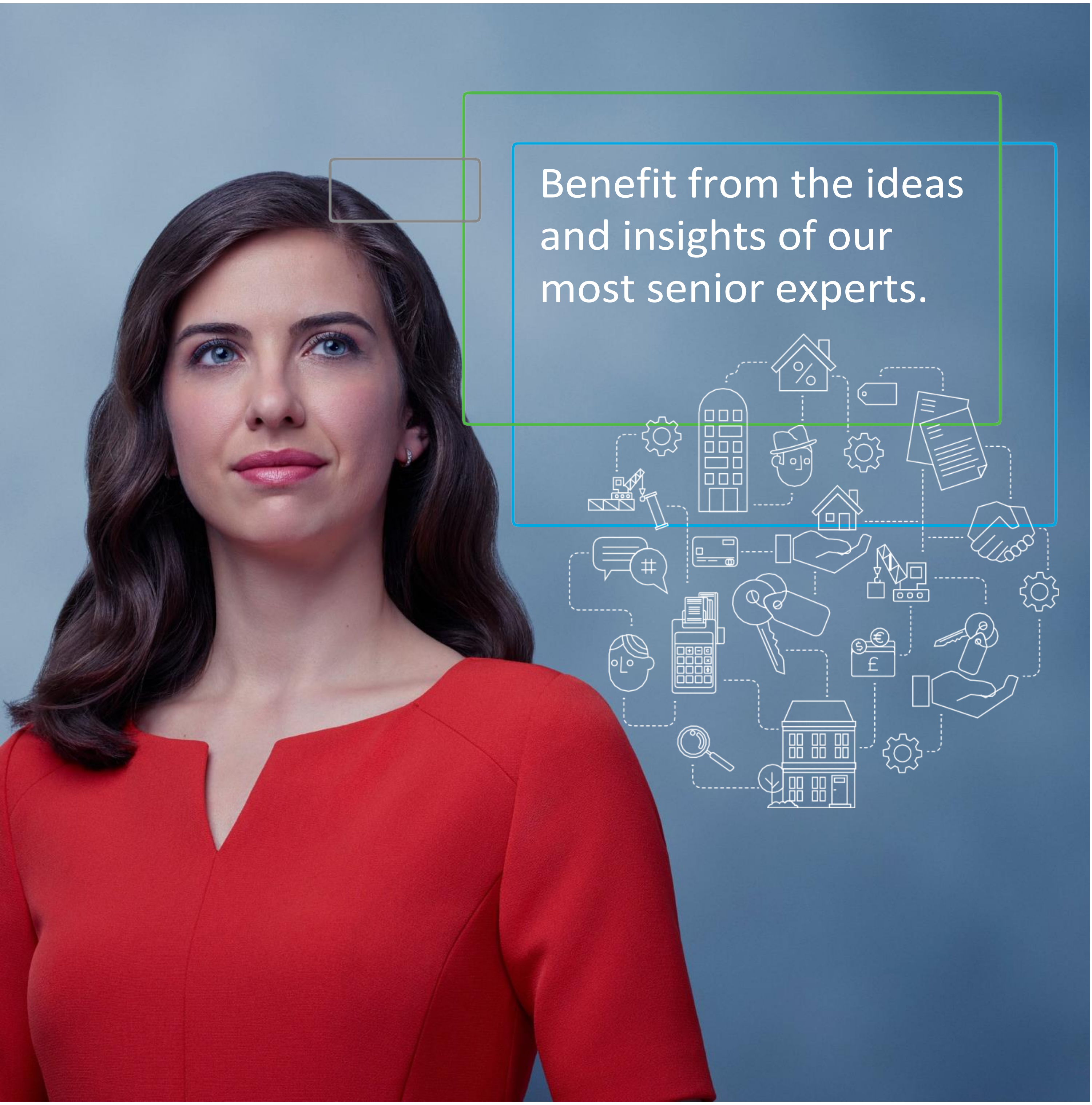


REAL ESTATE TAXGUIDE

PORTUGAL

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

There are special tax rates and rules for small and medium enterprises (SME's) which are set out below. In Portuguese tax law an SME is an enterprise with fewer than 250 employees and either annual turnover of no more than €50 million or an annual balance sheet total of no more than €43 million.

