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# Corporate Tax 2026

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## **Portugal: Law and Practice & Trends and Developments**

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## Law and Practice

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## 1. Corporate Structures, Residence and Tax Treatment

### 1.1 Corporate Forms and Their Tax Treatment

Corporate vehicles in Portugal are generally subject to taxation on their taxable profits (which include operating income and capital gains) through corporate income tax (CIT) and Municipal and State Surtaxes. Their taxation is typically separate from their shareholders' taxation.

The corporate vehicles used in business structures are predominantly the limited liability company (*sociedade por quotas*) – with at least one quota holder and EUR1 of minimum share capital – or the stock company (*sociedade anónima*) – with at least five shareholders and EUR50,000 of minimum share capital. For intra-group structures, it is common to opt for *sociedades por quotas*, as such companies are simple to incorporate and manage, and allow for lower compliance/running costs. *Sociedades anónimas* are typically preferred for investment structures with a variety of shareholders and more complex governance rules. The share capital of *sociedades anónimas* is only represented by securities (shares) and so more easily tradable.

The structuring of investment in Portugal has also led to an increase in the incorporation of Alternative Investment Funds, especially SICs (*sociedades de investimento coletivo*), which take the legal form of standard limited liability companies (by default, *sociedades anónimas*) but are regulated collective investment vehicles for Portuguese legal purposes. Having these vehicles within the structure may require the coexistence of companies with an asset-holding purpose (typically SICs) and operating companies (either *sociedades anónimas* or *sociedades por quotas*), but they may be attractive from a tax standpoint, as they are exempt from CIT on investment income, rental income and capital gains, thereby deferring taxation until exit/distribution to their shareholders (with a flat rate of 10% for non-resident shareholders, except those resident in a blacklisted jurisdiction).

### 1.2 Use and Taxation of Transparent Business Structures

Portugal does not have general rules on tax transparency. Non-resident entities are by default deemed non-transparent/opaque.

On the other hand, the Portuguese income tax codes provide specific rules on domestic entities that are deemed tax transparent.

Structures such as civil partnerships, professional civil firms (eg, architects or lawyers), family groups and passive asset-holding corporations or those with fewer than five shareholders, as well as complementary business groupings and European Economic Interest Groupings, are deemed tax transparent in Portugal.

Although the taxable profits of these entities are calculated in accordance with CIT rules, such profits are not subject to CIT at the entity level, instead being attributed directly to the respective shareholders, regardless of whether income is actually distributed.

### 1.3 Tests for Determining Tax Residence

The Portuguese CIT Code foresees place of incorporation and place of effective management as equally valid criteria by which to establish corporate tax residence. Thus, in a dual-residence conflict, Portugal will always retain taxing rights under domestic law, unless a tie-breaker rule applies under an applicable double tax treaty.

Moreover, Portuguese domestic law does not contain any rules, criteria or guidance on how to ascertain economic substance, nor the place of effective management. As a result, this matter is typically analysed by reference to guidance in the commentaries to the OECD Model Tax Convention and to the limited range of court decisions on the matter.

### 1.4 Applicable Corporate and Individual Tax Rates

From a CIT perspective, corporate vehicles resident in Portugal are subject to CIT at a standard rate of 19% on their taxable profits. A gradual reduction of the standard CIT rate has been approved, such that the rate will be reduced to 18% in 2027 and to 17% from 2028 onwards. If those vehicles engage in commer-

cial activities and qualify as small and medium-sized enterprises (SMEs) or as Small Mid-Cap companies (as defined in the annex to Decree-Law 372/2007), a reduced rate of 15% may apply to the first EUR50,000 of taxable income.

A further reduced rate of 12.5% applies to entities qualifying as start-ups under Law 21/2023. This reduced rate applies to the first EUR50,000 of taxable income.

Both the SME/Small Mid-Cap and the start-up reduced rates are subject to the EU de minimis state aid rules.

In addition, corporate vehicles will be subject to Municipal Surtax of up to 1.5%, and State Surtax if taxable profits exceed EUR1.5 million, as follows:

- 3% on taxable profits exceeding EUR1.5 million;
- 5% on taxable profits exceeding EUR7.5 million; and
- 9% on taxable profits exceeding EUR35 million.

Portugal has specific tax regimes applicable to entities with headquarters and places of effective management in the Autonomous Region of Madeira and the Autonomous Region of the Azores, which provide for a 30% reduction of the standard CIT rate (resulting in an effective tax rate of 13.3% in 2026).

Entities licensed to operate within the Madeira Free Trade Zone by 31 December 2026 benefit from a reduced rate of 5%.

Non-resident entities (with no permanent establishment in Portugal) receiving income sourced in Portugal are typically subject to taxation in Portugal on such income. The applicable withholding tax (WHT) is generally 25%, but it may be 35% in certain cases when such income is paid to an entity resident in a blacklisted jurisdiction. However, the specific WHT treatment must be assessed in light of the applicable double tax treaty, as it may provide for a WHT exemption or rate reduction.

Portuguese legislation provides that certain types of expenses/costs must be subject to autonomous tax-

tion. Autonomous tax rates range from 5% to 70%, with the principal categories being:

- *Undocumented expenses*: 50% (or 70% for entities that are wholly or partially exempt from CIT, or that do not carry on commercial, industrial or agricultural activities as their principal activity).
- *Payments to entities in blacklisted jurisdictions*: 35% (or 55% where such payments relate to certain defined categories).
- *Vehicle-related expenses*: 8% for vehicles with acquisition cost below EUR37,500; 25% for vehicles with acquisition cost between EUR37,500 and EUR45,000; and 32% for vehicles with acquisition cost of EUR45,000 or above.
- *Termination payments*: 35% on amounts exceeding certain thresholds.

The autonomous taxation rates are increased by 10% where the taxpayer reports a tax loss for the relevant period, although transitional provisions apply for 2026.

Transparent entities, even though not subject to CIT, remain subject to autonomous taxation.

Natural persons resident in Portugal for tax purposes are subject to personal income tax (PIT) on their worldwide income. Taxable income is generally aggregated and subject to tax at the general progressive PIT rates, which range from 12.5% to 48%. In addition, a surtax may be due on the part of the individual's taxable income exceeding EUR80,000 as follows: (i) 2.5% on the portion of the taxable income exceeding EUR80,000 up to EUR250,000; and (ii) 5% on the remaining portion of the taxable income exceeding EUR250,000.

There is no wealth tax in Portugal.

## 2. Corporate Tax Regime

### 2.1 Taxable Profits

Resident companies are subject to taxation on their worldwide income. The Portuguese definition of taxable profits includes operating income and capital gains. Taxable income therefore corresponds to the profit and loss accounts prepared under the applica-

ble accounting framework, adjusted according to the CIT Code.

Tax losses can be carried forward with no time limitation. The deduction is limited to 65% of the taxable profits of the relevant year. As a general rule, all expenses incurred for the conduct of business (to obtain or ensure income subject to tax) are tax deductible, except if a specific limitation applies pursuant to the CIT Code.

In Portugal, profits are determined on an accrual basis under the “*princípio da especialização dos exercícios*”, meaning revenues and costs are recognised in the period to which they relate, regardless of receipt or payment, with limited statutory exceptions (eg, items that were unforeseeable or unknown at year-end, and certain multi-year contracts).

In certain circumstances (eg, where it is impossible to prove and accurately quantify the essential elements of taxable income, unjustifiably significant losses/gains, abnormal decreasing of activity), tax authorities may resort to indirect methods to determine taxable profits.

Non-resident entities with no permanent establishment in Portugal may be subject to (withholding) tax on income sourced in Portugal, with their taxable base calculated on the net sum of the different categories considered separately for PIT purposes.

If a permanent establishment is deemed to exist, it will be taxed on its worldwide taxable profits attributable to the permanent establishment. Portugal provides an optional regime under which an entity treated as a Portuguese tax resident may exclude from taxation the profits and losses of its foreign permanent establishments. This exclusion does not apply to profits allocated to a foreign permanent establishment to the extent of prior losses of that permanent establishment that were utilised by the Portuguese head office in the previous 12 tax years. The election must cover all permanent establishments located in the same jurisdiction and be maintained for at least three years.

