

Country Information Tables – PORTUGAL

-Basic Country Data-

General Information:

- **Area:** 92,152 km² (INE¹ Portugal)
- **Population:** 10,529,255 (INE Portugal, 2004)
- **Capital:** Lisbon, 0.6 Mio inhabitants (INE Portugal, 2001)
- **Population density:** 114 inhabitants per km² (INE Portugal, 2001)
- **Language:** Portuguese
- **Currency:** Euro

Economic Information/Situation:

- **GDP (2004):** 141.1 billion Euros (Eurostat)
- **Annual real GDP growth (2004):** 1.2 % (Eurostat)
- **GDP per capita PPS (2003; EU-25=100):** 72.9 (Eurostat)
- **Comparative price level (2003; EU-25=100):** 87.3 (Eurostat)
- **Harmonised consumer price index, 2004 (year-on-year change):** 2.5 % (Eurostat)
- **Employment rate:** 67.8 % (2004, Eurostat)
- **Unemployment rate:** 6.9 % (2004, Eurostat)
- **Labour productivity (2002; EU-25=100):** 71.2 (Eurostat)
- **Average monthly gross wage/salary (including continuing fringe benefits) 2004:** € 921.60 (DGEEP, Ministry of Labour and Social Security)

The real convergence process of the Portuguese economy slowed down during the late nineties and came to a halt in 2000. After a recession in 2003 and a moderate recovery in 2004, the country is currently experiencing a new slowdown and its growth rates continue to be amongst the lowest in the European Union. In the last years there has been a marked rise in the unemployment rate and, more recently, in the government budget deficit. Economy is expected to expand gradually in the next years.

¹ Instituto Nacional de Estatística (*National Institute of Statistics*)

-Support & Service Structures-

In Portugal there are a number of government agencies providing support to SMEs and to the economic sector in general. The most important are:

- *IAPMEI - Instituto de Apoio às Pequenas e Médias Empresas e ao Investimento* (<http://www.iapmei.pt>): the small and medium sized businesses institute is an agency of the Ministry of Economy providing a wide range of support services directed to micro, small and medium sized enterprises; the instruments offered by IAPMEI include grants, soft loans, and “in kind” support (free advice, mentoring or consultancy) and cover all stages of development of the firms.
- *IEFP – Instituto de Emprego e Formação Profissional* (<http://www.iefp.pt>): the Portuguese institute for employment and professional training of the Ministry of Labour is specialised in providing grants and subsidies to companies having employees attending training programmes; this financial support includes a large variety of schemes that subsidise training costs, including opportunity costs of current employees and *per diem* allowances for unemployed trainees.
- *ADI - Agência de Inovação* (<http://www.adi.pt>): the Portuguese innovation agency, jointly owned by the Ministries of Science and Technology and Economy, provides support services (grants, soft loans, fellowships) to companies and research organisations for projects of applied research and development, transfer of technology, recruitment of university post graduates; it also manages a specific tax credit system applied to companies that are engaged in R&D programmes.
- *ICEP Portugal* (<http://www.icep.pt>): the exports promotion institute of the Ministry of Economy manages some support services (grants, loans, free advisory services) designed to help firms in international marketing and export programmes and in creating subsidiaries or joint ventures in foreign countries.

Many of the above services are based on specific governmental programmes part funded by the European Union structural funds (notably ERDF and ESF), which are centrally managed by government agencies such as PRIME (<http://www.prime.min-economia.pt>) and IGFSE (<http://www.igfse.pt>).

There are also other institutes specialising in certain branches of the industry or in specific thematic areas. Some of these are:

- *ITP - Instituto de Turismo de Portugal* (<http://www.iturismo.pt>), which provides support (grants, loans) to the tourism industry;
- *IPQ - Instituto Português da Qualidade*, (<http://www.ipq.pt>), the national standards institute, offering support (grants, loans, consultancy) to companies engaged in quality certification standards or schemes (e.g.: ISO 9001, ISO 14001, EMAS) or to organisations of the Portuguese quality system;
- *INPI - Instituto Nacional da Propriedade Industrial* (<http://www.inpi.pt>), the national industrial and intellectual property institute, providing some support services to companies requiring protection of intellectual property or filing patents;
- *POSC - Programa Operacional Sociedade do Conhecimento* (<http://www.posc.mctes.pt/>), a countrywide programme offering a range of support mechanisms (grants, loans, advisory services) to several entities, including private companies, aiming at facilitating the development of infrastructure and service platforms for the knowledge society.