Tax treatment of income and gains

Taxpayer	Basis of tax	Tax levied	Tax rates (2020)
Resident individual	*Rental income* Capital gains	Real estate profit tax Individual income tax	28% 7.25%–24%
Non-resident individual	*Rental income* Capital gains	Real estate profit tax Individual income tax	28% 7.25%–24%
Resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 22.5% Up to 22.5%
Non-resident company	*Rental income* Capital gains	Corporate income tax Corporate income tax	Up to 22.5% Up to 22.5%

Rental income

Individuals

Introduction
Rental income is taxed as business income, however, at a rate of 28%.

Liability to tax
Rental income received by individuals is subject to a rate of 28%.

Basis of tax
In Portugal, rental income is taxed at the individual level at a rate of 28%, on the rent of rustic, urban and mixed buildings paid or made available to the respective owners.

Companies

Introduction
Rental income is taxed as business income.

Liability to tax
Rental income earned by companies is subject to corporate income tax as business income.

Basis to tax
The normal tax rate for resident companies is 21%, in addition for most municipalities, the municipal tax is at the maximum rate of 1.5%.

The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Capital gains

Individuals

Introduction
Capital gains realised by individuals are taxed as ordinary private or business income, subject to personal income tax on half of the amount of the gain. Dividends received by the individuals are taxed as capital gains.

Liability to tax
Capital gains realised by individuals are subject to individual income. In short, the individual must deliver a certain level of labour or entrepreneurial activities. The realised capital gains are subject to personal income tax at a rate up to 48% (effectively 24%, as only half of the total capital gains are subject to tax). This tax rate does not include an Additional Solidarity Fee (Portuguese: Taxa Adicional de Solidariedade). Therefore, the maximum rate will be an effective rate of 26.5% (53%/2).

Basis of tax
Capital gains realised by individuals are taxed as ordinary private or business income, directly subject to personal income tax on half of the total capital gain at a rate up to 265% (53%/2).

Companies

Introduction
Capital gains realised by companies are subject to corporate income tax as business income.

Liability to tax

Basis to tax
The normal tax rate for resident companies is 21%, in addition to most municipalities, the municipal tax at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Exemptions
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale, instead a reinvestment reserve is formed for the amount of the capital gains, the company must then make a reinvestment within three years of the sale. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. As a result of this, the future depreciation costs are lower, resulting in higher taxable income. This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Portuguese VAT & transfer taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2020)
Resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 -8%
Non-resident individual	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 -8%
Resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 -8%
Non-resident company	*Rental income* Transfer of real estate services	Value Added Tax Transfer Taxes	23% 0 -8%

Value Added Tax

Individuals

Introduction
Value added tax (VAT) is a tax based on the increase in value of a product or service at each stage of the supply the chain.

Liability to tax
If a company performs commercial or professional activities in Portugal, it will be subject to VAT.

Basis of tax
Generally, the supply and lease of immovable property are exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Interaction with transfer tax
Sales of real estate are exempt from VAT.

Companies

The same rules as for individuals apply to companies.

Transfer Taxes

Individuals

Introduction
Transfer tax is a tax on the passing of real estate from one person or company to another. Rights of immovable property can qualify as real estate.

Liability to tax
Transfer taxes apply to the acquisition of legal or economic ownership of Portuguese real estate and is payable by the purchaser.

Basis of tax
The market value of the immovable property will be taxed at a rate of 0% or 8%, depending on the value of the transaction. The basic of tax will be the higher of the purchase value and the tax asset value, as defined by Portuguese tax administration.

Exemptions
For acquisitions below €92,407 the rate to be applied is 0%.

Companies

The same rules as for individuals apply to companies.

