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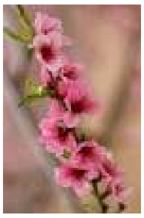

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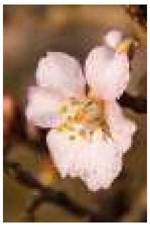
What went wrong with Offshore Companies

Legislation regulating Offshore Companies has changed for the fourth time in the past eleven years. Once again, "*IMI*" Rates for Blacklisted Companies have gone up to 5% for 2011, despite the recent agreements between Portugal and many Offshore jurisdictions. In fiscal year 2012, the increase will be a punishing 7½%. Let us examine the "*big picture*" to see where, in fact, Offshore Companies stand when compared to onshore options.

Why Delaware Companies don't work anymore

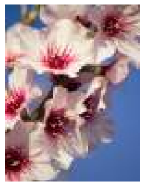
Before examining advantages of redomiciliation to Portugal, let us first discuss why Offshore jurisdictions wound up being blacklisted in the first place so that we can be assured of not repeating what has proved to be a mistake. What is behind the Black List anyway? In a nutshell, there are two issues at stake: Sovereignty and Non-Competitive Tax Practices.



What is a Portuguese Nominee Company?

Portuguese Nominee Companies have been embraced in legislation over the past 150 years. Therefore, they are fully compliant and are not subject to any of the punitive sanctions and instability now engulf Offshore Property Companies. As Civil Companies, these entities do not practice any commercial, industrial or agricultural activity. They are non-commercial companies, regulated by the Civil Code.

Paying the Legal Minimum



A Portuguese Nominee Company is not a Limited Liability Company or a commercial trading company subject to both "*PEC*" (minimum corporate tax) as well as on-going accountancy charges. It is a simple, non-trading company, designed to hold and manage the assets of the Company to the benefit of the shareholders. It is, in fact, a tax exempt structure since any eventual one-off assessments are levied directly to the shareholders.

Closing Notes: *Buying & Selling a Nominee Company*

When you buy: Buying a Nominee Company saves time & money while avoiding many of the complications normally associated with property acquisition.

When you sell: Selling your Nominee Company can offer bespoke options both to the Buyer and to the Seller.

euro*FINESCO *Services: **Tax Consultancy** ***Fiscal Representation*** **Nominee Companies** ***Estate Planning***

Important Dates:	*"IRS"* - round 2 - online declaration	01-30 May
	"IVA" - online declaration	11 June

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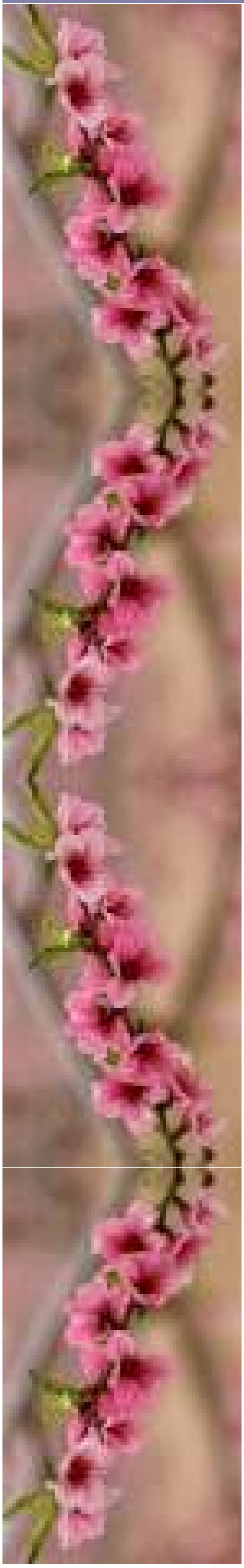

What went wrong with Offshore Companies

Legislation regulating Offshore Companies has changed for the fourth time in the past eleven years. Once again, "*IMI*" Rates for Blacklisted Companies have gone up to 5% for 2011, despite the recent agreements between Portugal and many Offshore jurisdictions. In 2012, the increase is a punishing 7½%. Let us examine the "*big picture*" to see where, in fact, Offshore Companies stand when compared to onshore options.

Uplifted Evaluations
Historically, Portugal has had substantially understated Rateable Values ("*VPT*") on property. Any property transfer triggers a re-evaluation of the rateable value. There is every reason to believe that Finanças will accelerate the re-evaluation of the remaining properties. Needless to say, an ever-growing percentage of properties will pay their Rates based on these new uplifted appraisals so that any underlying increase will inevitably magnify the tax owed.