## 2.2 Technology Investments SIFIDE II

The Portuguese legislature has created a special tax credit applicable to qualifying R&D expenses (SIFIDE II), which was originally intended to be in force until December 2025. The legislation was recently reviewed in order to amend the Investment Tax Code and extend this scheme until 31 December 2026.

According to SIFIDE II, which remains in force, resident companies and Portuguese permanent establishments may benefit from a tax credit comprising (i) a base rate credit of 32.5% of the R&D expenses incurred in a given year, and (ii) an incremental credit of 50% of the difference between the R&D expenses incurred and the average of the previous two years, capped at EUR1.5 million.

However, the Portuguese government has proposed amendments to the existing SIFIDE II, which will limit the range of benefits and will essentially exclude taxable deductions linked with contributions to investment funds that indirectly invest in R&D (also known as “SIFIDE Funds”). Among other amendments aimed at promoting this type of investment, there is also a discussion on the extension of investment deadlines, so that R&D companies may invest their SIFIDE funds up to five years (the current limit being three years).

### Patent Box

Portuguese legislation provides for a patent box regime that grants an 85% exemption on gross income derived from the assignment or temporary use of patents, industrial models or designs, copyrights over computer software, and indemnities resulting from the infringement of such IP rights. However, this benefit is only available if specific conditions are met: the IP must originate from research and development activities carried out either in-house or under contract, and must be used in a business, industrial or agricultural context.

Additionally, the exemption is subject to a limitation based on the proportion between qualifying R&D expenses and the overall costs involved in creating or exploiting the IP. This regime adheres to the international standards outlined in BEPS Action 5, and excludes transactions involving related parties,

especially those located in jurisdictions considered tax havens.

## 2.3 Special Incentives

### Investment Support Tax Regime

The Tax Regime for Investment Support (*Regime Fiscal de Apoio ao Investimento* – RFAI), as a standardised credit for initial investments in specified regions and sectors (notably manufacturing, tourism, extractive industries, certain agroexpenses up to EUR15 million and of 10% of the qualifying expenses that exceed such cap; and a property taxation exemption/reduction, namely on Municipal Property Tax, Property Transfer Tax and Stamp Duty on properties' acquisition and holding during the investment period.

The RFAI operates under EU regional aid rules (the General Block Exemption Regulation) and the national regional aid map, so eligibility, aid intensities and ceilings depend on the project's location, sector and size, and are subject to state aid limits.

### Incentive for Corporate Capitalisation

Portugal's Incentive Regime for Corporate Capitalisation (*Regime de Incentivo à Capitalização das Empresas* – ICE) grants a CIT deduction calculated by applying a statutory notional rate to the net increase in eligible equity over a multi-year observation period. The eligible base generally reflects positive movements in a company's funds – eg, capital contributions, profit appropriations to reserves, or conversions of shareholder debt into equity – net of reductions (distributions or capital reductions). The deduction is subject to quantitative limits (EUR4 million or 30% of tax EBITDA).

Any unused amount may be carried forward for up to five years. If there is a net decrease in eligible equity, the resulting amount is zero and no deduction will be allowed.

### Contractual Tax Benefits for Productive Investment

The Contractual Tax Benefits Regime for Productive Investment (*Regime Contratual De Benefícios Fiscais Ao Investimento Produtivo*) provides for benefits that may be granted under contract for projects with “qualifying expenditures” of at least EUR3 million, materi-

alised by 31 December 2027, with a duration of up to ten years after the project's completion.

The legislation in force provides for three main benefits:

- a CIT credit calculated on the qualifying expenditures actually incurred (from 10% to 25%);
- Property Transfer Tax and Municipal Property Tax exemption/reduction on properties acquired/used for the project; and
- Stamp Duty exemption/reduction on acts/contracts required for the investment.

Compliance is monitored by a council including AICEP, IAPMEI (the Portuguese agencies for trade and competition) and the Portuguese tax authorities, and benefits are granted via a contract approved under the Investment Tax Code.

### Wage Increase Tax Incentive

The Wage Increase Tax Incentive (*Incentivo Fiscal à Valorização Salarial*) applies to employers that increase the average annual base remuneration of their employees by at least 4.7% relative to the preceding year. Under this incentive, eligible entities may deduct from their taxable profit 200% of the costs attributable to such wage increase, up to a cap of five national minimum wages per employee (EUR920 per month, in 2026).

## 2.4 Loss Relief

Under Portuguese tax legislation, losses can be carried forward but not carried back. Tax losses may be carried forward indefinitely, and the deduction is limited to 65% of the taxable profits of the relevant year.

If the ownership changes by more than 50% of the share capital or voting rights, tax losses will only be carried forward if the transaction has valid economic reasons that do not have tax evasion as their main objective or one of their main objectives. The burden of proof lies with the taxpayer to demonstrate that the transaction was not primarily tax-motivated.

Carrying forward is also free from any limitation if any of the following apply:

- there is a change from direct to indirect ownership (or vice versa), or the transfer occurs between companies under common majority control;
- the tax neutrality regime is applicable to the transaction;
- the change of ownership occurs upon the death of the previous shareholder;
- the acquirer has held, directly or indirectly, 20% of the share capital since at least the beginning of the tax year in which the tax losses were incurred; or
- the acquirer is an employee or a board member of the acquired company, provided that such person has held that position since at least the beginning of the tax year in which the tax losses were incurred.

## 2.5 Deduction of Interest

As a general rule, all expenses incurred for the conduct of a company's business (to obtain or secure income subject to tax) are tax deductible, except where a specific limitation applies pursuant to the CIT Code. Net financing expenses – being the positive difference between financing income and financing costs – are deductible up to the higher of the following limits:

- EUR1 million; or
- 30% of the tax EBITDA.

Net interest costs exceeding the set limits are not deductible in the year incurred, but can be carried forward for up to five years to offset future taxable income, after deducting that year's net financing expenses. Unused EBITDA deductibility limits can also be carried forward for five years to offset excess net financing expenses. Financing expenses cover most interest, loan charges and similar costs. For this regime, tax EBITDA means taxable profit (or loss), plus net financing expenses and deductible depreciation/amortisation.

These rules may be applied at the tax group level. If a CIT tax group regime is in place, the parent company may choose to apply the net financing expense limitation across the group. In this case, the deductible limit is the greater of EUR1 million (regardless of group size) or the combined tax EBITDA of all group companies.

## 2.6 Consolidated Tax Grouping

Portuguese-resident groups of companies may opt to be taxed under the Tax Group Regime (*Regime Especial de Tributação dos Grupos de Sociedades*).

For the purposes of this regime, a parent company (PC) is an entity that holds directly or indirectly at least 75% of the subsidiaries' share capital, provided that the holding represents more than 50% of the voting rights. The indirect holding may be achieved through Portuguese eligible companies or via EU/EEA (with a tax co-operation agreement) relevant companies.

In order for a group of companies to be able to opt for this regime, several conditions must all be met, as follows:

- the PC must hold, directly or indirectly, at least 75% of the subsidiaries' share capital, provided that the holding represents more than 50% of the voting rights;
- all companies belonging to the group must have their headquarters and place of effective management in Portugal;
- the PC must have held for at least one year its participation in the relevant subsidiary, beginning from the date that the Tax Group Regime starts to be applied, unless the subsidiary has been incorporated by the PC or by another tax group company;
- the PC must not be deemed to be controlled by another resident company;
- all group entities must be subject to the CIT standard rate (currently 19%); and
- the PC must not have opted out of the application of the Tax Group Regime in the three previous years.

If the participation has been acquired as a result of a merger, demerger or asset contribution transaction, for calculation purposes, the above-mentioned holding period is considered the holding period of such participation by the merged, demerged or contributing company.