Besides these governmental agencies there are many national, regional and local chambers of commerce as well as vertical industrial associations that provide a range of services (technical

information, business advisory services, training, etc.) some of which are offered under concessionary terms and other under commercial terms.

In Portugal's mainland, there are 5 CCDRs, regional planning/development commissions (regional branches of the central government), which also distribute regionally the support services based on national governmental plans. Though most of these support services are offered to non-profit organisations, such as industrial associations, technology centres and municipalities, there are a few regionally focused support programmes directed to SMEs (subsidies and soft loans for new company creation, re-structuring or development). In the semi-autonomous regions of the archipelagos of Madeira and Azores, some agencies of the regional governments play a role very similar to the CCDR's, in distributing regionally the national support programmes.

The *API - Agência Portuguesa para o Investimento* (<http://www.investinportugal.pt>), is a central government agency responsible for investment promotion and large-scale investor support in Portugal. This agency provides a one-to-one service throughout all the investment process dealing specifically with large projects and investors both of domestic and foreign origin.

Sector Information Tables – PORTUGAL

FOOD NACE CODE: 15

Number of companies¹ and employees, revenues and earnings, 2001 - 2004, Manufacture of Food Products, Beverages and Tobacco

	2001	2002	2003	2004	Change in % 2002/03	Change in % 2003/04
Companies	5,299	5,156	5,490	5,541	+ 6.5	+ 0.9
Employed persons	93,839	93,977	93,967	n.a.	0.0	n.a.
Average company size (number of employed persons)	17.7	18.2	17.1	n.a.	- 6.1	n.a.
Revenues and earnings in € Mio	10,696	10,900	11,059	n.a.	+ 1.5	n.a.
Revenues and earnings per employed person in € 1.000	114	116	118	n.a.	+ 1.5	n.a.

n.a. – Not available

Source: INE, Portugal

Average monthly gross wage/salary (all manufacturing industry including continuing fringe benefits) 2004: € 813.97 (DGEEP, Ministry of Labour and Social Security)

Imports and Exports (INE Portugal), 2003 (in € Mio):

- Imports: 3,761
- Exports: 1,850
- Balance: -1,911

- Market Developments & Opportunities -

- The Portuguese food industry is quite relevant (16.4 % of the production and 12 % of employment of the manufacturing industry), but is fundamentally directed to the internal market though not covering the food needs of the Portuguese population (negative trade balance of about € 2 Bn).
- Major trends impacting the food industry in Portugal in the last years are:
 - The increasing number of women in the work force is expanding the demand for more convenient products (ready made, less cooking time).
 - The changes in consumer habits and the increasing purchasing power of the Portuguese population are calling for more sophisticated and diversified products.
 - The fast expansion of the large distribution chains is increasing the rivalry among players and the pressure on the food industry, but keeps price increases low.

¹ Excluding sole proprietorships

- Consumers tend to be more concerned with the health and environmental implications (e.g.: pollution associated with packaging), thus creating new demand for some niche products (health, organic etc.)
- In Portugal, as in other southern European countries, the food industry has been progressively exploiting the origin protected collective brands (e.g.: *DOC*) due to a multiplicity of regional food specialities (cheese, fresh and preserved meat, wine, etc.) which is facing increasing demand.
- The tobacco industry is also a domestic oriented one. The impact of campaigning and tax measures designed to reduce smoking is very limited and smoking habits are increasing in the young generation and not slowing down sufficiently in the older population.

- Support & Service Structures -

FIPA - Federação das Indústrias Portuguesas Agro-Alimentares (www.fipa.pt) the federation of the Portuguese food industry associations has a membership of 11 food industry branch associations representing more than 60 % of the food industry production in Portugal. This federation represents the industry at national and international level, protecting and promoting its interests and fostering its competitiveness through innovation and quality control. FIPA provides a range of services to its membership notably in the areas of regulatory and technological information, food safety, training, environmental protection and standardisation.