Corporate Tax on *"deemed income"*
Black-listed Companies must pay annual corporate tax ("*IRC*") based on "*deemed income*" equal to 1/15 of the rateable value of the property. Since new Rateable Values ("*VPT*") purport to be on average 80-90% of market value, your company's assessment on a property with a VPT of €350,000 will look something like this:

€350,000 ÷ 1/15 = €23,333   € 23,333 X 25% = €5,833

With the same basis, annual "IMI" Property Rates will cost an additional €17,500 for a total annual assessment of €23,333. Add Fiscal Representation, IRC declarations and annual fiscal compliance bringing total costs to almost €25,000. Onshore options based on the same set of assumptions would only have annual levies of less than €2,000.

Market Perceptions
It should be no surprise that *Offshore* has become a "four-letter word" in recent years. Property buyers are leery of Offshore Companies - whether black-listed or white-listed - under the justifiable perception that they want to avoid buying someone else's problem. However, if an Offshore Company is moved to onshore to a Portuguese Nominee Company, Capital Gains Tax rates drop 2½ fold (10% as compared to 25%), potentially saving many thousands of Euros at the time of sale. Buyers can also achieve substantial savings in Transfer Tax and Stamp Duty, creating a win-win situation for both buyer and seller.

No Mortgage Facilities
The Bank of Portugal has forbidden Portuguese registered banks to lend to *Offshore Companies*, such as those found in Delaware, Gibraltar and elsewhere. With no financing available, few will be able to purchase an Offshore Company outright.

Anti-Avoidance Legislation & Aggressive Tax Planning
Current legislation makes compulsory divulging any "abusive" tax planning schemes by promoters and/or by beneficiaries. The purpose of the legislation is to make mandatory the warning of the authorities of schemes on the edge of the law. Those with companies domiciled in most so-called "white listed" jurisdictions fall on the wrong side of several restrictions, condemning most non-resident solutions - whether black or white. Fines for non-compliance can be €100,000 for companies and €50,000 for individuals.

Conclusion
The constant changes in legislation regarding Offshore Companies constitute severe volatility and add up to a precarious basis for making any important long-term decision. Redomiciliation to Portugal, on the other hand, will mean substantial tax savings and a positive perception when selling by embracing a stable, mainstream solution sanctioned by Law. Rather than taking evasive measures, your strategy will be based on a fully compliant answer that allows you to pay the legal minimum.

Why Delaware Companies don't work anymore

Before examining advantages of redomiciliation to Portugal, let us first discuss why Offshore jurisdictions wound up being blacklisted in the first place so that we can be assured of not repeating what has proved to be a mistake. What is behind the Black List anyway? In a nutshell, there are two issues at stake: Sovereignty and Non-Competitive Tax Practices.

The Sovereignty Issue

Those who redomiciled to Delaware or Malta are faced with the following dilemma: while they have managed to escape for the time being the immediate consequences of punitive taxation on blacklisted companies, they have failed to resolve one of the fundamental problems: *the Sovereignty Issue*. No government likes to lose control over a piece of sovereign territory, especially when it means giving up most taxation rights. Portugal is no exception.

This is why the OECD introduced measures in the current version of the Model Double Tax Treaty to enable countries to assess Capital Gains on effective property rights transfers when wrapped in a foreign Property Company.

Tax Treaties

As an example, let us examine the case of a Delaware Company. In the Double Tax Treaty between the USA and Portugal, Article 14 (*Capital Gains*) states that the country where the property is located (Portugal) has taxation rights on the deemed transfer of the property upon the sale of the shares.

It is important to note that these tax treaties take precedence over national legislation. This provision mirrors the OECD Model Tax Treaty, giving countries the tools to combat fiscal fraud. With only minor variations, this condition is clearly defined in most other Portuguese bilateral tax treaties. Therefore, a white-listed Company normally offers little protection from CGT for Portuguese tax residents.

Non-Residents - *a potential Double Whammy*

But what if you are not resident in Portugal? Are you safe from liability to Portuguese assessment? While the jury is still out, the situation could be just as bad. While you may not be resident in either jurisdiction, the Company still is. The Delaware Company, as a "*resident person*" embraced by the USA - Portugal Treaty, could be liable to CGT assessment, based on the effective transfer of rights to the property set off by the sale of the shares. However, in the case of a British or Irish tax resident, the respective treaty with the USA is oblivious to the Portuguese "*situs*" issue and is only concerned with the gain from the sale of shares as "Moveable Property", triggering a separate individual CGT assessment in the home jurisdiction based on worldwide income. Because of the triangulation between jurisdictions, the bilateral agreements leave no means to eliminate any double taxation.

