EU Directive Impacts Redomiciliation

When a company redomiciles to Portugal, there is no asset transfer, no crystallisation of Capital Gains, no "*IMT*"(Property Transfer Tax), no Stamp Duty on Real Property. With no chargeable events taking place, only the headquarters and effective management move to Portugal. The assets remain safely within the company. Thus the alternative term for Redomiciliation: *Continuance*. Continuance opens potentially attractive opportunities for legitimate tax mitigation.

Updated Basis for Capital Gains Tax

Following company registration in Portugal, a Balance of Accounts needs to be presented to mark the starting point as a Portuguese resident corporate entity. Legislation based on the 2016 EU Directive, updates the Portuguese Corporate Tax code ("CIRC").

Upon Redomiciliation, the company's balance sheet must be based on *net book value,* rather than *historical value* as was the case previously. When correctly implemented, there will be many cases have little or no difference between the *net book value* and *market value* upon the transfer of the company's asset, reducing or eliminating any Capital Gain.

According to this recent legislation transposing the relevant EU directive, new evaluation norms apply according to the following rule:

> *Entities transferring their head office or effective management to Portuguese territory must consider for tax purposes the net book value of their assets held, provided that the determined amount does not exceed the market price at the time of transfer.*

This process opens two opportunities: First, the shares of the Company can be sold according to the Net Book Value with little or no CGT to pay. Alternatively, the Company owned property can be transferred out of Company ownership with acquisition established at Net Book Value. Either solution should minimize the Capital Gains Tax liability when the property or Company shares are sold.

If potential buyers wish to continue with the property being held by a redomiciled Portuguese Company, this solution continues to be viable and tax-efficient. Likewise, if the buyers want to own the property in their own names, this redomiciliation solution is now equally workable with similar beneficial tax treatment.

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