In December 2005 a new agency was created, *ASAE - Autoridade de Segurança Alimentar e Económica* (http://www.agenciaalimentar.min-agricultura.pt/index_eng.html) through merging several government departments with responsibilities in food quality and safety. This new authority is now responsible for controlling risks and quality of the whole of the food chain in order to guaranty the food safety in Portugal.

There are about 30 laboratories accredited by *IPAC*, the Portuguese institute for accreditation (<http://www.ipac.pt/>) specialising in various types of food products. Some of these, besides offering analytical and related services, have other capabilities (R&D, technology transfer, etc.) that they make available to the food industry. One of these is the multi-sector *INETI – Instituto Nacional de Engenharia Tecnologia e Inovação* (<http://www.ineti.pt/>), a state laboratory of the Ministry of Economy providing a vast array of research, development and technical assistance services in many branches of the industry, energy and environment.

Sector Information Tables – PORTUGAL

Wood NACE CODE: 20

Number of companies² and employees, revenues and earnings, 2001 - 2004, Manufacture of wood and wood products (without manufacture of furniture)

	2001	2002	2003	2004	Change in % 2002/03	Change in % 2003/04
Companies	3,609	3,619	3,937	3,884	+ 8.8	- 1.3
Employed persons	41,395	42,416	40,994	n.a.	- 3.4	n.a.
Average company size (number of employed persons)	11.5	11.7	10.4	n.a.	- 11.2	n.a.
Revenues and earnings in € Mio	2,948	3,090	3,199	n.a.	+ 3.5	n.a.
Revenues and earnings per employed person in € 1.000	71	73	78	n.a.	+ 7.1	n.a.

n.a. – Not available

Source: INE, Portugal

- Market Developments & Opportunities -

- **Sawmilling:** In the last years there has been a significant updating of that segment through increasing the number of automation lines and numeric control machines (better use of raw materials and less manpower), as well as, increasing the qualification of personnel (particularly at middle management level). There is a sustained trend to increase both the production and the exports of more value added products.
- **Carpentry and joinery:** This is also a segment in expansion. Less regionally concentrated than the sawmilling industry it is predominantly made up of small and micro enterprises.
- **Panels:** This is a very important segment in Portugal particularly in terms of innovation. There are two major sub segments: particle and fibre boards & plywood, wafer board and allied. This is a quite concentrated sector where international companies predominate.
- **Cork:** Portugal is the largest world producer, processor and exporter of cork. The current trend is to progressively replace semi-processed products by more elaborated products and the reduction of the weight of the traditional bottle cork stoppers (about 50 % of market) through increased product diversification, including “high-tech” products (e.g.: the “Cork Composition” is used for lining the engines of NASA rockets).

- Support & Service Structures -

AIMM (<http://www.aimmp.pt/>) is the industrial association, which covers both the wood industry and furniture at national level. This association is involved in supporting the whole industry, from harvesting, to trade, to finished products. It also has a major role in training, technological development and representation of the industry on the European stage. It also manages a technology

centre (CTIMM, currently under re-structuring) a training centre (CFPIMM). AIMM runs a programme (COMPIFIM) designed to increase the competitiveness of the industry through the upgrade of management systems, innovation, ICT systems and eco-efficiency.

Due to the importance of the cork sub-sector (Portugal is the world's largest producer and exporter) there are 2 industrial associations in this industry, the Portuguese Cork Association, *APCOR - Associação Portuguesa da Cortiça* (<http://www.corkmasters.com>), and the Portuguese Association of Cork Producers and Exporters, *AIEC – Associação dos Industriais e Exportadores de Cortiça* (<http://www.aiec.pt/>). Both provide their members, and the industry as whole, with support services such as technology and legal information, technical assistance and training.

Sector Information Tables – PORTUGAL

Construction **NACE CODE: 45**

Number of companies¹ and employees, revenues and earnings, 2002 - 2004, Construction

	2001	2002	2003	2004	Change in % 2002/03	Change in % 2003/04
Companies	37,601	39,668	45,750	48,523	+ 15.3	+ 6.1
Employed persons	313,975	347,437	348,021	n.a.	+ 0.2	n.a.
Average company size (number of employed persons)	8.4	8.8	7.6	n.a.	- 13.1	n.a.
Revenues and earnings in € Mio	22,327	23,378	26,554	n.a.	+ 13.6	n.a.
Revenues and earnings per employed person in € 1.000	71	67	76	n.a.	+ 13.4	n.a.

n.a. – Not available

Source: INE, Portugal

Average monthly gross wage/salary (construction, including continuing fringe benefits) 2004: € 771.86 (DGEEP, Ministry of Labour and Social Security)

Imports and Exports of construction works: Not available.