The tax consolidation regime does not apply if:

- the company has been inactive for over a year, has been dissolved or is in insolvency proceedings;

- the company had tax losses in the previous three years, unless the PC has owned it for at least two years;
- the company is subject to a CIT rate below the standard and has not waived this reduced rate;
- the controlled companies do not have the same financial year as the PC; or
- the company does not have a legal form such as limited liability company (*sociedade por quotas*) or stock company (*sociedade anónima*).

The regime is valid indefinitely, unless termination is opted for or the conditions for its application cease to be met. The regime ceases to be applicable if any of the following circumstances occur:

- any of the requirements mentioned above for a company to be included in the Tax Group Regime ceases to be met regarding the PC;
- any of the situations mentioned above where an entity shall be excluded from the Tax Group Regime is applicable regarding the PC; or
- the taxable income of any of the entities that constitute the tax group is determined ex officio by the tax authorities, through indirect methods.

In the event that one of the above-mentioned situations occurs, the regime ceases to be applicable with effect from the year prior to the occurrence of the situation.

The taxable profit of the group is calculated by the PC and comprises the algebraic sum of the individual taxable profits and tax losses included in the annual tax returns of each of the entities within the group.

In this sense, all entities within the group are required to file an individual annual tax return but only the consolidated annual tax return filed by the PC is used to assess the tax to be paid by the group.

Tax losses from before joining the Tax Group Regime can only be used up to an amount equal to the profits generated by the same company within the group. If the company leaves the group, unused pre-group losses can still be carried forward. Group tax losses (incurred during the regime) may only offset group profits and are lost if the group regime ends or if a

company leaves the group; neither the group nor the company can use these losses individually after leaving.

## 2.7 Capital Gains

As a general rule, capital gains realised by a Portuguese company are included in taxable profits and will be subject to CIT at the standard rate (currently 19%). Capital gains correspond to the difference between the sales proceeds (net of related costs) and the acquisition value (net of impairment depreciation, adjusted by the inflation index, if applicable). The positive net difference is included in the annual taxable income.

When considering capital gains from the sale of real estate assets or other fixed tangible and intangible assets held for at least one year, a reinvestment regime may apply, providing for a 50% reduction of the capital gain included in taxable income if the sale proceeds are reinvested in qualifying assets within the prescribed period.

For capital gains deriving from the sale of shares, the participation exemption regime may apply, allowing a full exemption on such gains provided that certain requirements are met, namely:

- a minimum 10% holding was kept for at least one year prior to the sale;
- the holding entity is not subject to the transparency regime;
- no blacklisted jurisdictions are involved in the transaction;
- the entity whose shares are sold is subject to and not exempt from an income tax mentioned under the EU Parent-Subsidiary Directive, CIT or a comparable tax, or an income tax rate not lower than 60% of the Portuguese CIT rate in the case of companies resident in third countries; and
- non-resident entities are not part of a tax-driven artificial arrangement.

Capital gains and losses falling under Portugal's participation exemption regime are excluded from taxable income.

However, this exemption does not apply on the disposal of “land-rich companies”, ie, if more than 50% of a company’s assets are real estate assets located in Portugal. The exclusion does not apply if the real estate assets are used for agricultural, industrial or commercial purposes, other than property trading (purchase and resale of real estate).

The participation exemption for capital gains does not apply where the arrangement constitutes an artificial or non-genuine structure that was realised with the principal purpose, or one of the principal purposes, of obtaining a tax advantage that frustrates the object and purpose of eliminating double taxation, having regard to all the facts and circumstances.

## 2.8 Other Taxes on Transactions

### Stamp Duty

Stamp Duty applies to several different transactions, such as loans, leases, securities, asset purchases, business transfers and SIC net asset value, when they occur in Portugal. In principle, it does not apply if the transaction is subject to VAT, and the applicable rates are specified in the Stamp Duty Code.

### Municipal Property Tax

The holding of real estate located in Portugal is subject to Municipal Property Tax (IMI) on the Taxable Patrimonial Value (*Valor Patrimonial Tributário* – VPT) on an annual basis, at a rate between 0.3% and 0.45% for urban properties. The exact rate is determined by each municipality. The holding of real estate by entities resident in a blacklisted jurisdiction or by an entity directly and/or indirectly held by an entity resident in such a jurisdiction is subject to IMI at an aggravated rate of 7.5%.

### Additional Municipal Property Tax

Additional Municipal Property Tax (AIMI) is levied on urban properties for residential purposes and plots of land for construction located in Portugal. Urban properties registered for “trade, industry or services” or as “other types of property” (*outros*) are excluded. The taxable amount for AIMI purposes corresponds to the sum of the VPT of the urban properties and construction plots held by each taxpayer as at 1 January of each year. AIMI is levied at a flat rate of 0.4% on the aggregate VPT of all properties.

### Property Transfer Tax

Property Transfer Tax (IMT) is applicable to onerous acquisition of real estate located in Portuguese territory. The sale of shares in Portuguese companies may be deemed or assimilated to the transfer of the underlying real estate assets, in which case the transfer of shares triggers the application of IMT. For this tax to be triggered on the sale of shares, the following requirements must all be fulfilled:

- the asset value of the relevant company results, directly or indirectly, more than 50% from real estate assets located in Portugal;
- the real estate assets are not allocated to business exploitation (commercial, industrial or agricultural activities), other than property trading; and
- as a result of the acquisition, the purchaser acquires more than 74% of the share capital of the relevant Portuguese company.

Regarding the second condition above, it is still unclear from the current wording of the legal provisions in force what may qualify as allocation of real estate assets to business exploitation.

## 2.9 Other Notable Taxes

### Value-Added Tax

Value-added tax (VAT) is charged on the provision of services, sale of goods, and importation into Portuguese customs territory at a standard rate of 23%. Reduced rates are available for some essential goods and services (in Madeira and Azores, the tax rates are 22% and 16%).

Law 62/2025 established a VAT group regime that allows corporate groups to consolidate the VAT balances of individual entities. This aligns Portugal’s tax management with other EU member states and aims to improve cash-flow efficiency. However, unlike broader VAT grouping regimes elsewhere, intra-group transactions remain subject to VAT, with only balance consolidation permitted. Therefore, full VAT neutrality on intra-group transactions is not achieved.

### Customs Duties

Customs duties are due on imports and apply to specific products including oil and energy products, tech

goods, alcohol, tobacco, vehicles, clothing, chemicals and cosmetics, etc.

## Social Security

Employers must make monthly Social Security contributions, calculated at the standard rate of 23.75% of each employee's gross monthly salary. For CIT purposes, these Social Security contributions are treated as deductible expenses.

## 3. Corporations and Non-Corporate Businesses

### 3.1 Form of Closely Held Local Businesses

Portuguese local businesses typically operate under a corporate form.

### 3.2 Individual and Corporate Rates

Please refer to 1.2 Use and Taxation of Transparent Business Structures regarding transparent entities. In cases in which transparency is mandatory (eg, professionals such as lawyers or architects), taxable income is assessed under the rules set forth in the CIT Code, while net income is attributed to the shareholders, at the progressive PIT rates.

Individuals who are not subject to this transparency regime may choose to incorporate a single-member limited liability company (*sociedade unipessoal por quotas*), which is subject to CIT at the standard rate on its taxable profit. When the company distributes dividends to its sole shareholder, they will be taxable at a PIT level (28% WHT or progressive tax rates).

### 3.3 Restrictions on Retention of Earnings by Closely Held Corporations

The Portuguese legislature has not enacted any rules to prevent the accumulation of earnings. However, such accumulated earnings may trigger the CFC rules if the closely held corporation is resident in a blacklisted jurisdiction or subject to a more favourable tax regime.

### 3.4 Taxation of Individuals on Shares in Closely Held Corporations

Dividends paid by Portuguese entities to individuals are typically subject to a final WHT of 28%. For divi-

dends paid by non-resident companies to individuals resident in Portugal, the same 28% flat WHT rate will apply, though with possible mitigation under international double taxation rules (applicable double tax treaties). Dividends from blacklisted jurisdictions may be taxed at an aggravated rate of 35%.