To exacerbate the potential problem even further, the same principal of deemed real estate conveyance could also apply to Property Transfer Tax ("*IMT",* formerly called *Sisa*). Overall, as a non-resident, the sale of the shares of the white-listed Company could attract Portuguese Capital Gains Tax of 25% and an additional "*IMT*" assessment of up to 6%.

"the Triangulation Trap"

However, one thing is quite clear: using a third-country jurisdiction to veil property transfers and subsequent fiscal obligations can be a risky proposition. Tax Authorities both here in Portugal and around the world now possess powerful "tools" to close loopholes that were once common practice.

The option of a "*white-listed*" Company should be considered anything but "best" advice for professionals and probably not a sensible solution for the majority of property investors in Portugal. Using a third jurisdiction company to hold a Portuguese property most likely will not meet the objective of avoiding taxation but rather the contrary: compound the risk of being snared twice in one's own "*Triangulation Trap*".

*euro*FINESCO *newsletter*

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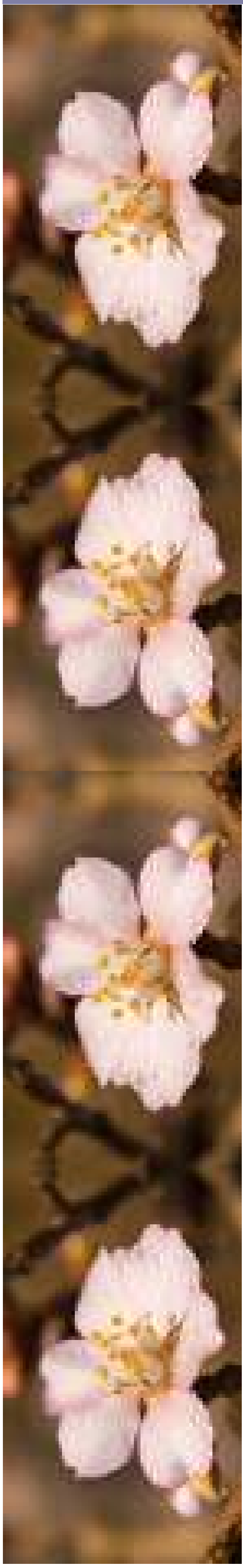

Why a Portuguese Nominee Company?

A Fully Compliant Solution

Portuguese Nominee Companies have been embraced in legislation over the past 150 years. Therefore, they are fully compliant and are not subject to any of the punitive sanctions and instability now engulf Offshore Property Companies. As Civil Companies, these entities do not practice any commercial, industrial or agricultural activity. They are non-commercial companies, regulated by the Civil Code. They may formed via public deed ("*com personalidade jurídica*") or by private contract.

No punitive taxation
Unlike Offshore Companies, there are no fiscal penalties: no punitive Property Rates, no Deemed Income assessed against the Company, no sanctions against tax havens.

Reduced CGT Rates
Capital Gains Tax on the selling of Portuguese Nominee Company shares is only 10%, as compared to 25% assessment for the sale of non-resident company shares.
Non-resident individuals also potentially pay 25% while residents typically pay close to a net of 20% as they are ineligible for rollover relief.

Potential Transfer Tax Exemption
The sales of the shares may also be exempt from "*IMT*" Under Portuguese law, when there is not a greater than 75% concentration of shares upon transfer, no Property Transfer Tax is due on the underlying assets.

No Property Transfer Tax for Buyers
There is no "*IMT*" (Municipal Transfer Tax) on the sale of the shares as long as a single shareholder does not exceed a 75% concentration of ownership.

Ease of Transfer
When the Company is sold, only a simple deed of sale of the shares is required. The property remains securely within the company. There is nothing to trigger bureaucratic problems and extra expense often associated with property transfers.

No Taxation on Redomiciliation
When a non-resident company moves to Portugal, there is no Capital Gains Tax or Property Transfer Tax upon re-domiciliation. This is because it is the Company Headquarters that moves, not the property, thereby avoiding any transfer of the Company's assets.

Uplifted Basis for CGT
Following registration of the Company in Portugal, a Balance of Accounts needs to be recorded. The Company's "Assets" now can reflect the market value of the property. The "Liabilities" show any Shareholders' loans as well as any outstanding loans or mortgage.

Reduced Closing Costs
Buyers also enjoy reduced closing costs, avoiding the 0.8% Stamp Duty on property transfers. The ease of share transfers as compared to the bureaucratic labyrinth of real property sales keeps cost and complications to a minimum.

Capital Improvements Never Expire
Unlike direct ownership where improvements "expire" after five years, any capital invested into your Nominee Company is always reflected in the Company value.