Exemptions
Acquisition of buildings for resale by real estate companies are exempt from transfer taxes.

Local taxes

Taxpayer	Basis of tax	Tax levied	Tax rates
Resident individual	Market value *	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)
Non-resident individual	Market value	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)
Resident company	Market value	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)
Non-resident company	Market value	Municipal Tax	Depends on the municipality (0.3%-0.45%/0.8%)

* There are certain rules to determine the market value for local taxes. Each municipality determines this market value, which is open for appeal.

Individuals

Introduction

Every municipality levies an annual municipal tax on Portuguese real estate. The annual municipal tax is deductible from rental income.

Liability to tax
An owner or user of residential or commercial buildings in Portugal is liable to local municipal tax.

Basis of tax
The local tax is based on the tax asset value (Portuguese: Valor Patrimonial Tributário) as defined by the Portuguese tax administration.
Every municipality defines a tax rate, between 0.3%–0.45%.

Exemptions
Urban buildings whose tax asset value (Portuguese: Valor Patrimonial Tributário) does not exceed €125,000 and is held by taxable persons whose taxable income for IRS purposes in the year prior to the acquisition does not exceed €153,300, are exempt for a period of three years.

Integrated buildings on developments that have been attributed to tourist use can qualify for an exemption for a period of seven years

Companies

The same rules as for individuals apply to companies.

Portuguese net wealth/worth taxes

Taxpayer	Basis of tax	Tax levied	Tax rates (2020)
Resident individual	Net value of real estate	Additional Municipal Tax	0.7%-1%
Non-resident individual	Net value of real estate	Additional Municipal Tax	0.7%-1%
Resident company	Net value of real estate	Additional Municipal Tax	0.4%
Non-resident company	Net value of real estate	Additional Municipal Tax	0.4%

Individuals

Introduction
Wealth or worth tax is a tax levied on the total value of assets, including real estate. Loans on the real estate are deductible.

Liability to tax
A person who holds properties with a total taxable value exceeding €600,000, not including urban buildings classified as 'trade, industry or services' and 'others' is liable to wealth or worth tax.

Basis of tax
The local tax is based on the tax asset value (Portuguese: Valor Patrimonial Tributário) as defined by the Portuguese Tax Administration. The tax rate applicable is 0.7% but can go up to 1% if the total tax asset value (Portuguese: Valor Patrimonial Tributário) per person exceeds €1,000,000.

Companies

Introduction
Wealth or worth tax is a tax levied on the total value of assets, including real estate. Loans on the real estate are deductible.

Liability to tax
Every company owner or user of residential or commercial buildings in Portugal is liable to local additional municipal tax, except urban buildings classified as 'trade, industry, or services' and 'others'.

Basis of tax
The local tax is based on the tax asset value (Portuguese: Valor Patrimonial Tributário) as defined by the Portuguese tax administration.
The tax rate applicable for companies is 0.4%.

Vehicles for Portuguese real estate

Commonly used vehicles for Portuguese real estate

Limited liability companies

The so called 'Lda.', the Portuguese limited liability company, is the most frequently used vehicle for the ownership of Portuguese real estate. The equity is divided into shares and the shareholders of the Lda, are not personally liable for the business debt. Dividends attributed to individuals are taxed at a rate of 28%. Dividends or profits attributed to companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where the shareholding is less than 10%, dividends attributed to companies are subject to income tax at a rate of up to 22.5%.
Profits made by the Lda companies are subject to corporate income tax at a tax rate up to 22.5%.

Partnerships and joint ventures
Investments in real estate are often done on a collective basis by entities and/or individuals. For Portuguese tax purposes, there is no distinction between the taxation of partnerships and joint ventures.