Resident shareholders can opt to include dividends from Portuguese or EU/EEA companies in their annual income, benefiting from a 50% exemption. The remaining amount is taxed at progressive PIT rates, which may reach up to 48% (plus any applicable solidarity surtax).

Capital gains deriving from the sale of shares are also taxed at a flat rate of 28%, unless the taxpayer opts to aggregate the gain and apply the progressive tax rates, up to 48% (plus solidarity surtax, if applicable). Gains from shares in SMEs or EU/EEA companies receive a 50% relief, lowering the effective tax rate to 14%.

### 3.5 Taxation of Individuals on Shares in Public Corporations

The tax treatment of dividends and gains from sales of shares in publicly traded corporations remains consistent with that described in 3.4 Taxation of Individuals on Shares in Closely Held Companies.

## 4. Taxation of Inbound Investments

### 4.1 Application of Withholding Taxes

As a general rule, dividends, interest and royalties paid by Portuguese corporate entities are subject to Portuguese WHT at a rate of 25% (35% if the recipient is undisclosed or located in a blacklisted jurisdiction).

#### Dividends

Distributions of dividends between two entities based in Portugal may be exempt from WHT, provided that the domestic participation exemption requirements are met, such as (i) the holding entity owns at least 10% of the distributing entity for at least one year prior to the distribution, (ii) the holding entity is not subject to the tax transparency regime, and (iii) the holding entity is effectively subject to CIT in Portugal.

Additionally, distributions to a non-resident entity may also be exempt from WHT if similar participation exemption requirements are met, provided that (iv) the recipient is resident in an EU member state, an EEA state with a tax co-operation agreement or a state with which Portugal has concluded a double tax treaty that provides for the exchange of information, (v) the recipient is subject to and not exempt from a tax similar to CIT, provided that, in the case of treaty states, the legal tax rate applicable is not less than 60% of the Portuguese CIT rate, and (vi) the recipient is the beneficial owner of the income and there are no tax-driven arrangements in the structure.

The WHT exemption on dividends does not apply where there exists a construction or series of constructions which, having been put in place with the principal purpose or one of the principal purposes of obtaining a tax advantage that frustrates the object and purpose of eliminating double taxation on such income, is not considered genuine having regard to all the facts and circumstances.

Notwithstanding, if the participation exemption regime cannot be applied, the standard WHT rate of 25% may be reduced pursuant to the applicable double tax treaty.

## Interest and Royalties

Interest and royalties paid between entities based in Portugal are subject to WHT at a rate of 25%.

When payable to a non-resident, interest and royalties are also subject to WHT at a rate of 25%, which may be mitigated only under the Interest and Royalties Directive (IRD) or an applicable double tax treaty.

If these types of income are paid to an EU-resident company that is an associated company and the beneficial owner, a WHT exemption is available provided that the following conditions are met:

- the beneficial owner is subject to, and not exempt from, CIT;
- the beneficial owner takes one of the legal forms listed in the annex to the IRD;

- the beneficial owner is resident for tax purposes in an EU member state and is not treated as tax resident outside the EU;
- both the beneficial owner of the interest and the Portuguese entity are associated companies – namely, where the lender holds at least 25% of the share capital of the borrower; and
- the minimum shareholding of 25% is maintained for a period of two years prior to the payment date.

The exemption is also applicable to payments made to or by Swiss companies under equivalent arrangements.

If the above-mentioned regime is not applicable, an exemption or reduction may be available under an applicable double tax treaty.

In this regard, we note the Portuguese tax authorities have been taking an increasingly restrictive approach to the concept of the beneficial ownership of interest and dividends, following the rulings of the ECJ in joined cases C-115/16, C-118/16, C-119/16 and C-299/16 (collectively referred to as the “Danish Cases” or the “Beneficial Ownership Cases”).

## 4.2 Key Treaty Jurisdictions for Inbound Investment

Countries such as Luxembourg, the Netherlands, France, Germany, the UK, Switzerland, Brazil and the USA are very commonly used within investment structures in Portugal. As of January 2026, Hong Kong, Uruguay and Liechtenstein are no longer considered blacklisted jurisdictions, which may increase the investment routed through them in the future.

Portugal has an extensive network of almost 80 double tax treaties.

## 4.3 Tax Authority Scrutiny of “Treaty Shopping” Practices

The Portuguese tax authorities have maintained their emphasis on addressing cross-border tax abuses and controlling treaty shopping. They have, indeed, been challenging on place of effective management and beneficial owner matters (please see **4.1 Application of Withholding Taxes**). As an example, the

Portuguese tax authorities' invocation of the general anti-abuse clause has become more frequent.

The Portuguese tax authorities also resort to information exchange with other competent authorities in and outside the EU to challenge double tax treaty benefits as well as special domestic regimes.

#### 4.4 Transfer Pricing Issues for Inbound Investors

Portuguese transfer pricing legislation generally follows the OECD Transfer Pricing Guidelines regarding best-method selection, with an increasing focus on higher-complexity transactions involving business restructuring, intangibles and other transactions.

Transfer pricing discussions are typically oriented on payment of intra-group fees (eg, management fees), licensing agreements and IP rights use concessions. The authorities are also closely examining intercompany financing structures, agreements for shared costs, and ensuring profits are properly distributed among affiliated companies.

Taxpayers are required to maintain transfer pricing documentation (master file and local file) and to declare related-party transactions in their annual tax returns.

#### 4.5 Challenges to Related-Party Limited Risk Distribution Arrangements

The Portuguese tax authorities have not typically targeted related-party limited risk distribution arrangements as a specific area of focus. However, such arrangements remain subject to general transfer pricing scrutiny to ensure arm's length compliance.

#### 4.6 Local Transfer Pricing Rules and OECD Standards

Portugal generally follows the OECD Transfer Pricing Guidelines, in respect of the methodology accepted by the Portuguese tax authorities.

#### 4.7 Transfer Pricing Disputes and Mutual Agreement Procedures

While direct transfer pricing tax audits are not conducted often, the Portuguese tax authorities routinely request and closely review transfer pricing documen-

tation. According to OECD information, which remains consistent with the 2023 statistics, the majority of mutual agreement procedures resulted in complete elimination of double taxation.

## 5. Taxation of Non-Local Corporations

### 5.1 Compensating Adjustments

When a transfer pricing adjustment to the taxable profit of an entity takes place, correlative adjustments are mandatory under Portuguese legislation. However, in practice, the Portuguese tax authorities do not always implement these adjustments.

### 5.2 Local Branches and Local Subsidiaries

Local branches and subsidiaries of non-resident entities are subject to a similar tax treatment. Regarding the subsidiary, the key characteristic is that, as a Portuguese-resident company, it is taxed under the worldwide income principle, meaning that all sources of income are subject to tax irrespective of its income source. In order to reduce the impact of a potential double taxation situation, it is important to consider the application of double tax treaties between Portugal (as a state of residence) and each of the income-source states. Apart from that, all general administrative, regulatory and compliance tax obligations are no different from those of a non-subsidiary Portuguese company.

With regard to the branch, the key legal difference is that it is not a Portuguese company. For tax purposes, as in several other jurisdictions, a branch is considered a permanent establishment of a non-resident company in Portugal; therefore, all income that could be realised in Portuguese territory by the branch will be subject to CIT in Portugal. The main difference, for CIT purposes, is that the branch will only be taxable based on the source principle – which means that only the Portuguese-sourced income will be subject to tax in Portugal, from the perspective of the non-resident company.

### 5.3 Capital Gains of Non-Residents

Capital gains accrued by non-resident entities from the sale of shares held in Portuguese companies are subject to CIT in Portugal under general terms at a

rate of 25%. However, they may be exempt provided that (i) the non-resident entity is not directly or indirectly held in more than 25% by a Portuguese entity, (ii) the non-resident entity is not resident in a black-listed jurisdiction, and (iii) the Portuguese entity is not deemed a land-rich company.

