



## THE NEW MADEIRA TAX REGIME UP TO 2020

The European Commission has approved under EC Treaty state aid rules a new scheme providing tax reductions to Madeira IBC until 2020. This new tax regime is accessible to companies setting up in the free zone of Madeira (ZFM) between 2007 and 2013 and to the companies already licensed under the initial regime of full exemption of taxes until the end of 2011, which are also able to transit to the new tax regime in force until 2020.

The new tax regime introduces mitigated Corporate Income Tax (CIT) rates, notably of 4% during 2012 and 5% from January 2013 up to December 2020.

Licensing period	Tax Rate
From 2007 to 2009	3%
From 2010 to 2012	4%
From 2013 to 2020	5%

The granting of the new tax reduction is however subject to substance requirements. Those are the (a) job creation and the (b) minimum investment.

### JOB REQUIREMENT

It is expected that the addressed entities are entitled to a reduction in the corporation tax rate, provided they meet the creation of jobs requirement, which is directly linked to the amount of taxable profits that may benefit from the reduced CIT rates.

Jobs to be created	Taxable profit limited to tax benefits
1 to 2 jobs	€ 2 millions
3 to 5 jobs	€ 2,6 millions
6 to 30 jobs	€ 16 millions
31 to 50 jobs	€ 26 millions
51 to 100 jobs	€ 40 millions
More than 100 jobs	More than 150 millions

Holding companies are not subject to job creation requirement

The job creation requirement is rather flexible since it only demands the hiring of one local worker with professional domicile and residence in Madeira, allowing all other company workers to be non-resident and to work abroad. Foreign workers must only prove that i) they pay regularly the social security contributions in their respective countries, and ii) that payments are up to date. The local worker is not required to have any special qualification, neither that his work is performed in full time, being possible to be in part-time. Please note that the minimum wage in Portugal for a full time job is less than € 500 per month. A solution which is being already implemented by Trust4Trust, is the hiring of a fiduciary employee



appointed and remunerated according to a labour contract celebrated under the regime of part time job in order to meet the substance requirement of creation of jobs, for a monthly minimum wage of € 100, resulting in an annual total cost of € 1.400, correspondent to 12 months salary, plus the Christmas and Holidays bonus. The employee of the company can perform the duties of nominee director, without further costs.

### **MINIMUM INVESTMENT**

On the first two thresholds it is further required an investment in, tangible or intangible fixed assets, of € 75.000 to be made up to the end of 2013 in case it has not been already made in the past. The intangible fixed assets may be IP, participations, bonds provided that those are held in the company for a period that comprises two or more accounting years.

### **MAIN ADVANTAGES OF THE NEW TAX REGIME EN FORCE UNTIL 2020**

- Extremely low corporate taxes, with an effective rate of 4% in 2012 and 5% from 2013 until the end of 2020
- Full compliance with C.F.C. rules;
- Last but not least, full approval by the E.U., conferring the whole system the transparency and credibility which many other jurisdictions lack.
- Exemption from Withholding tax (WHT) on dividends;
- Exemption from WHT on Royalties;
- Exemption from WHT on interest paid to non-resident entities;
- Exemption from WHT on services provided by non-resident Entities
- Exemption from Stamp Duty;
- Exemption from property taxes in relation to company premises.
- Exemption from Notaries and registration fees.

Please let us know if you have any questions at all regarding this proposal. We look forward to hearing from you.

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