Trusts
Trusts are legal instruments which are not known as such in Portuguese law and are therefore not recognised in Portuguese tax law. In order to qualify a foreign trust as a transparent or non-transparent entity for Portuguese income tax purposes, the Portuguese tax authorities will determine which persons have legal and actual rights to dispose of the trust's assets, and who is able to make the corresponding arrangements. If such rights lie with a beneficiary or other related person, it is likely that the income generated by the trust will be directly attributable to this person, and the trust will qualify as a transparent trust.

Foreign partnership
The residence of a partnership is determined by the place where the crucial decisions are made. Usually, this is where all the partners meet.
If a foreign partnership is trading in Portugal, the partnership is subject to Portuguese corporate income tax, and the partners are subject to Portuguese personal income tax. A foreign partnership qualifies as a permanent establishment in Portugal by owning Portuguese real estate.

Specific real estate vehicles for Portuguese real estate

Real estate investment trusts
From 2019, the taxation of real estate investment funds follows the same rules as an ordinary company in Portugal.

DIRECT PURCHASE OF REAL ESTATE

In this section the tax implications of the direct purchase of real estate are discussed, focussing on the impact on resident and non-resident individuals and companies.

Resident individuals

Transfer taxes
Individuals which acquire Portuguese real estate are subject to transfer taxes on the market value of the immovable property at a rate of between 0-8%.

Value added tax
The supply of real estate is exempt from VAT.

However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Deductibility of costs
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Non-resident individuals

Transfer taxes
Individuals which acquire Portuguese real estate are subject to transfer taxes on the market value of the immovable property as a rate of between 0–8%.

Value added tax
The supply of real estate is exempt from VAT.

However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Deductibility of costs
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Resident companies

Transfer taxes
The acquisition of Portuguese real estate is subject to transfer taxes on the market value of the immovable property at a rate of between 0-8%. The transfer tax is payable by the purchaser.

Value added tax
The supply of real estate is exempt from VAT.
However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Deductibility of costs
The acquisition cost of a building can be depreciated on an annual basis by 1–2%. Additional costs incurred in the acquisition of real estate, such as transfer costs, can also be depreciated.

Non-resident companies

The same rules apply for non-resident companies as for resident companies, as Portuguese real estate is considered to be a permanent establishment.

INDIRECT PURCHASE OF REAL ESTATE

In this section the tax implications of the indirect (shares) purchase of real estate are discussed, focussing on the impact on resident and non-resident individuals and companies.

Resident individuals

Transfer taxes
If an individual acquires shares in a company that has real estate, and as a result owns at least 75% of the share capital, or the share capital is owned exclusively by two persons (husband and wife), the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a rate between 0-8% and is payable by the purchaser.

Personal income tax
The income of individuals who hold shares in Portuguese real estate as a result of the acquisition of shares in a company are subject to tax at a rate of 28%. The capital gains of unlisted micro and small enterprises in the regulated or unregulated markets of the stock exchange are considered at 50% of their value.

Dividend withholding tax
Shareholders of a Portuguese company are subject to a 28% dividend withholding tax on the distribution of a dividend.

Deductibility of costs
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Transfer taxes
Usually, a share transfer is not subject to transfer taxes.
However, if a company acquires shares in a company that has real estate, and as a result has at least 75% of the share capital, the acquisition is subject to transfer tax.
The market value of the immovable property will be taxed at a rate of between 0-8% and is payable by the purchaser.