Currently, the wording of the capital gains exemption applicable to non-residents is more restrictive than the corresponding provision applicable to resident corporate entities. For domestic corporate shareholders, the disposal of shares in a land-rich company may still be exempt provided that the real estate assets are allocated to an industrial, agricultural or commercial activity, other than property trading – the same exclusion is not extended to non-resident shareholders. Such distinction is likely in breach of EU freedoms and should be challenged in court.

The disposal of an indirect shareholding over Portuguese companies may also be subject to tax provided that more than 50% of the value of the shares derives from immovable property located in Portugal during the 365 days preceding the sale. As this was a recently enacted provision, the disposal of indirect shareholdings may still be fully exempt from tax should the immovable property be allocated to an industrial, agricultural or commercial activity.

Nevertheless, it is important to consider the provisions set out in the applicable double tax treaty (if any) as it may provide for the right of the non-resident entity to claim a full exemption on capital gains realised upon the sale of Portuguese shares. Contrastingly, the disposal of an SIC's shares (please refer to **1.1 Corporate Forms and Their Tax Treatment**) will be subject to a final WHT at a rate of 10%, as capital gains from the disposal of SIC shares are assimilated to immovable property income.

## 5.4 Tax Implications of Change of Control

A change of control may imply a limitation on the company's ability to carry losses forward, as referred to in **2.4 Loss Relief**, namely when there is a change of ownership of at least 50% of the company's share capital.

Portuguese tax legislation also establishes change of control provisions regarding unused deductions under the interest barrier rule upon a change of ownership of 50% of the share capital (refer to **2.5 Deduction of Interest**).

Apart from these provisions, changes in corporate control do not typically give rise to adverse tax consequences.

## 5.5 Formula-Based Income Attribution

There is no distinction, from a tax calculation standpoint, between Portuguese-owned and foreign-owned local affiliates.

## 5.6 Deductibility of Intra-Group Management and Administrative Charges

As mentioned in **4. Taxation of Inbound Investments**, commercial and financial transactions between associated enterprises must comply with the arm's length principle, which in Portugal follows the OECD guidelines. If that is ensured, payments made by affiliates to non-resident shareholders or other related parties relating to management services and administrative expenses would generally be deductible from the taxable profits of those affiliates.

In specific cases where the receiving entity is resident in a blacklisted jurisdiction, the affiliate will have to duly prove that the transaction has effective economic and business substance in order to be able to deduct such payments.

## 5.7 Restraints on Related-Party Borrowing

Borrowings between related parties must take into consideration (i) the transfer pricing rules with which they are required to comply and (ii) the beneficial ownership requirements set out in the respective directives.

As mentioned above, these borrowings may also be subject to an aggravated WHT rate if the interest receiving entity is resident in a blacklisted jurisdiction.

## 6. Taxation of Foreign Income of Local Corporations

### 6.1 Foreign Income Exemptions

Corporate entities resident in Portugal for tax purposes are – similarly to individuals – subject to tax in Portugal on their worldwide income, ie, income sourced in Portugal and abroad. As described in **2.1 Taxable Profits**, taxable profits include operating income and capital gains.

However, in order to ensure that no double taxation takes place, Portugal applies a credit method that allows for a relief to be achieved through a deduction to be offset against foreign-sourced income included in the company's taxable basis. The effective application of the tax credit method considers the tax paid abroad (in the country of source of the income) or the CIT assessed before the deduction corresponding to the net income taxed abroad, whichever is the lower amount.

Whenever a double tax treaty applies, the tax credit cannot exceed the amount of tax that should have been paid abroad under the terms of that treaty, and any unutilised credit may be carried forward.

### 6.2 Non-Deductible Local Expenses

The non-deductibility of local expenses applies to taxpayers that have chosen the exemption method for the profits of their foreign permanent establishments.

### 6.3 Dividends From Foreign Subsidiaries

Dividends received by a shareholder resident in Portugal from a non-resident subsidiary will be subject to taxation in Portugal as they are included in CIT taxable income. These distributions may, however, be exempt from taxation in Portugal if the participation exemption regime applies (please see requirements in **4.1 Application of Withholding Taxes**). If the participation exemption regime cannot apply, a reduced rate may be provided in the double tax treaty signed between Portugal and the country of residence of the affiliate. Additionally, a credit for economic double taxation may be available.

### 6.4 Taxation of Intangibles Developed by Local Corporations

Intangibles developed by local entities that are used by non-local subsidiaries in their business must comply with the arm's length principle. The income resulting from this use will be included in the taxable basis and subject to CIT under general terms.

See the patent box regime mentioned in **2.2 Technology Investments**.

### 6.5 Controlled Foreign Corporation-Type Rules

The aim of the Controlled Foreign Company (CFC) rules is to prevent the deferral or even elimination of taxation on income through the use of non-resident entities located in low-tax jurisdictions or subject to low taxation on their profits. These rules apply to Portuguese-resident entities or individuals that, directly or indirectly, hold at least 25% of the capital, voting rights, or rights over income or assets in non-resident entities that fall under a “more favourable tax regime”.

Non-resident entities are considered to operate under such a regime if they are located in a blacklisted jurisdiction or if they are fully exempt from tax, or subject to an income tax rate lower than 50% of the standard Portuguese CIT rate (ie, an effective rate of 9.5%) that would apply if they were based in Portugal.

However, the CFC rules are triggered only if more than 25% of the profits of these non-resident entities consist of certain types of passive income, including: royalties or income from IP, image rights or similar rights; dividends and capital gains from shares; financial leasing income; insurance and banking income (even if not earned by credit institutions), and other financial activities contracted with related parties; income from invoicing companies that generate sales and service income in transactions with associated enterprises without adding substantial economic value; and interest or other income from financial assets. If the CFC rules apply, the income of the non-resident entity is attributed to the Portuguese-resident shareholder, regardless of whether it has been distributed. This undistributed income is subsequently subject to PIT or CIT, as applicable.

The Portuguese CFC rules are harmonised with ATAD and will not apply if the CFC is resident in another EU/EEA member state, provided that it conducts genuine business or commercial activities for valid economic reasons, using its own staff, equipment, assets and premises. Additionally, any income tax paid in the CFC's country of residence can be credited against Portuguese tax due, but any excess tax credit that is not utilised cannot be carried forward to future tax years.

## 6.6 The Substance of Non-Local Affiliates

No specific rules addressing substance requirements of non-local affiliates are set out under Portuguese legislation, apart from CFC and effective place of management rules.

## 6.7 The Sale of Shares in Non-Local Affiliates

Please refer to 2.7 Capital Gains, which sets out the requirements for the participation exemption to apply to capital gains, which will also apply to gains obtained by resident companies on the sale of non-resident affiliates.

## 7. Anti-Avoidance Provisions

### 7.1 Overarching Provisions

Without prejudice to other anti-abuse provisions applicable to transactions with entities located in blacklisted jurisdictions – such as aggravated WHT rates, restrictions on the use of tax losses, rejection of tax neutrality regimes, CFC rules, or denial of expense deductions – the main anti-avoidance provision under Portuguese law remains the General Anti-Avoidance Rule (GAAR).

Under the GAAR, an arrangement or series of arrangements is not considered genuine if it is not carried out for valid economic reasons that reflect economic substance. In cases where the tax authorities determine that the GAAR applies, such arrangements are deemed artificial or fraudulent and are disregarded for tax purposes. As a result, the income from these arrangements will be taxed according to the rules applicable to the equivalent taxable events that would have occurred if the tax advantage had not been sought.

## 8. Audit Cycles

### 8.1 Regular Routine Audit Cycle

The Portuguese tax authorities annually draft a National Plan of Activities of the Tax Inspectorate (unpublished since 2021) that sets out the priorities that tax inspectors must consider in their inspections.

As concerns the statute of limitations, tax inspections can only analyse and correct within four years (ie, inspections conducted in 2026 can only cover periods starting from 2022).