- Market Developments & Opportunities -

- Construction is a very important activity in Portugal: 7 % of the GNP, 9 % of the workforce and 50 % of the GFCF². It is expected that such importance will remain in the next 10 years or so, mostly due to a number of planned infrastructural works as the building construction sub sector will not continue to grow at the fast pace past. After that, the industry as a whole will reach maturity and its growth rate will slow down.
- The relative weight of new building construction in the whole industry is currently high (30 %) and has been growing at a fast pace in the last ten years, induced by low interest rates and public incentives to home acquisition, as well as by government subsidised dwelling relocation programmes³. As these programmes are near completion and the new home market reaches maturity, the new building market will slow down.
- There are plans to restart the tenancy market⁴ to absorb some deficiencies in the country's housing sector. There are many dwellings needing rehabilitation, as the landlords cannot afford to carry out needed maintenance works due to low, administratively controlled rents. Besides that there are many idle residential buildings, as owners are not inclined to rent their property due to current conditions of the tenant market.

¹ Excluding sole proprietorships

² GFCF - Gross Fixed Capital Formation

³ Programmes directed to low income families and aiming at extinguishing some shanty town areas in the suburbs of major Portuguese conurbations.

⁴ The socialist-inspired Revolution of 25 April 1974 in Portugal had a strong effect on the tenancy law regime. Much legislation was enacted in order to protect the weakest party in tenancy contracts, the tenant. This unrealistic legislation

- Thus, the changing in the market conditions will have a significant impact in the building construction industry. On the one hand, the restoration market (practically non-existent in Portugal) will increase substantially. On the other hand, new building construction will be reduced and concentrated in medium to high quality dwellings.
- The strong competition that already exists in the Portuguese construction industry, a sector that is very open to cross border operations carried out by the larger and more structured Spanish construction industry will be exacerbated and many re-structuring operations will take place in the next 10 to 15 years of the Portuguese construction industry.

- Support & Service Structures -

There are 4 major industrial associations in this sector: *ANEOP* - Associação Nacional de Empreiteiros de Obras Públicas (<http://www.aneop.pt/>), *AECOPS* - Associação de Empresas de Construção e Obras Públicas (<http://www.aecops.pt/>), *AICCOPN* - Associação dos Industriais da Construção Civil e Obras Públicas (<http://www.aiccopn.pt/>) and *AICE* - Associação dos Industriais da Construção de Edifícios (<http://www.aice.pt/>). These associations provide their membership with a number of services in the technical, regulatory, statistical, and industrial relations matters. There is also a electronic commerce portal specialising in construction materials, *eConstroi* - (<http://www.econstroi.com/>).

IMOPPI - Instituto dos Mercados de Obras Públicas e Particulares e do Imobiliário (<http://www.imoppi.pt/>), a public institute is the body that awards accreditations and certifications in the construction industry and *LNEC* - Laboratório Nacional de Engenharia Civil (<http://www.lnec.pt/>), the central laboratory for the civil and structural engineering, offers research and technical assistance services to the construction industry. It is also responsible for the preparation of the national standards and codes in this field.

made the tenancy market disappear. Timid reforms introduced in the last 20 years, though inducing some dynamics, were not sufficient to revive the market.

Legal Aspects – PORTUGAL

- Legal Aspects of Cross-Border Activities -

Section a: Setting up a business in Portugal

Company Law

There are five types of legal forms for SMEs in Portugal:

1. Sole proprietorship (“*unipessoal*”)
2. General partnership companies (“*sociedades em nome colectivo*”)
3. Private limited liability companies (“*L^{da}* - *sociedades por quotas*”)
4. Public limited companies (“*S.A.* - *sociedades anónimas*”)
5. Limited co-partnership companies (“*sociedades em comandita*”)

The three most common forms are the Sole proprietorship, the Private limited liability company (“*L^{da}*”) and the Public limited company (“*S.A.*”).

