



## **“IRC” - Corporate Income Tax**

Corporate Income Tax (“IRC”) is levied on:

- Corporate entities with their head-office or effective management in Portuguese territory, which are deemed to be resident;
- Unincorporated entities with their head-office or effective management in Portuguese territory deemed to be resident;
- Incorporated or unincorporated entities without their head-office or effective management in Portuguese territory (deemed to be non-resident) deriving income in Portugal.

### **TAXABLE BASE**

a) Resident entities:

- i) If they exercise as their main activity a commercial, industrial or agricultural activity, the tax base is the profit.
- ii) If they do not exercise as their main activity a commercial, industrial or agricultural activity, the tax base is formed by the overall income.

b) Non-Resident entities:

- i) If they have a permanent establishment in Portuguese territory, the taxable base is made up of the profit attributable to that establishment;
- ii) If they have no permanent establishment in Portuguese territory, the taxable base is made up of incomes of different categories separately considered for IRS purposes.

c) Offshore Property Companies:

Since 2002, various fiscal measures have been introduced regarding Offshore Property Companies. In addition, companies domiciled in tax havens are not eligible for tax breaks. These “offshore” entities will also be assigned a “presumed” minimum income, based in this case on 1/15th of the “*Valor Matriz*” (assessed rateable value). Corporate Income Tax (“IRC”), as well as all necessary filing obligations, are due.

To further clarify these measures, the Government periodically updates its “Black List” of Offshore havens and has defined a registration process for self-identification of non-resident companies.



## **EXTENSION OF TAX LIABILITY**

Resident entities are liable to “IRC” on a total liability base, that is to say, on the world-wide income from Portuguese and foreign sources. Non-resident entities are liable to tax in terms of real liability, in other words, only on income from Portuguese sources:

- a) Income in respect of immovable property situated in Portuguese territory, gains from the sale or transfer of such property, are assessable;
- b) Gains from the transfer of shares in the capital of an entity having its head-office or effective management within Portuguese territory or other marketable securities issued by an entity with its head-office or effective management therein are assessable;
- c) Income referred to below where the entity has its domicile, head-office or effective management in Portuguese territory or the payment of which is attributable to a permanent establishment therein is assessable:
  - Income from intellectual or industrial property; from information in connection with industrial, commercial or scientific issues;
  - Income from the use or the right to use agricultural, industrial, commercial or scientific equipment;
  - Income from technical assistance;
  - Other income from capital investment;
  - Remuneration received as a member of a corporate statutory body;
  - Winnings from gambling, lotteries and betting;
  - Income from agency fees in concluding contracts;
  - Income from other services rendered or used in Portugal other than those concerning transport, communication or financing.
- d) Income from the exercise of an activity in Portugal of an artiste or sportsman, except if it can be proved that such artiste or sportsman does not control, directly or indirectly, the entity to which the income is paid.

## **RATES**

The “IRC” general rate is 21% in Mainland Portugal and Madeira and 16.8% in the Azores when applied to resident entities liable to tax on the basis of profits and to permanent establishments of non-resident entities.



For small and medium size companies, the first €15,000 is taxed at 17%. In Madeira this rate is 16% and in the Azores, 13.6%

For resident entities whose main activity is not a commercial, industrial or agricultural one, the “IRC” rate is 21.5% on the Mainland and in Madeira. In the Azores, this rate is 16.8%.

Non-resident entities without permanent establishment in Portugal or deriving income therein not attributable to a permanent establishment are subject to “IRC” at a rate of 25% as a rule. For Companies domiciled in a black-listed offshore territory, the tax rate increases to 30%.

### **ASSESSMENT AND COLLECTION**

Payments on account are due by Portuguese resident entities and by Portuguese permanent establishments of non-resident entities, which main business consists of carrying out commercial, industrial or agricultural activities. Payments on account are due in July, September and 15th day of December of the respective tax year (otherwise on the 7th, 9th and until the 15th day of the 12th month of the tax year adopted, if different from the calendar year). Payments on account are computed based on the tax assessed in the previous tax year, net of withholding taxes incurred that cannot be either offset or refunded.

### **SPECIAL PAYMENT ON ACCOUNT (“PEC”)**

Companies exercising commercial, industrial or agricultural activities, as well as non-resident entities with a permanent establishment in the Portuguese territory, are liable to the special payment on account (PEC – “*Pagamento Especial por Conta*”) regime, which in practice results in a minimum tax burden, computed as follows:

Payments are due in March (or in two instalments in March and October or in the 3rd and the 10th month, if different from the calendar year):

PEC = 1% turnover of previous tax year (1) - payments on account of previous year

*(1) Capped at: €1,000 + 20% of the surplus, capped at € 70,000.*