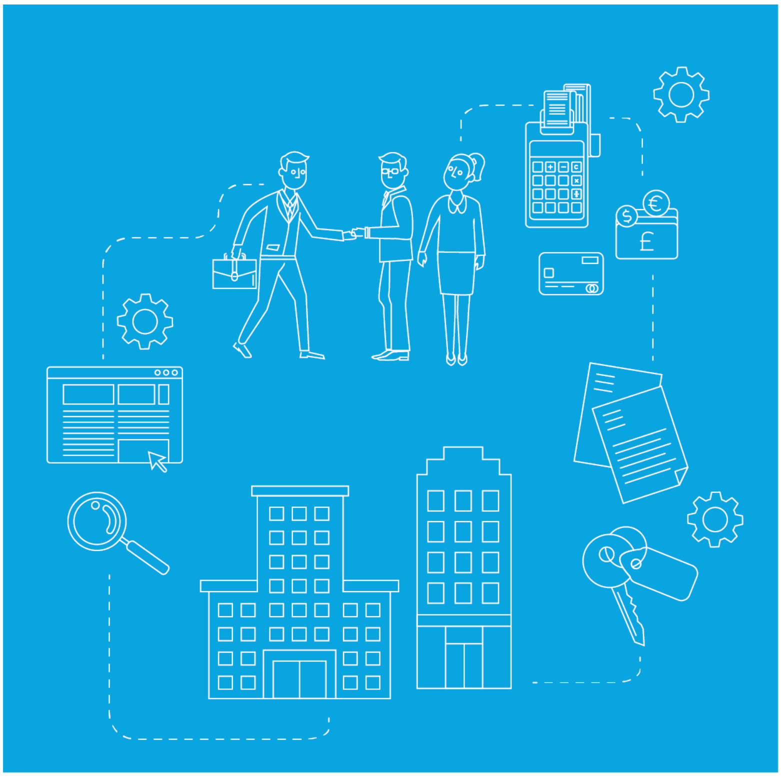
Corporate income tax
Dividends or profits attributed to companies with a shareholding of more than 10% which has been held for at least one year are exempt from taxation (participation exemption).
Where participation is below 10%, dividends attributed to companies are subject to income tax rate up to 22.5%.

Losses
Tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for r SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies.



In this section the most important tax implications of the direct holding of real estate are discussed, focussing on the impact on resident and non-resident individuals and companies.

Resident individuals

Personal income tax
Income derived from real estate such as rental income is subject to individual income tax, at a rate of 28%.

Deductibility of costs, interest and depreciation
All expenses actually incurred and paid to obtain or guarantee the property income are deductible, with the exception of: interest, depreciation and costs relating to furniture, household appliances and articles of comfort or decoration.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Corporate income tax
Business income such as rental income and capital gains are subject to corporate income tax.

The normal tax rate for resident companies is 21%. In addition, for most municipalities, the municipal tax is at the maximum rate of 1.5%.

The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Deductibility of costs, interest and depreciation

The acquisition cost of a building can be depreciated on an annual basis by 1–2%. Additional costs incurred on the acquisition of real estate, such as transfer costs, can also be depreciated. Interest costs are deductible for companies.

Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is an EU directive that has been implemented by Portugal. ATAD contains certain interest restrictions that may affect investors in real estate.

Losses – carry back/forward
Tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT HOLDING OF REAL ESTATE

In this section the tax implications of the indirect (shares) holding of real estate is discussed, focussing on the impact on resident and non-resident individuals and companies.

Individuals

Personal income tax
Income received by individuals who hold shares in Portuguese real estate on the sale of the shares are subject to tax at a rate of 28%.

The capital gains of unlisted micro and small enterprises in the regulated or unregulated markets of the stock exchange are subject to tax on half of their value. In practice, the rate to be considered will therefore be 14%.

Non-resident individuals

Non-resident individuals are treated in the same manner as resident individuals.

Resident companies

Corporate income tax
The normal tax rate for resident companies is 21%. In addition, for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

Deductibility of costs, interest payments and depreciation
Interest and depreciation costs may be deductible from business income. The tax depreciation rate is generally between 1% and 2%.

