

# MADEIRA FREE TRADE ZONE OFFERS ONE OF THE MOST COMPETITIVE TAX SYSTEMS IN EUROPE

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**The zone is an excellent platform for investment from Angola into European countries and vice versa, say Leonardo Marques dos Santos and Sónia Martins Reis**

If we look at the Portuguese balance of trade, and above all, if we focus on the example of Angola, we can see that the PALOPs (Países Africanos de Língua Oficial Portuguesa – African countries where Portuguese is the official language) are taking on ever greater importance in the international trade of goods. In fact, we can see how relations between Portugal and these countries are established in an increasingly fluid way.

Historical ties between Portugal and the PALOP countries – and the benefit of a shared language – play a major role in boosting commercial relations between these countries. However, when it comes to Portugal and Angola, relations are not just limited to direct investment between the two countries, and they are not exclusively the result of linguistic and historical links. In fact, as Portugal is a member state of the European Union (“EU”), it frequently acts as a platform for investment and promotes commercial relations between the PALOP countries and the countries of the EU.

As the tax burden involved in any investment is a key factor, Portugal's general tax system is, in itself, very attractive, and the special tax system of the Madeira Free Trade Zone is even more so. Created in the 1980s, the Madeira Free Trade Zone offers one of the most competitive tax systems in Europe, with great advantages for companies that wish to set up there and carry on activities in a wide range of areas. The Madeira Free Trade Zone is not a tax haven, as its tax system respects the rules on state aid and has been approved by the EU, and it is characterised by transparency and compliance with international legislation on exchange of information. For these reasons, it has an advantage over many other jurisdictions.

### **Reduced corporate income tax**

This makes the Madeira Free Trade Zone an excellent platform for investment from Angola into European countries and vice versa. Above all, when it comes to exports, the Free Trade Zone offers a reduced corporate income tax (equivalent to the Angolan industrial tax) rate of 5 per cent, applicable to the income of companies licensed to operate there.

As a result, for example, if Angolan investors decide to set up companies in the Madeira Free Trade Zone to export goods to Angola, the income from the sale of these products will be subject to a very favourable tax rate (5 per cent) when compared with the rates applicable in other EU countries. This is also possible when the investment is made the other way round, in other words, to export Angolan goods to EU Member States, when the exportation is carried out through a company fully compliant and duly licensed to operate in the Madeira Free Trade Zone.

Furthermore, as Portugal is a Member State of the EU, companies licensed to operate in the Madeira Free Trade Zone also benefit from the application of European Directives. This makes the movement of capital easier, particularly as a result of the application of European rules on exemption from taxation of dividends, interest and royalties, between countries of the EU. Companies established in the Madeira Free Trade Zone also benefit from the application of the wide range of treaties to avoid double taxation to which Portugal is a signatory. This has made it possible to reduce the taxation rates applicable to income paid to companies resident in, for example, the Americas.

The tax system of the Madeira Free Trade Zone is approved by the EU and is properly regulated. This gives it not only security and good standing, but also stability. For these reasons, it is fertile ground for good commercial relationships between global economic operators.

Even though it is not a tax haven, companies licensed in the Madeira Free Trade Zone enjoy a unique set of benefits that are not limited to taxes alone. Lower operational costs, low-cost goods and services, excellent infrastructures, a good quality of life and political stability also make the Madeira Free Trade Zone attractive.

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