccuracies. Readers are also advised that the law and practice may change from time to time.