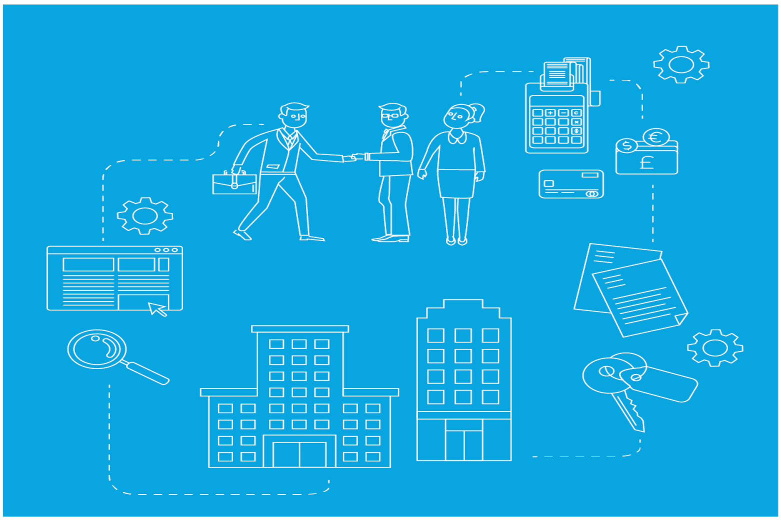
Anti-tax avoidance directive
The anti-tax avoidance directive (ATAD) is a EU directive that has been implemented by Portugal . ATAD contains certain interest restrictions that may affect investors in real estate.

Distribution of income and gains
Dividends or profits attributed to companies with a shareholding of more than 10% which has been held for at least one year are exempt from taxation (participation exemption).

Where participation is below 10%, dividends attributed to companies are subject to income tax rate at a rate of up to 22.5%.

Non-resident companies

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.



SELLING AND TRANSFERRING PORTUGUESE REAL ESTATE

DIRECT SALE OF REAL ESTATE

Resident individual

Capital gains
Capital gains realised by individuals are subject to individual income tax. In short, the individual must deliver a certain level of labour or entrepreneurial activities. The realised capital gains are subject to personal income tax at a rate up to 48% (effectively 24%, as only half of the total capital gains are subject to tax).

This tax rate does not include an Additional Solidarity Fee. Therefore the maximum rate will be an effective rate of 26.5% (53%/2).

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%.

Individuals acquiring Portuguese real estate are subject to transfer taxes on the market value of the immovable property at a rate of between 0–8%.

Deferral of tax
Capital gains arising on the sale of real estate, for own and permanent housing, may be excluded from taxation provided the following conditions are met. The taxable person must reinvest the realisation value of the real estate, less any amortisation on loans obtained for the acquisition of the property, in the acquisition or ownership of another property in Portugal, any other EU Member State, or in the European Economic Area. If the reinvestment is in the European Economic area, there must be an exchange of information within 24 months of the reinvestment if it is prior to the realisation of the capital gain, or 36 months in the event that the reinvestment is subsequent to the realisation of the capital gain.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

Capital gains
Capital gains realised by companies are subject to corporate income tax as business income. The normal tax rate for resident companies is 21%. In addition, for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%.

The acquisition of Portuguese real estate is subject to transfer taxes on the market value of the immovable property at a rate of between 0–8%.

Deferral of tax
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale and instead a reinvestment reserve is formed for the amount of the capital gains. The company must make a reinvestment within three years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. Therefore, the future depreciation costs are lower, resulting in higher taxable income.

This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation period for a SME.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT SALE

Resident individuals

Capital gains
Income received by individuals who hold shares in Portuguese real estate on the sale of the shares are subject to tax at a rate of 28% . The basis of tax is the difference between the sales price and the acquisition price of the shares.

The capital gains of unlisted micro and small enterprises in the regulated or unregulated markets of the stock exchange are subject to tax on half of their value.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT.
However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%.

Usually a share transfer is not subject to transfer taxes. However, if an individual acquires shares in a company that has real estate, and as a result of the acquisition, the individual holds at least 75% of the share capital, or the share capital is owned exclusively by two persons (husband and wife), the acquisition is subject to transfer tax. The market value of the immovable property will be taxed against a tax rate between 0-8% and is payable by the purchaser.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
Losses arising on the sale of shares may be offset against profits of the previous year or the next five years, against income from the same trade.

Non-resident individual

Non-resident individuals are treated in the same manner as resident individuals.

