

Corporate cuts and simplification - SRS Advogados

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The Government is hoping that innovative solutions, corporate tax cuts and simplification of compliance obligations may encourage investments and stir up the country's economy

This year saw the Portuguese Authorities undertake an ambitious drive to bolster the country's business environment. The reduction of corporate tax from 25 to 23 percent may not seem drastic, says Paula Rosado Pereira, a Tax Partner at SRS Advogados, but this is only one of many measures included in the corporate income tax reform.

"Portugal took the decision to make the regime more attractive to international investors as well as to Portuguese companies investing abroad," says Rosado Pereira. "It has finally been understood that high tax rates, complex regimes and multiple compliance obligations are not the better recipe to collect tax – a difficult task, especially when investors are attracted to more appealing shores and the taxable base is compromised by the poor state of the economy. Thus the importance of the new measures."

Rosado Pereira points out that Portuguese companies may now receive, without being taxed domestically, foreign profits generated in a qualifying subsidiary located in any non-blacklisted jurisdiction, benefit from a 50 percent reduction in corporate tax in relation to income from industrial property rights (the 'patent box' system), as well as face less burdensome ancillary obligations.

"There was too much red tape and high costs when dealing with tax compliance," she adds. "Tax filings, communications and petitions addressed to the authorities were many, very lengthy and complicated. Therefore, making the system easier, coupled with recent cuts, should have a positive result in terms of investment."

Another anticipated benefit is a reduction in the volume of tax litigation. "The complexity of the corporate income tax system meant that mistakes were made and companies often felt that they were being unfairly treated," Rosado Pereira concludes. "If compliance obligations are simplified, then there will be less room

for confusion or conflict, which should mean less tax litigation -that, after all, also costs the Government money and might discourage investment."