Tax inspection procedures typically follow these phases:

- *Notification of inspection:* Taxpayers receive a written notice at least five days before an external tax inspection begins, detailing the scope and extent of the inspection.
- *Start of inspection:* The inspection officially begins with an inspection order, which identifies the responsible tax office and officials, and outlines the scope and extent of the inspection.
- *Inspection process and rights:* The inspection is considered complete when the taxpayer is notified of the official record of findings. The taxpayer will be notified of the draft report and given the opportunity to respond before the final decision. The taxpayer can regularise their tax position if necessary.
- *Closure of inspection:* The inspection ends with the notification of the final report. Inspections should generally be completed within six months, although they can be extended for two additional periods of three months each.

## 9. BEPS

### 9.1 Adoption of BEPS Recommendations

Portugal has implemented the following BEPS recommendations:

- *Action 1:* Implementation of VAT on B2C digital services.
- *Action 2 (hybrids) and Action 4 (interest limitation):* Anti-hybrid and earnings-stripping rules (ATAD/ATAD2 transposition).

- *Action 5 (harmful tax practices)*: Patent box aligned to the OECD nexus approach; spontaneous exchange of advance tax rulings.
- *Action 6 (treaty abuse)*: Adoption of the OECD Multilateral Instrument (MLI) with the principal purpose test.
- *Action 12 (mandatory disclosure)*: DAC6-based reporting of cross-border arrangements.
- *Action 13 (CbC reporting)*: Mandatory country-by-country reporting (CbCR) and exchange for large multinational enterprise groups.
- *Action 14 (dispute resolution)*: Enhanced MAP framework; MLI-based arbitration/clarified timelines where opted.
- *BEPS 2.0 – Pillar Two*: Global minimum tax enacted.

## 9.2 Government Policy and Objectives Approach

Portugal has generally been supportive of the OECD/G20 BEPS agenda, aligning domestic and EU measures to restrain profit shifting, enhance transparency, and tie preferential regimes to substantial activity requirements. The EU's anti-tax avoidance framework and automatic exchange rules, which Portugal applies, explicitly reference and operationalise BEPS outcomes (eg, CbCR and anti-abuse measures). This policy stance has also been invoked in EU state aid contexts involving Portugal to emphasise substance requirements and alignment with anti-avoidance rules.

*Pillar Two*: Portugal is implementing the EU Minimum Tax Directive, which enacts the OECD Pillar Two rules (Income Inclusion Rule and Undertaxed Profits Rule) and permits a qualified domestic top-up tax. The 2025 amendment to the Directive on Administrative Cooperation (DAC) further operationalises Pillar Two reporting and exchange within the EU, reinforcing application of the GloBE framework.

*Overall impact areas in Portugal*: Large companies subject to the 15% minimum will face top-up tax exposures, increased compliance obligations (such as GloBE information returns and exchanges), and potential adjustments to IP, financing and holding structures. Tax administration will intensify risk assessment and cross-border information use under the EU administrative co-operation framework.

## 9.3 International Tax

International tax issues have gained an increasingly high profile in Portugal, particularly as the country seeks to enhance its competitiveness and reputation on the global stage. This heightened attention has influenced the country's priorities, reflected in the expansion and updating of Portugal's double tax treaty network (almost 80 treaties, including the new UK treaty effective from January 2026). Maintaining robust international tax relations, especially with Portuguese-speaking African countries, is also a strategic consideration.

The public and policy focus on international tax matters, along with Portugal's drive to attract foreign investment, has ensured close alignment with international initiatives such as the OECD/G20 BEPS recommendations. This is evident in Portugal's active implementation of BEPS-related measures – such as progressive reductions in the CIT rate, the extension of the Madeira International Business Centre regime (offering a 5% CIT for qualifying entities through 2026), and incentives for innovation and technology like SIFIDE II and the patent box regime.

In summary, the prominent public and governmental profile of international tax issues in Portugal supports a proactive stance on BEPS, shaping both legislative action and treaty policy to balance competitiveness with compliance.

## 9.4 Competitive Tax Policy Objectives

Please refer to 9.3 International Tax.

Along with the measures mentioned above, one of Portugal's clear strategies for becoming more competitive on the international and European stages is the progressive reduction of the CIT rate, which stood at 21% in 2024 and is scheduled to be reduced to 17% by 2028 (with a rate of 19% in 2026).

## 9.5 The Competitive Tax System

Portugal's competitive tax features that are most exposed to challenge are preferential or ring-fenced regimes that are not clearly tied to substantial local activity. Under EU law, tax measures – particularly regional incentives – must avoid harmful practices and comply with anti-avoidance and transparency stand-

ards. Double tax treaties may deny benefits where regimes are ring-fenced or considered harmful, reinforcing this constraint. EU state aid rules also apply to tax incentives and have been actively enforced: the Madeira Free Trade Zone, for example, has faced repeated scrutiny by the European Commission to determine whether its benefits constitute selective aid, with assessments under regional aid guidelines (including substance, proportionality, and limits on operating aid), as well as instances demonstrating the Commission's powers to require compliance or recovery.

In parallel, Portugal underscores its alignment with the OECD BEPS agenda and EU anti-avoidance directives, which require substance, anti-abuse testing and automatic information exchange. These frameworks constrain aggressive features and demand transparency and genuine economic activity as preconditions for tax advantages.

## 9.6 Hybrid Instruments and BEPS Implementation

Anti-hybrid mismatch rules were introduced in Portuguese legislations through Law 24/2020, which transposed the EU Anti-Tax Avoidance Directive (ATAD I), as amended by ATAD II. These provisions were incorporated into the CIT Code and entered into force in January 2022.

## 9.7 Interest Deductibility and Territorial Tax Regime

There is no territorial tax regime in force in Portugal, since resident companies and individuals are generally taxed on their worldwide income (with the interest deductibility restrictions mentioned in **2.5 Deduction of Interest**), and non-resident companies and individuals on income sourced in the Portuguese territory. This, however, coexists with special tax regimes like the participation exemption regime and the provisions of the double tax treaties.

## 9.8 Controlled Foreign Corporation Reform

There is no territorial tax regime in force in Portugal, but CFC rules are in force as mentioned in **6.5 Controlled Foreign Corporation-Type Rules**.

## 9.9 Anti-Avoidance Rules

From a Portuguese perspective, limitations on benefits and anti-avoidance rules embedded in double tax treaties can affect both inbound and outbound investors. Several Portuguese double tax treaties include provisions that restrict treaty relief where arrangements are not at arm's length, lack genuine substance or are primarily designed to obtain treaty benefits. They also permit source states to tax certain gains, interest or royalties beyond standard limits when special relationships inflate payments.

These provisions operate alongside domestic anti-avoidance measures, influencing eligibility for reduced WHT rates and the attribution of profits, and may result in the denial or limitation of treaty benefits. For inbound investors, this may mean higher effective taxation or the denial of relief if structures fail substance or beneficial ownership tests. For outbound investors, foreign jurisdictions may apply corresponding adjustments or WHT under similar tests, and Portugal's relief for double taxation is conditioned on the treaty's allocation rules and anti-abuse standards.

For further details on tax authority scrutiny of "treaty shopping" practices, please refer to **4.3 Tax Authority Scrutiny of "Treaty Shopping" Practices**.

## 9.10 Transfer Pricing and IP Taxation

BEPS has strengthened Portugal's transfer pricing framework, with arm's length enforcement, master/local file documentation, and EU exchange of country-by-country reports heightening scrutiny of financing, services and intangibles. The transfer pricing provisions were actually amended in 2021 to accommodate the 2017 OECD Transfer Pricing Guidelines.

Transfer pricing disputes in Portugal relating to IP rights are not yet very common.

## 9.11 Country-by-Country Reporting and Transparency Provisions

Country-by-country reporting (CbCR) for multinationals was implemented in the 2016 State Budget, following the Action 13 final report, and aligns fully with the OECD recommendations. According to the relevant regulations, Portuguese-resident entities that are part of multinational groups with annual consolidated rev-

venues of EUR750 million or more must submit CbCR to the Portuguese tax authorities within 12 months of the end of the relevant taxable year. Duplication of CbCR submissions may be avoided if the Portuguese-resident entity indicates (i) the group entity (whether Portuguese or foreign) responsible for submitting the group's CbCR and (ii) the respective jurisdiction.

