

AUXADI

COMPLEXITIES IN NEW MARKETS

PORTUGAL





In this series, we discuss some of the complexities to consider when expanding your business across borders, or if you're looking at multinational investment. There are many general issues, and different countries have very different legislation, regulation and tax regimes.

Here, we review some of the complexities to keep in mind when expanding or investing into Portugal.

Introduction.....	2
Opportunities	3
FDI	3
Tax & Accounting / Regulatory	4
Labour / Payroll matters.....	5
Banking	5
Doing business & establishing a company.....	6
Conclusion	6



Introduction

Portugal is nearly 900 years old, one of the oldest countries in Europe, and has a rich and noble history. It has had a profound cultural, architectural and linguistic influence across the globe, with a legacy of around 250 million Portuguese speakers, and many Portuguese-language variants.

A member of the UN, the EU, the Schengen Area and the Council of Europe (CoE), Portugal was also one of the founding members of NATO and the OECD (Organisation for Economic Co-operation and Development). Portugal maintains strong relations with Europe, Africa and America, and retains close ties with its former colonies (e.g. Brazil, Mozambique, Macao and Angola) which lets it serve as a gateway to global markets.

There are high levels of both public and private debt, exacerbated by COVID-19, and its relatively small population (10.1 million) means a smaller market for goods.

That said, Portugal's ranking of 39/190 in the World Bank's Index of Ease of Doing Business proves that the country is focused on attracting investment.

Portuguese business culture is characterised by relationship-based tradition. The family has been the backbone of the country's social order for centuries loyalty towards the family can come before loyalty towards business. Age and seniority are respected.



Opportunities

According to data published by the Bank of Portugal and Statistics of Portugal, vehicles continue to be the country's biggest export (15%), followed by electrical machinery, equipment (7.9%), and mineral fuels, including oil (6.2%), though the manufacturing sector needs development and both IT and tourism sectors are steadily growing.

Portugal is a world leader in renewable energies, and claims the second largest solar power station in the world. Local power utility Redes Energéticas Nacionais (REN) reported that renewables provided 60% of the country's power needs in the first 6 months of 2020. The country is focused on development of large renewable energies projects, specifically solar and wind, and has pledged targets of 80% renewable electricity by 2030 and carbon neutrality by 2050.

Though concessions in the electricity and gas sectors are assigned only to companies with headquarters and effective management in Portugal, the government aims to hold two energy auctions per year, awarding a total of 1GW per annum through 2021 and beyond.

- [Tenders Info](#), Tenders in Portugal
- [Ted - Tenders Electronic Daily](#), Business Opportunities in the EU
- [DgMarket](#), Tenders Worldwide
- [Base](#), Public Tenders Online (Portugal)



Portugal is a world leader in renewable energies, and claims the second largest solar power station in the world



FDI

Portugal offers a diversified economy and benefits from its EU member status, but bureaucratic and judicial burdens can discourage foreign direct investment. That said, FDI is considered a priority by the Portuguese Government, which has created "free zones" to strengthen technology-driven investments, and launched a specific agency for investment and foreign trade – the [AICEP](#).

Portugal also offers Citizenship by Investment (CBI) – a programme which offers a fast track for non-EU investors to gain citizenship in six years. The programme requires investing €350,000 in Portuguese companies or €250,000 in companies being revitalised.

The government also instituted a "Startup Visa" programme, a hosting program for foreign investors who wish to develop new projects.

Data by OECD show that the majority of current foreign direct investment is in: finance/insurance services; professional, scientific and technical activities; wholesale/retail; and real estate – Lisbon being a key target for RE investments. The main investing countries are the Netherlands, Luxembourg, Spain, and the UK.



Tax & Accounting / Regulatory

At time of writing, Portugal has [78 Double Taxation Treaties](#) in place.

Resident companies are taxed on their worldwide income. Foreign companies are subject to the same taxes as local companies, but they are only taxed on Portuguese-generated income. *[A company is deemed resident if its head office or effective management is located in Portugal.]*

Residence status has an effect on taxes, as does the location of your business; Madeira and the Azores having different tax rates. In addition, withholding taxes may apply to Portuguese-generated income attributable to non-residents with no permanent establishment.

