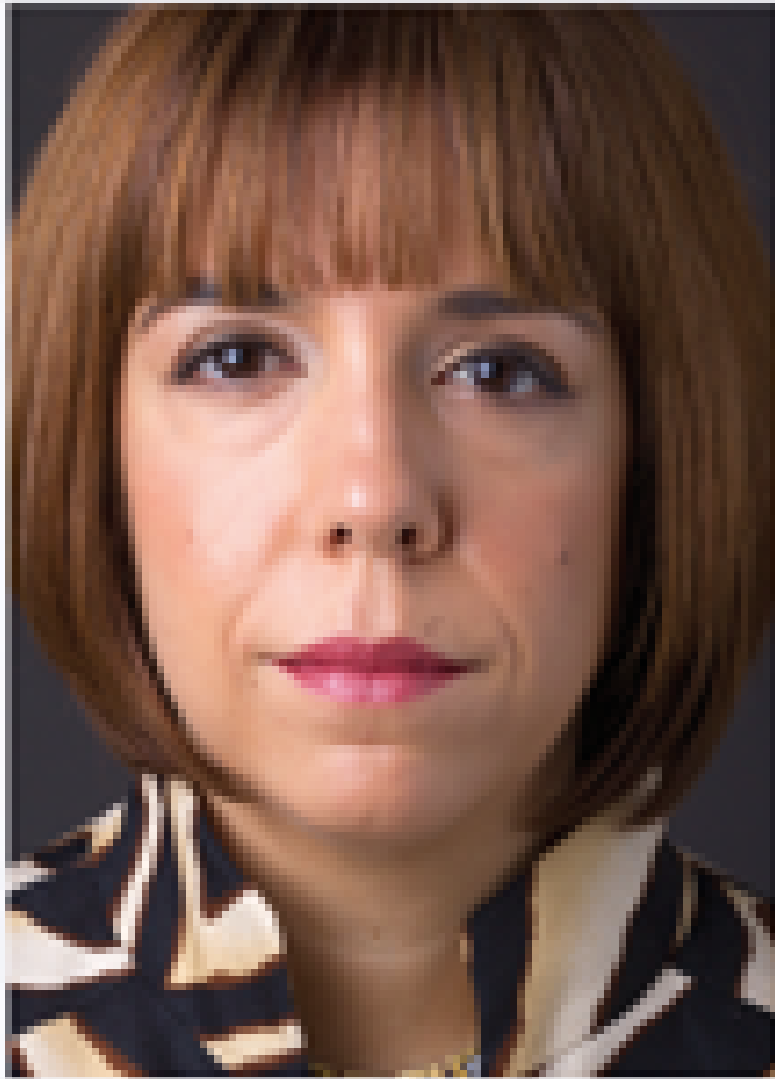


A STABLE MARKET FOR INVESTMENT - PBBR

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There are encouraging prospects for growth of the Portuguese economy for the next biennium (1.1 percent in 2014 and 2.5 percent in 2015), confirmed by signs of recovery in GDP which has been positive for two consecutive quarters (1.1 percent in the second quarter of 2013 and 0.5 percent in the third quarter of 2013). However, the economy remains affected by the sovereign debt crisis and the restrictive measures imposed by the financial assistance program.

This economic environment in recent years has meant a slowdown in the equity markets, mainly because the banks are not available to fund such transactions. The venture capital activity recorded from the second to third quarter of 2013, showed a decline of 49.3 percent, with investment spending of €61.4 million in the second quarter and €31.2 million in the following quarter – with capital growth and buy-out remaining the main investment structures. Divestments have also experienced a 52 per cent decrease compared to 2012 numbers, reaching €22.5 million.

The main development in recent years has been the shift in focus by some investors to distressed assets. Typically a transaction in this area involves the purchase of credits relating to the distressed assets and the injection of fresh money and new management, resulting in a complete restructuring of the assets in question. Often these transactions require working in close proximity with the banks involved with the assets. This new investment focus has allowed the recovery of relevant facilities such as factories and hotels, safeguarding work and providing a boost for the surrounding economy.

This new investment trend has fully developed within the existing regulatory framework, with no new rules being enacted. The legal framework for the private equity market in Portugal has remained stable since 2008 as no new legislation has been approved since the enacting of Decree-Law no. 375/2007 of November 8th and Regulation no. 1/2008 of the Portuguese Securities Committee.

Recently corporate income tax has been completely restructured. One of the main elements of the tax reform is the reduction of the corporate income tax rate from 25 percent to 23 percent, starting in 2014, with the possibility, which is under review, to decrease it to 21 percent in 2015 and to somewhere in the range of 17 percent to 19 percent in 2016. The final reduction will depend on an assessment of the country's economic and financial situation. Also relevant is the extension of the tax losses carry forward period to 15 years (formerly 5 years).

Provisions regarding the avoidance of double taxation of shareholders distributions, and earnings resulting from the sale of shares have been adjusted. However the basic tenants remain unchanged: (i) a company headquartered in Portugal or in an EU member State shall be exempt from tax on any shareholder distributions received, as long as such distributions stem from a participation of at least 5 per cent of the company making the distribution, and such participation has been held uninterruptedly for at least 24 months; and (ii) any capital gains resulting from the sale of shares held uninterruptedly for at least 24 months, by a company headquartered in Portugal or in an EU member State, shall not be included in its taxable income. Capital losses meeting the same conditions are not deductible.

With regard to the fiscal regime for private equity, funds remain exempt from corporate income tax on their earnings. Both distributions resulting from units in private equity funds, and capital gains resulting from the sale of such units are, as a general rule, subject to 10 per cent withholding tax.

Portugal thus remains a legally stable market for private equity investment, showing prospects for economic growth from 2014 onwards.

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