

PORTUGAL BECOMING ONE OF THE MOST COMPETITIVE EU TAX REGIMES

Posted on 23/10/2013



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Lawyers seeing great possibilities in proposed new corporate tax reforms to promote inbound and outbound investment

A recently released draft report by the Portuguese Corporate Tax Reform Panel has undertaken a top-to-bottom revision of a 'contaminated' Corporate Tax Regime, say lawyers, and proposed new rules that will revolutionise the system. "These new corporate tax reforms stand to put the Portugal tax regime as one of the most attractive in Europe," says Rogério M Fernandes Ferreira, Founding Partner of tax boutique RFF Advogados.

The Report focuses on key areas of potential legislative change – highlights of which include minimising costs for businesses by promoting a simpler tax system, re-evaluating nominal corporate tax rates, and reviewing certain tax incentives to promote inbound and outbound investment, employment and competitiveness. "If these reforms go as planned, and in principle they should,

Portugal will become the centre of domiciliation for companies and people," says Tiago Caiado Guerreiro, Head of Tax at Caiado Guerreiro.

Such is the scope of these reforms that lawyers in Portugal predict positive change as twofold. First, there will be a new kind of tax litigation from the international tax policy, and, in addition to this, the new regime should also resolve tax litigation issues in a very short period of time, so law firms will see an increase in activity, they say.

Second, these reforms will generate revenue for the Portuguese Government, not from income but from expenditure, and the same will apply to the legal profession. After a while, wealthy people tend to invest in a country and it soon becomes a cycle of wealth creation, say lawyers, and there is always advisory work and legal services connected to these kinds of operations.

However, it is by looking at the reforms in a wider context alongside the existing Non-Domicile tax regime and the Golden Visa regime, that the full potential of these corporate tax reforms can be understood – never before has the country reconciled the individual tax regimes with the corporate tax regime. "I have a lot of worldwide tax strategy experience and I don't see any country that offers this," says Caiado Guerreiro. And this repositions Portugal as a very attractive platform for investment.

While a tax reform per se may not constitute a complete response to increase competitiveness, lawyers still see numerous possibilities. "Portugal will become extremely attractive to those pursuing an international activity," says João Magalhães Ramalho, Tax Partner at PLMJ, "as the combination of new domestic rules with the extensive Portuguese tax treaties network and EU Directives will allow for the reduction of tax on all kinds of financial flows."

As for time-scale, with the simply designed regime having already been sanctioned by Europe, the Government is hoping it will take immediate effect. For lawyers, despite reservations as to whether the impact will be immediate, many believe that the most important thing is tax stability, and that political forces must reach a compromise to keep these reforms in force for a long period of time. Others are confident that with the other two individual reforms in place, Portugal is already attracting a lot of people who want to change their tax residence to such a low-cost destination, therefore these latest corporate reforms are an added bonus.

Regardless of the optimism surrounding these proposed tax reforms, the general consensus from lawyers is that they were long overdue. "Considering the increasing tax competition from other European countries," says Magalhães Ramalho, "it was clear that Portugal needed to get in the driving seat, or risk losing foreign investment opportunities."

Having fought for these reforms for over 15 years, it took the situation the country finds itself in for the Portuguese Government to be pragmatic and realise that if you are not tax competitive you will not attract people, says Caiado Guerreiro.

This new regime has the potential to change things, lawyers agree. It creates tax revenue, endless opportunities and visibility for a country that is very much in need of a confidence boost for investors.