Corporation tax is currently 21% (over the first €25,000), but there are also State and Municipal surcharges levied, which range from circa 4% to 10.5% depending on profits.

In total, your taxes in Portugal will constitute circa 40% of profits and take around 250 hours per year. The percentage is less than its OECD partners.

IFRS accounting standards apply to all public companies, domestic or foreign. SMEs may choose between IFRS and Portuguese national accounting standards.

21%



Corporation tax is currently 21% (over the first €25,000), but there are also State and Municipal surcharges levied, which range from circa 4% to 10.5% depending on profits.





Labour / Payroll matters

Work contracts are governed by legal provisions, collective agreements and individual negotiation. Labour laws are extremely rigid. About 19% of the workforce is unionised, but there is high unemployment.

Working a standard 39-hour week between 9:00 and 18:00, Portuguese workers receive 22 working days' vacation per year, with an additional days depending on attendance (if foreseen in collective agreements and individual contracts).

Minimum wage is reviewed annually and, as from 1 January 2021, the monthly guaranteed minimum wage (Retribuição Mínima Mensal Garantida – RMMG) is €665.00 – lower than its EU neighbours. However, despite the enormous development of recent years, fuelled by measures to attract personal and corporate investments, the Portuguese labour market is small, and productivity is generally low.

For employers, social security covers health insurance (medical, maternity, disability, death), pension, family allowances and unemployment benefits. Employer's contribution is 23.75% of monthly salary, while the employee pays 11% (plus a contribution for workplace accident cover, according to the risks associated with the role).

Employment contracts signed after October 2013 are subject to an additional contribution of 1% on the wages of employees for severance schemes.



Employer's contribution is 23.75% of monthly salary

Banking

To run a business in Portugal you must have a business bank account in Portugal or in other EU country. These can be opened in a day if you have the correct documentation, and can also be opened online.

You will need your company ID number and registration papers, proof of residence, proof of address and telephone number, and ID – either the standard Portuguese resident card or passport/s of the owner/director.

Don't forget to declare commencement of activity with the Tax Authority.



Doing business & establishing a company

Ranked 39/190 for Ease of Doing Business, setting up a business in Portugal can take just 6 days, which is slightly better than its fellow OECD members, which average 8 days.

There are various corporate structures available in Portugal, though the most common entity types are:

Type	No. Partners	Capital	Liability
Sociedade por quotas de responsabilidade limitada (Lda): Limited Liability Company	2 minimum. There may be one partner only in the case of a Single Person Private Limited Liability Company (SUQ).	No minimum share capital.	Limited to the amount of capital contributed.
Sociedade anonima de responsabilidade limitada (SA): Public Limited Company	5 partners minimum, may be residents or foreigners/non-residents.	€50,000 minimum, entirely taken up – with the obligation to release at 30%.	Limited to the amount of capital contributed.
Sociedade em nome colectivo: General Partnership	2 minimum.	No minimum share capital.	Joint and indefinite regarding third parties.
Sociedade em comandita: Limited Joint-stock Partnership	2 minimum, with active and silent partners permitted.	No minimum share capital.	Indefinite for active partners, while silent partners are limited to the amount of capital contributed.

Public companies, limited liability companies, and companies listed on the stock exchange are all required to annually publish their financial statements. Further, annual audits are required for all companies.

Conclusion

Launching a company in Portugal is relatively simple, though complexities are added when it comes to hiring workers – labour laws are strict.

Cultural differences in business operations can lead you astray and damage relationships; you should make yourself aware of how the country's business fabric operates.

As always, local guidance is invaluable.



auxadi.com

Local Knowledge - International Coverage

Auxadi can help with every stage of your cross-border operations.

Auxadi makes your life easier by becoming an overseas extension of your finance department. Our team of experts take care of the accounting, payroll, and tax requirements of our clients.

We serve more than 1,500 clients from many different sectors, and they access information on their international subsidiaries through our unique MultiCountry IT platform, customized to their specific needs.

With subsidiaries in 22 countries, a wide affiliate network, and clients in +50 jurisdictions, we use our Local Knowledge and International Coverage to make your life easier.



.....

All information contained in this publication is up to date on 2021. This content has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this chart without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this content, and, to the extent permitted by law, AUXADI does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this chart or for any decision based on it.