Regarding transparency provisions, Decree-Law 29/2008 introduced a mandatory disclosure obligation for promoters and taxpayers concerning arrangements that confer tax advantages.

## 9.12 Digital Economy Businesses

Portugal has implemented DAC7 through Law 36/2023, updating Decree-Law 61/2013 to require digital platforms to perform due diligence and report seller information annually to the Portuguese tax authorities. Reports cover periods from 1 January 2023 and are due by 31 January of the following year, with low-volume sellers excluded under the domestic thresholds; technical filing and registration are set by implementing orders. Non-compliance triggers sanctions and may lead to supplementary measures, such as revocation of the EU registration after repeated notices.

Platform operators can opt for a single EU member state to fulfil reporting and must register and maintain status (including "excluded operator" where applicable). Duplicate reporting can be avoided where another operator has already filed equivalent information.

## 9.13 Approach to Digital Services Taxation

Portugal's policy on digital taxation has been to act within co-ordinated EU/OECD frameworks. This is visible in the systematic use of EU administrative-co-operation instruments for the platform economy (DAC7).

## 9.14 Offshore IP Provisions

Portuguese domestic tax law does not contain specific rules addressing the taxation of income derived from offshore IP, apart from imposing a higher 35% WHT on payments made to entities located in black-listed jurisdictions.

## Trends and Developments

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## Corporate Tax in Portugal: An Introduction

Portugal is keeping the pace as a prime destination for investment, supported by growing flows of domestic and international capital and a favourable economic outlook. The country has achieved progress in reducing its debt-to-GDP ratio, which was expected to reach approximately 90% in 2025 with continued improvement projected for 2026. This positive trajectory reflects the authorities' commitment to prudent fiscal management and the promotion of policies that enhance stability and economic competitiveness.

Although geopolitical uncertainties and risks of fragmentation in global trade remain a concern worldwide, Portugal has maintained an environment of confidence, driven by structural reforms and institutional resilience. This has enabled Portugal not only to mitigate potential external impacts but also to reinforce its appeal among international investors and trading partners, even as growth moderates in some key export markets.

In a challenging political landscape, the State Budget Law for 2026 was duly approved, consolidating reforms from prior years and introducing new tax measures aimed at fostering investment and business competitiveness. Below, we highlight some of these measures, along with significant national and international case law developments that may impact entities subject to Portuguese taxation.

### Corporate income tax rates

Building on the reductions introduced by the State Budget Law for 2025 – which lowered the standard corporate income tax (CIT) rate from 21% to 20% and the reduced rate from 17% to 16% – the Portuguese State Budget Law for 2026 confirmed the reduction of the standard CIT rate to 19% and of the reduced rate to 15%, in a clear demonstration of Portugal's continued commitment to fostering a competitive and attractive environment for business investment.

For micro, small and medium-sized enterprises, as well as Small Mid-Caps that qualify as start-ups, the CIT rate on the first EUR50,000 of taxable income is set at 15%, making Portugal's start-up landscape even more attractive for entrepreneurs.

Meanwhile, those micro, small and medium-sized enterprises, as well as Small Mid-Caps that qualify as start-ups, with active operations and effective management in Portugal's inland territories enjoy an even more competitive CIT rate: 12.5% on the first EUR50,000 of taxable income. This offers an incentive for innovative businesses to invest and expand in these regions.

### Tax incentives on housing

The Portuguese government has unveiled a legislative proposal, introducing new tax measures and special regimes aimed at supercharging the housing market. These reforms are set to streamline affordable rentals and boost new construction and rehabilitation projects, making it easier than ever to bring fresh housing supply to the market.

With a sharp focus on incentivising investors, developers and property owners, the new package is designed to unlock exciting opportunities in real estate – helping more people access quality housing and driving sustainable growth across the sector. For the first time in Portugal, “built-to-rent” projects are being actively encouraged, with tax benefits that can remain in place for up to 25 years. It is aimed at being a game changer for forward-thinking players looking to shape Portugal's housing future.

### Tax incentives for investing entities

As an incentive to stimulate investment in the residential rental sector, the legislative proposal provides that just 50% of income derived from contracts with moderate rents – secured up until 31 December 2029 – will be taken into account when calculating taxable profit for CIT purposes. This preferential treatment represents a significant advantage for investors, directly lowering the effective tax burden and further enhancing the appeal of the Portuguese rental market.

### Investment contracts for rental

The Portuguese government has decided to introduce a new mechanism that allows investment in the construction, rehabilitation or acquisition of properties intended for residential rental at moderate rents, for periods of up to 25 years. This mechanism allows investment in the construction, rehabilitation or acquisition of properties intended for residential rental at

moderate rents for a period of up to 25 years. To be eligible, the project must meet some requirements (at least 70% of the total area must be allocated to residential rental and rents cannot exceed the legally defined limits for moderate rent).

In addition, other benefits were approved, namely a reduced VAT rate for construction and rehabilitation works and partial reimbursement of VAT on architectural and project services. There is also exemption from property tax on the acquisition of land or properties for rental and from Municipal Property Tax as well as Stamp Duty exemption on property transfers and a 50% rate reduction on related financial operations.

### *Alternative Investment Funds*

Alternative Investment Funds (OIA) are experiencing robust growth in Portugal, mirroring wider international trends. The modern and flexible legal framework of the Portuguese regime offers a variety of OIA structures, catering to diverse investor profiles and shifting market demands. This dynamism positions Portugal as a leading hub for innovative, high-impact investment solutions.

Taking into account the above, the Portuguese government has also decided to further reduce the tax burden for these investment products when their focus is directed towards the housing sector. Therefore, OIAs dedicated to the affordable rental sector benefit from a highly advantageous tax regime.

Income distributed to participants or shareholders – whether through units or shareholdings – enjoys a reduced tax rate of just 5%, in proportion to the share generated from accessible rental contracts. This targeted measure is set to strengthen investment in Portugal's affordable housing market, making it even more enticing for investors seeking new opportunities.

The regime has been enhanced to improve tax efficiency by increasing the exclusion percentage applicable to other income – whether distributed, redeemed or liquidated – received by participants or shareholders. The exclusion is calculated based on the proportion of eligible assets, rewarding those who invest in priority sectors.

### *Real estate investment companies and funds (SICAFIs and funds)*

Real estate investment in Portugal remains resilient and continues to attract both domestic and international interest, supported by established and sophisticated investment structures. The market offers proven vehicles such as real estate investment funds and real estate investment companies (SICAFIs), each operating under a clear and stable regulatory framework.

Also, collective investment companies and funds – which may invest in different types of assets – enjoy the same tax regime and are becoming a clear trend.

These entities benefit from a preferential tax regime designed to support sustainable growth and long-term value creation. While subject to CIT, real estate funds and SICAFIs are exempt from taxation on investment income, capital gains and rental income generated at the entity level, ensuring operational efficiency. A modest Stamp Duty of 0.0125% is applied quarterly on net asset value. For investors, distributions, redemptions or sales of participation units are taxed at a flat rate of 10%, with income classified as “income from immovable property” in accordance with Portuguese law – providing transparency and alignment with international best practices.

Portugal's regulatory approach is fully compatible with international tax treaties, allowing for rational cross-border investment and minimising double taxation for investors from jurisdictions employing the exemption method.

Another trusted vehicle gaining traction in the market is the Venture Capital Fund, particularly following recent clarifications from Portuguese tax authorities. When these funds acquire and lease real estate assets via controlled SPVs, the structure ensures smooth cash flows and efficient distributions. Venture Capital Funds are fully exempt from CIT and Stamp Duty on net asset value, and profit distributions, redemptions and disposals of units also benefit from a simplified regime.

Also, when the Fund is not classified as a real estate investment fund, capital gains earned by non-resident unitholders – whether individuals or companies – from

the redemption of units, sale of units or liquidation of the Fund are also exempt from taxation in Portugal. This offers an attractive edge for those looking to maximise returns in a modern, investor-friendly environment. This favourable regime clearly contrasts with the general rules applicable to Portuguese tax residents, whose capital gains are typically subject to a tax rate of 28% for individuals and up to 19% (plus municipal and state surcharges, if applicable) for corporate entities.