Domiciliary Services
Beyond meeting basic formalities and obligations, ***euro*FINESCO** will be by your side to resolve problems that arise in navigating your way through Portuguese bureaucracy.

Paying the Legal Minimum

A Portuguese Nominee Company is not a Limited Liability Company or a commercial trading company subject to both "*PEC*" (minimum corporate tax) as well as on-going accountancy charges. It is a simple, non-trading company, designed to hold and manage the assets of the Company to the benefit of the shareholders. It is, in fact, a tax exempt structure since any eventual one-off assessments are levied directly to the shareholders. It is inexpensive to operate with annual running charges of only €700.

When comparing costs between moving a Property out of Company ownership and redomiciling the Company's headquarters to Portugal, there are several pertinent factors - both taxation as well as costs - to take into consideration. Please note that property transfer expenses are mostly proportional while redomiciliation fees are generally fixed.

	Property Transfer	Redomiciliation
CGT:	25% on the net gain	€ 0
IMT:	up to 6%	€ 0
Stamp Duty	0.8% of the sales price	€ 0
Dividends	20%	€ 0
Legal fees	1-2% of deed price	€1,250
Redomiciliation	-	€ 5,000
Strike-Off *	closing Offshore Company	
Misc. Expenses*	notaries, registration, etc.	

Example: *On a property, originally costing €300,000, and a current market value of €500,000, typical taxes, charges and disbursements would be as follows*:

	Property Transfer	Redomiciliation
CGT:	25%: €50,000	€ 0
IMT:	6% : €30,000	€ 0
Stamp Duty	0.8%: €4,000	€ 25
Dividends	20%: €20,000	€ 0
Legal fees	1.5% : €7,500	€ 750
Redomiciliation Cost	-	€ 5,000
Strike-Off / Exit Fees *	€3,000 *	€3,000 *
Other Disbursements *	€2,000 *	€2,000
total	€116,500	€10,775

** varies substantially according to Offshore Jurisdiction as well as to Company Managers*

Conclusion

Most people typically find that it could cost as a much as 1/4 of the market value to transfer the property out of the Company into their own names. A very expensive solution.

When Property Transfer Costs are compared to Redomiciliation, ***euro*FINESCO**'s package of services compares quite favourably: *a potentially financially crippling problem is resolved for a tiny fraction of property value.*

Closing Notes

Buying & Selling a Nominee Company

When you buy . . .

Buying a Nominee Company saves time and money while avoiding many of the complications normally associated with property acquisition.

1) **Time**

Acquiring the shares of a Company is a quick process. It can be done at the Notary or in your lawyer's office and can usually be accomplished in a matter of minutes rather than the weeks or even months required to sort out conventional Property Transfers.

2) **Simplicity**

Changes in property ownership inevitably entangle 3 different organs of government: "*a Câmara"* (the local Council), *"as Finanças*" (the Revenue) and *"o Registo Predial*" (the Land Registry). When transferring shares, these three bureaucracies are only marginally involved, if at all.

3) **Tax Efficiency**

With only €25 of Stamp Duty to pay, the transfer of shares avoids triggering "*IMT*" (Property Transfer Tax) and the 0.8% Stamp Duty on Deeds of Property Transfer, proportioning tax savings that can run into the tens of thousands of Euros.

4) **Reduced Costs**

Simplicity can also mean lower costs for lawyers, notaries and other disbursements that are an integral part of any compliant transfer process.

When you sell . . .

Selling a Nominee Company offers the best of options to both Seller and Buyer:

1) At the notary, the Company's shares are normally transferred to the Buyer for the full market value of the Property held by the Company.

   The Seller will be responsible for Capital Gains Tax on the sale of the shares at a flat rate assessment of 10%, rather than full "*IRC*" Corporate Tax Rates (normally 25%) were the Property to be sold directly by the Company to the Buyer;

2) The Buyer elects one of two options:

   a) If the Buyer wishes to keep the Company, the transfer of ownership is now complete and there is no further taxation: no "*IMT*" (Property Transfer Tax), no Stamp Duty. Standard registrations can subsequently take place;

   b) If the Buyer wishes to own the Property directly, the Company is dissolved and the Property transferred to the Buyer's name. "*IMT*" as well as Stamp Duty are due, followed by standard registrations, just as would occur in a conventional property sale.

In either case, the selected option is prepared in advance and the complete set of transactions occurs simultaneously at the Notary' office.

Our recommendations regarding the use of Nominee Companies remain as always. However, we realise that there is no "one size fits all" solution. Future buyers may not necessarily share your goals and objectives. For this reason, it is important that, as an Owner, you know that the advantages you originally sought in your Nominee Company can still be achieved even if a eventual buyer wishes to acquire only the property and not the Company.