Resident company

Capital gains
Capital gains of companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where participation is below 10%, the capital gains are subject to income tax at a rate of up to 22.5%.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for a SME.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT.
However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%. Usually, a share transfer is not subject to transfer taxes.

However, if a company acquires shares of a company that has real estate, and as a result of the acquisition the company holds at least 75% of the share capital, the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a rate of between 0–8%.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

DIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO PORTUGUESE COMPANY)

Resident Company

Capital gains
Capital gains realised by companies are subject to corporate income tax as business income. The normal tax rate for resident companies is 21%. In addition for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%. The acquisition of Portuguese real estate is subject to transfer tax on the market value of the immovable property at a tax rate of between 0–8%. The transfer tax is payable by the purchaser.

Deferral of tax
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale and instead a reinvestment reserve is formed for the amount of the capital gains. The company must make a reinvestment within three years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. Therefore, the future depreciation costs are lower, resulting in higher taxable income. This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO PORTUGUESE COMPANY)

Resident Company

Capital gains
Capital gains of companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where participation is below 10%, the capital gains of companies are subject to income tax at a rate of up to 22.5%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Usually, a share transfer is not subject to transfer taxes. However, if a company acquires shares in a company that has real estate, and as a result of the acquisition the company has at least 75% of the share capital, the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a tax rate between 0-8% and is payable by the purchaser.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

DIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains received by companies are subject to corporate income tax as business income. The normal tax rate for resident companies is 21%. In addition for most municipalities, the municipal tax is at the maximum rate of 1.5%. The first €15,000 of taxable income for a SME is taxed at the reduced rate of 17%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at the rate of 23%. The acquisition of Portuguese real estate is subject to transfer tax on the market value of the immovable property at a rate of between 0–8%. The transfer tax is payable by the purchaser.

Deferral of tax
Companies can defer taxation on realised capital gains by creating a reinvestment reserve. The capital gains are not taxed on sale and instead a reinvestment reserve is formed for the amount of the capital gains. The company must make a reinvestment within three years. If another building is bought, the value of the reinvestment reserve can be deducted from the purchase price of the new property. Therefore the future depreciation costs are lower, resulting in higher taxable income.

This tax deferral only applies to tangible fixed assets, intangible assets or biological assets (not consumption).

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

INDIRECT TRANSFER INTRA CONCERN (PORTUGUESE REAL ESTATE TO FOREIGN COMPANY)

Resident company

Capital gains
Capital gains of companies with a shareholding of more than 10% which has been held for more than one year are exempt from taxation (participation exemption). Where participation is below 10%, the capital gains of companies are subject to income tax at a rate of up to 22.5%.

VAT / transfer tax
Generally, the supply and lease of immovable property is exempt from VAT. However, if the lease includes other related services such as furniture supply, cleaning services, etc., then the operation is subject to VAT at a rate of 23%.

Usually, a share transfer is not subject to transfer taxes. However, if a company acquires shares in a company that has real estate, and as a result of the acquisition the company holds at least 75% of the share capital, the acquisition is subject to transfer tax. The market value of the immovable property will be taxed at a tax rate between 0-8% and is payable by the purchaser.

Deferral of tax
In contrast to the direct sale of real estate, it is not possible to form a reinvestment reserve.

Losses
At present, tax losses carried forward by a company in a given tax period are deductible from its taxable profits in the following five taxation periods, this is extended to 12 taxation periods for SME's.