The Private limited company is the most frequent option for small and medium sized enterprises. Share capital is divided into quotas whose shareholders are jointly liable for paying the total amount of share equity. In case of debt and bankruptcy, only the company assets can be used to pay creditors. The trade name must have the word “*Limitada*” (or “*L^{da}*”).

Nowadays most of SMEs in Portugal are incorporated at Centres of Formalities (“*Centros de Formalidades de Empresas - CFE*”), which are public offices aiming at facilitating the procedures involved in creating, transforming and winding up companies, and related formalities. The first centres were created in 1997-98, and there are currently 12 centres throughout the country. In the last years more than 50 % of all the companies set up in Portugal were processed through the CFE network. The average time needed to incorporate a company at a CFE is around 10 working days, with an average cost of about € 700 (for a Private limited company with a minimum share capital of € 5,000).

Recently a new programme was introduced in Portugal to expedite the formation of new firms: “company within the hour” (“*Empresa na hora*”). This programme, currently offered in 7 CFEs and 13 trade registries across the country, allows the creation of a new company within one hour, provided the trade name is selected from a database of several thousand pre-registered ones and the articles of incorporation are based in one of the available templates.

Foreign participation in companies is unrestricted.

Corporations with a seat outside the country may establish a branch in Portugal. The branch is not a separate legal entity. It does not have its own share capital. However, the branch must keep separate books.

Trade law

For certain types of business a minimum staff of a specific recognised profession is mandatory. This is the case of **construction**, where a national certification system is in force. Companies wishing to start operations in this business should submit a registration to a government agency, *IMOPPI - Instituto dos Mercados de Obras Públicas e Particulares e do Imobiliário* (<http://www.imoppi.pt>). This agency issues a certificate (*alvará*) which entitles the firm to provide construction services in one, several or all specialities of construction (e.g.: plumbing, electrical installations, carpentry/joinery, etc.).

There are 9 “categories” of certificates according to the value of the works the company is authorised to carry out¹, for each category it is required a minimum cadre of qualified staff, either Portuguese nationals or foreigners of the European Economic Area. In Portugal the EU Directive 1999/42/CE concerning the mutual recognition mechanisms for regulated professions is in force since 2003 (*Decreto-Lei n.º 48/2003, 20/03/2003*)² in the production departments (engineers, other technicians, foremen and skilled workers), as well as, in the health and safety area.

For certain activities within the **manufacture of food products and beverages**, notably when animal meat (red meat, poultry, fish processing, etc.) is processed and along the value chain (from butchery to retailing), the operator must have an official veterinary accredited and appointed by the national veterinary office (*DGV*) in the premises, to perform on site independent inspections concerning health, hygiene and food safety.

There are no specific professional requirements in the area of **manufacture of wood and of products of wood and cork**.

Section b: Export of Goods to Portugal

As Portugal is a member of the European Union the [mutual recognition](#) principle applies. Portugal is obliged to accept on its territory products that are legally produced and marketed in another Community Member State. Portugal may only challenge the application of the principle in cases where, in particular, public safety, health or the protection of the environment is at stake. In the retail trade regulations must be followed (e.g.: labels, instructions, guarantees and other information attached to the products must be written in Portuguese).

Section c: Provision of Cross-Border Services

For the provision of cross border services falling under a regulated trade, the entrepreneur must be entitled in his home country to carry on the respective services. This applies to the construction sector. The procedures for the recognition of qualifications are based on individual assessment of the application; in most cases, if the citizen is fully qualified in the member state of origin to pursue a specific profession, these professional qualifications are recognised as such in the host member state; comparative analysis between the vocational training acquired in the member state of origin and the vocational training required in the host member state; application of compensatory measures should there be significant differences in the duration or contents of the vocational training; the compensatory measures may be in the form of professional experience (to compensate for differences in the duration of the training) or, at the applicant’s choice, an adaptation traineeship or aptitude test (to compensate for significant differences in the contents of the training).

In the Member Countries of the European Economic Area (EEA) the free movement of workers is a fundamental right which permits nationals of one EEA country to work in another EEA country on the same conditions as that member state’s own citizens. For workers from the new Member States, Portugal will continue to apply, during the first two years, the same scheme which currently regulates access for workers from third countries to the Portuguese labour market. Every two years, the Portuguese government establishes a quota for the number of citizens of third countries allowed to exercise certain professional activities in Portugal. In order to obtain access to the Portuguese labour market, a citizen must be in the possession of a work permit granted by the Portuguese Consulate in his country of origin on presentation of a valid work contract. In order to be issued with a work permit, the applicant must have a contract, duly authorised by the competent national authority - Inspeção

¹ From under € 150,000 to over € 15,000,000.

