

## Entities licensed to operate within the Madeira Free Trade Zone as from 1/01/2015 – tax incentives

**Ana Paula Basílio**

*Head of the Tax Department at Gómez-Acebo & Pombo in Portugal*

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Tax incentives for entities which are licensed to operate within the Madeira Free Trade Zone (MFTZ) between 1/01/2015 and 31/12/2020 were recently approved, through Act 64/2015 of 1 July, which added a new Article (36 – A) to the Portuguese Tax Incentives Statute (PTIS).

For Corporate Income Tax (CIT) purposes and at the level of the licensed entities, this new Article 36-A of the PTIS introduces a 5% reduced rate, within certain thresholds of the taxable profit of such licensed entities, according to the number of employees. This regime was already in force for entities licensed to operate within the MFTZ between 1/01/2007 and 31/12/2014 (under article 36 of PTIS).

However, this new regime contains some relevant changes in respect of the previous ones, such as:

- 1.º The 5% CIT rate will apply up to 31/12/2027 (and not just up to 31/12/2020);
- 2.º Only pure holding companies ( “*Sociedades Gestoras de Participações Sociais*”) holding shares in non-financial companies may benefit from the 5% CIT rate;

- 3.º Income deriving from certain types of activities – such as agriculture, forestry, fisheries, aquaculture and extractive industries – can no longer benefit from the 5% CIT rate.

Tax incentives applicable by virtue of this new regime cannot exceed one of the following annual limits: (a) 20.1% of gross added value obtained per year; or (b) 30.1% of the annual staff costs; or (c) 15.1% of the annual turnover (this limit was not applicable within the previous tax incentive regimes for companies licensed up to 31/12/2014).

As to the shareholders of the entities licensed as from 1/01/2015, note that the exemptions on dividends and on interest deriving from shareholders’ loans that used to apply under the original MFTZ regime have been restored.

Entities licensed until 31/12/2014 and which meet the requirements under this new article 36-A PTIS may benefit from this new regime, which is relevant if one bears in mind the extension of the applicability of the 5% CIT reduced rate until 31/12/2027 and, moreover, the exemption on the dividends and interest from shareholders’ loans.

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