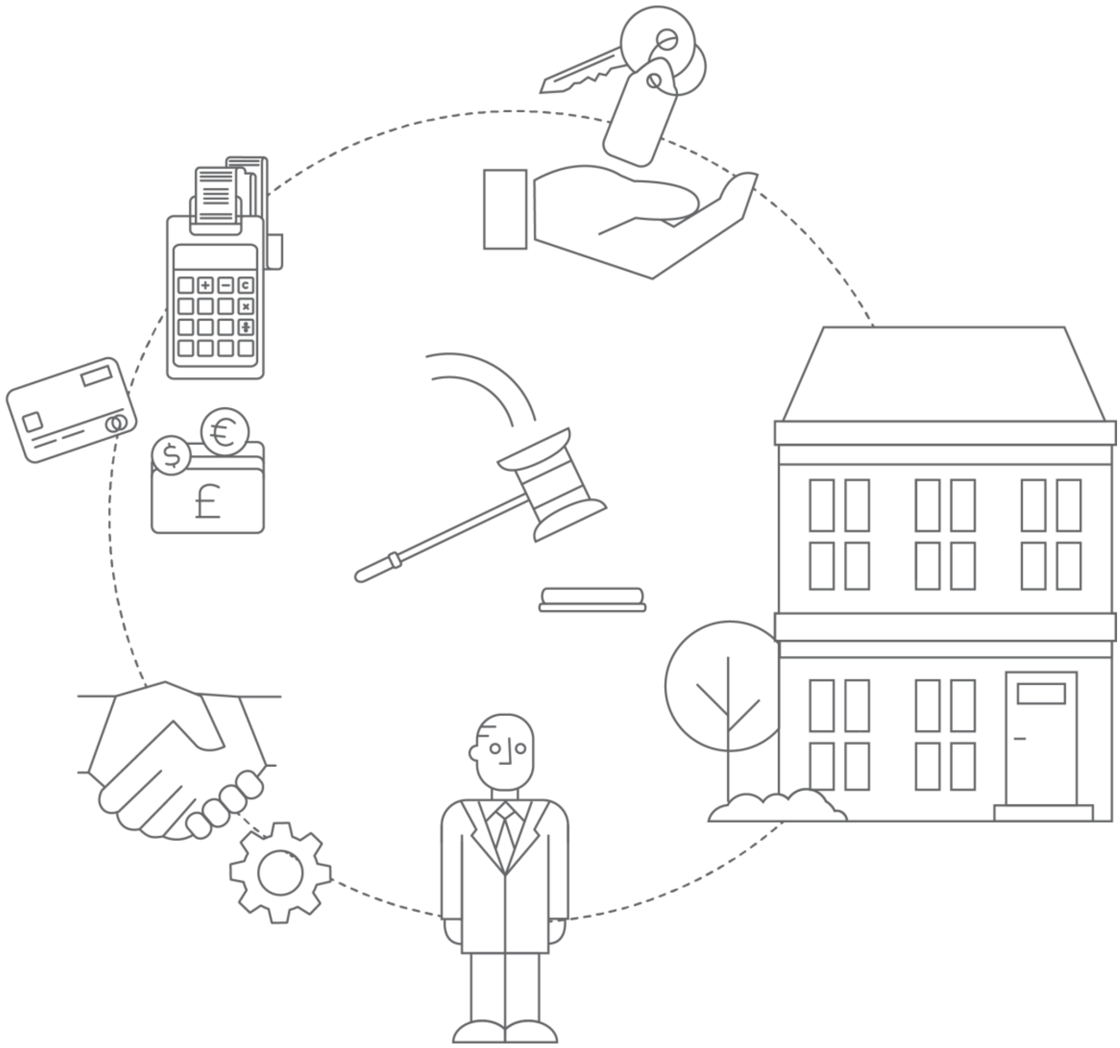
Fiscal unity
Under Portuguese law, it is possible to form a fiscal unity if the holding company owns at least 75% of the shares in its subsidiaries. A fiscal unity can only be formed when all of the entities are Portuguese residents.

Non-resident company

Non-resident companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.

TRANSFER OF PORTUGUESE REAL ESTATE TO AN EU-COMPANY

If the transferor's home jurisdiction is in the European Union, the liability to tax on the capital gains may be avoidable if the merger and acquisition provisionsapplies. Several detailed conditions apply which can be found in the Council Directive of 19 October 2009. EU-companies are treated in the same manner as resident companies, as Portuguese real estate held by a foreign company is considered to be a permanent establishment in Portugal.



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