Geral do Trabalho- and approved by the IEFP (Instituto do Emprego e Formação Profissional) [Institute for Employment and Vocational Training] as regards the job offer's compliance with the established quotas, together with clearance from the Serviços de Estrangeiros e Fronteiras for the worker's entry into Portugal. Portuguese undertakings are only authorised to employ foreign workers for certain professional activities.

- Taxation -

The Portuguese constitution establishes that taxes are created by law and are thus the responsibility of parliament. The law distinguishes between taxes on personal income, consumption and property, as well as other specific taxes.

The Portuguese tax system comprises:

- Taxes on the income of individuals (IRS) and corporations (IRC);
- Taxes on expenditure: Valued Added Tax (VAT);
- Taxes on property: the municipal property tax, the municipal tax on Property Sales and Transfers;
- Other specific taxes: Stamp Duty, Automobile Tax, Petroleum Products Tax, etc.

Personal Income Tax (IRS)

The personal income tax (IRS) code establishes progressive rates from 10.5 % to 42 % in continental Portugal. There are six categories of income that are subject to this tax: wage income, business and professional income, capital income, real estate income, increased asset value (capital gains) and pensions. Individual taxpayers engaged in business or professional activities should separate assets and income relating to their business activities from those related to their private activities. This is because different tax regimes apply to the different activities. Taxpayers resident in the semi-autonomous regions of the Azores and Madeira archipelagos benefit from tax reductions.

Corporate Tax (IRC)

Corporate tax (IRC) applies to companies and other corporate entities including public enterprises, cooperatives and non-profit making organizations. IRC is based on the principle that tax is levied on real profits as shown by the entity's accounts, corrected according to fiscal norms. A simplified tax regime was created in 2001 for small and micro companies that opt not to be taxed under the general tax regime. However, because this special regime does not exempt companies for complying with commercial and fiscal accounting laws, it has not been widely adopted. A simplified form of bookkeeping can be adopted by some entities, usually non-profit making associations that are not engaged in commerce, industry or agriculture as their main activity.

The tax can be levied on corporate profits, the global income of collective entities, the profit attributable to a permanent establishment, or the income of non-resident companies. In the case of entities with their registered or effective headquarters in Portugal, IRC is levied on global income, including income earned abroad. In the case of entities with their registered or effective headquarters abroad, IRC is levied only on income that originates in Portugal.

In the case of a foreign company with a branch in Portugal, for example, the concept of permanent establishment as defined in Article 5 of the Tax Code is applied. A permanent establishment is defined as any fixed installation or permanent representation used for the exercise of any commercial, industrial or agricultural activity. Such establishments are subject to the same tax regime as resident entities. Companies with registered or effect headquarters or permanent establishments in the semi-autonomous regions of the Azores and Madeira benefit from tax reductions.

The standard rate on the profits of companies covered by the general taxation regime is currently 25 %.

In the case of a foreign company with no permanent establishment the corporate tax rate is also 25 %, except for: (a) Intellectual or industrial property; Provision of information, technical support or lease/license of use of equipment in agricultural, industrial, commercial or scientific activities; Commissions charged for contract mediation (15 %); (b) Income from debt and from other capital markets securities, except profits from entities covered by Portuguese general taxation regime; Income from entities covered by the simplified tax regime; Income from entities with their registered or effective headquarters in Portugal that are not engaged in commerce, industry or agriculture as their main activity (20 %); Prizes earned in contests or sweepstakes.

Municipal Surcharge

The Municipal Surcharge (“*Derrama*”) is a local tax that is levied in addition to the corporate tax (IRC) at a rate of up to 10 % of the amount paid as IRC. The tax is collected together with IRC but the revenue goes to the local municipality. The decision to levy the tax and the rate at which it is levied is taken by municipal assemblies. The decision has to be made annually before October 15 so that the municipal council can inform the Directorate General of Taxation of the decision by October 31.

Value-Added Tax (VAT)

Value-added tax (VAT) is an indirect tax paid by the final consumer of tradable goods. A taxpayer who acquires a product for which the seller has already paid VAT has the right to deduct the value of the VAT payment. Three VAT rates apply in continental Portugal: a reduced rate of 5 %, an intermediary rate of 12 % and the standard rate of 21 %. Under the provision of special legislation, the VAT rates in the archipelagos of Madeira and Azores are 4 %, 8 % and 15 % respectively.

The reduced rate of 5 % applies to the importation, trading, and provision of goods and services such as some foodstuffs, mineral water, fertilizers and soil correctives, live animals used for farm work, reproduction or for slaughter, flours, food industry waste and any other products suitable to feed animals, including fish, destined for human consumption, newspapers, magazines and other publications, pharmaceuticals and related products, orthopaedic appliances, surgical belts and stockings, wheelchairs and other products specifically designed for the disabled, the provision of medical, health and related services and operations carried out in hospitals and similar establishments, services provided by lawyers, solicitors and legal consultants to pensioners, the unemployed, people benefiting from legal aid, etc., electricity, instruments and other equipment for fire fighting and detection, passenger transport, including the hire of vehicles with driver, shows, sporting events and other public entertainments, natural gas; lodging in hotels and similar establishments, the construction of state-subsidized and cost-controlled homes, provided they are certified as such by the relevant authority or government ministry, the construction of buildings for local authorities, municipal associations and fire services provided, the leasing of areas to be used as camp and caravan sites and the provision of services directly related to them; restoration, maintenance or improvement of residential buildings, the reduced rate does not include incorporated material, except when the value is under 20 % of the services total value.

The rate of 12 % applies to the importation, trading, and provision of goods and services such as, readymade meals supplied by fast-food, takeaway or home delivery establishments, ordinary wines, Cut flowers, ornamental floral compositions, petroleum, diesel and heating fuels, fuel oil and fuel oil blends, appliances, machinery and other equipment designed exclusively or mainly for solar, wind, geothermal, waste and other alternative energy generation systems, exploration of oil and natural gas, measurement and control of pollution, machinery, appliances and equipment exclusively or mainly designed for agricultural and forestry purposes, provision of food and drink services.

Other Taxes

Real Estate Transfer Tax

The municipal tax on Property Sales and Transfers is a local municipal tax that is levied on the transfer of real estate assets or the transfer of property rights for such assets or subdivisions of them. The tax is calculated according to the value of rural or urban properties. There are different rates according to the type and value of the property:

- The single rate of 6.5 % for the sale or transfer of urban property not for habitation;
- Progressive rates, ranging from 0 % (property value of € 80,000 or less) to 6 % (property value over € 500,000) for the sale or transfer of urban buildings or apartments exclusively for private residences:
- The single rate for rural properties is 5 %
- The rate of 15 % whenever the purchaser has residence or headquarters in a country, territory or region with a tax regime that is clearly more favourable than the Portuguese one (e.g.: tax havens)

Tax reductions and exemptions are to be considered on a case by case basis when properties are sold or transferred for industrial or other activities of recognized economic interest to Portugal.

Tax Relief

The most relevant tax benefits available in Portugal apply to (a) Foreign entities carrying out direct investment operations in Portugal, (b) Companies registered in Portugal carrying out direct investment operations abroad, (c) Research & Development projects, (d) Job creation, (e) the “tax reserve for investment” system which enables companies to reduce their taxable earnings by 20 % in return for carrying out new investment in fixed assets.

Typically, tax benefits are awarded as tax credits (of a certain percentage of the capital costs of the project or a fixed amount per job created). In some cases exemptions of the real estate tax and/or the stamp tax is included in the relief package. The percentage of the relief (typically up to 15 % of the capital outlay) and intensity of the other benefits depend on some project characteristics and are calculated on a case-by-case basis. Credits are to be used against the yearly tax dues (e.g.: corporate tax) for pre-determined period of time.

Manufacturing and construction SMEs should approach IAPMEI, the small and medium sized businesses institute, which will provide guidance in relation to the formalities needed to benefit from these incentives (as well as from other supporting programmes). Companies investing € 25 million or more or having a consolidated annual turnover of € 75 million or more should approach the Portuguese Investment Agency (API), which will provide guidance and support for the same purpose.