With these robust and transparent structures, Portugal offers a strong foundation for real estate investment, combining legal certainty, sector maturity and tax efficiency. This makes the Portuguese market a compelling choice for institutional and private investors seeking stable and sustainable growth.

## “SIFIDE” – Tax Incentive System for Business R&D

Portugal’s commitment to innovation is exemplified by its SIFIDE programme (“*Sistema de Incentivos Fiscais à Investigação e Desenvolvimento Empresarial*”), a tax incentive regime designed to accelerate research, development and technological advancement across all sectors.

In a nutshell, SIFIDE enables companies operating in Portugal to directly reduce their CIT liability by deducting a substantial percentage of eligible R&D expenses. Eligible costs include personnel expenses for researchers and technical staff, purchase or leasing of scientific and technical equipment, patent registration and intellectual property protection, as well as outsourced R&D activities carried out with certified institutions.

According to this regime, companies can deduct 32.5% of annual qualifying expenses (base rate), with an incremental deduction of 50% applied to any R&D spending exceeding the average of the previous two financial years – up to a ceiling of EUR1.5 million annually. Unused credits can be carried forward for up to eight years, providing flexibility and sustained support for longer-term innovation strategies.

Beyond direct corporate tax benefits, SIFIDE is designed to actively support the creation of high-value R&D roles within companies. Personnel whose

costs qualify under SIFIDE may also be eligible for the IFICI regime – Portugal’s special personal income tax treatment for R&D professionals (as described below) – offering additional attraction for top talent.

For investors and corporate leaders, SIFIDE represents a compelling opportunity to drive innovation, enhance competitiveness and expand Portugal’s role in the global knowledge economy. The programme is regularly updated to ensure its alignment with international best practices and the dynamic needs of innovative enterprises, making Portugal a strategic destination for research-driven investment.

## Tax Incentive for Scientific Research and Innovation (IFICI)

The IFICI (also commonly known as NHR 2.0) replaced the previous Non-Habitual Resident (NHR) special tax regime, providing benefits close to the NHR, but with a much more limited and targeted scope.

This recently introduced regime allows for reduced taxation for individuals who move their tax residency from abroad to Portugal, if the same individuals have not been qualified as Portuguese tax residents in any of the previous five years, over income received on account of employment relationships or provision of services carried out in Portugal, if certain additional conditions are met.

Income derived from the activities listed below may be taxed in accordance with the rules of the regime in question:

- teaching careers in higher education and scientific research;
- jobs and members of governing bodies with contractual benefits related to productive investment specifically established in Portuguese law;
- highly qualified professions as defined in Ministerial Ordinance 352/2024/1, developed in:
  - (a) companies that are benefiting (or have benefited in the last five years) from the tax regime to support investment (RFAI); and
  - (b) eligible industrial and service companies that export (or have exported in the last two years) at least 50% of their turnover;

- R&D jobs for employees whose costs are eligible for the purposes of the system of tax incentives for R&D (SIFIDE);
- jobs and members of governing bodies who carry out economic activities recognised by AICEP or IAPMEI (the Portuguese agencies for trade and competition) as relevant to the national economy; and
- jobs and members of governing bodies in entities certified as start-ups.

The employment/service provision income received in connection with the eligible activities is subject to tax, during a ten-year period, at a rate of 20%, instead of the general progressive rates regime that may reach 48% with the possibility of solidarity surcharges being added.

This regime also provides for an exemption on foreign-sourced employment income, business and professional income, investment income, rental income and capital gains (with foreign pension income being taxed under the general terms).

The application for this tax regime must be submitted by 15 January following the year in which the applicant became a Portuguese tax resident, and requires certain certifications to be provided by Portuguese entities – such as the Foundation for Science and Technology (FCT), the National Innovation Agency (ANI), the Trade and Investment Agency (AICEP) and the Portuguese tax authorities.

### *Stock option regime*

Portugal's stock option regime, established under Law 21/2023, offers a competitive framework for attracting and retaining talent, particularly in the country's thriving start-up and innovation ecosystem, and is becoming a clear trend. As a technology hub with more than 4,700 start-ups in 2024, Portugal leverages equity-based incentives – such as stock options – to empower companies and employees alike.

The regime applies to start-ups, SMEs, Small Mid-Cap companies and innovation-focused organisations. It allows employers to grant stock options, which are rights for employees to acquire shares on predefined terms (exercise price, share class, vesting period,

etc), formalised through clear plans governing grant, vesting and settlement. The standout benefit is the deferred taxation: employees are taxed only when a liquidity event occurs (eg, sale of shares or exit), rather than at the time of grant or vesting. When this taxable event arises, only 50% of the gain is considered, taxed at a special flat rate of 28%, resulting in an effective tax rate of just 14%. This is attractive compared to other European jurisdictions and fosters staff alignment with company growth.

Beneficiaries who directly or indirectly hold at least 20% of share capital or voting rights, or serve on governing bodies, are excluded – except for start-ups or micro/small enterprises, which broadens access to the incentive. This ensures incentive plans are directed at wider employee populations.

A key requirement is the one-year minimum holding period for shares or equivalent rights. Beneficiaries must hold the acquired equity for at least 12 months before a taxable disposal to benefit from the reduced tax base. Only holding the option, without acquiring shares, does not satisfy this condition; the regime is designed to encourage real equity alignment, and same-day exercise and immediate sale may disqualify the employee from the preferred tax treatment.

For internationally mobile employees, the regime introduces an exit tax: when an employee leaves Portuguese tax residency before a liquidity event, a deemed tax event occurs based on the fair market value, with only 50% of the gain taxed at the special rate. This provision is practical and protective, but companies should manage cross-border moves carefully and communicate plan rules clearly.

Three years on from its introduction, Portugal's stock option regime is a critical step forward, embracing modern trends in employee equity taxation. Its mechanics – deferred taxation, reduced taxable base and a competitive flat rate – offer a robust platform for talent attraction and retention, confirming Portugal's position as a top destination for innovative companies. Companies may leverage these rules and incentives to craft compelling, fair equity-based compensation, fostering entrepreneurial growth and value creation. The regime is an asset for Portugal's continued rise as

a global talent hub, provided that all application rules and eligibility criteria are carefully observed.

## VAT Groups in Portugal

Portugal's newly introduced VAT Group regime, established by Law 62/2025, reflects a decisive move towards greater efficiency and stability in the country's business landscape. Taking effect from July 2026, this regime is aligned with the principles set out in Article 11 of the EU VAT Directive, enabling groups of companies to consolidate their VAT positions and optimise their financial and administrative management.

At its core, the VAT Group regime is designed to treat legally distinct entities as a single taxable person when they demonstrate close financial, economic and organisational links. By focusing on the consolidation of VAT balances across the group, the regime offers a solution to streamline cash flows and centralise tax administration – reducing the complexity and inefficiencies often associated with monthly VAT payments and refunds.

Importantly, Portugal's approach distinguishes itself from similar European regimes by maintaining VAT on intra-group transactions. Rather than focusing on exemption, it emphasises operational transparency and simplification, while still delivering substantial efficiency gains through the offsetting of creditor and debtor VAT positions and centralised management.

This new framework is directly aligned with Portugal's broader strategy to create a stable business environment and provide flexible alternatives for corporate groups. By reducing inefficiencies and enhancing cash management, Portugal is strengthening its attractiveness as an investment destination, supporting sustained growth and innovation for both domestic and international investors.

## Pillar Two implementation

Portugal has successfully transposed the EU's Pillar Two Directive (Council Directive (EU) 2022/2523 of 15 December 2022), which aims to establish a global minimum tax level for multinational enterprises (MNEs) and large-scale domestic groups. Law 41/2024, effective from 9 November 2024, applies to entities with annual consolidated revenue equal to or greater than

EUR750 million. Within this scope, the Portuguese Ministry of Finance, through Ordinance 290/2025/1, has approved the Modelo 62 Registration Declaration, which is designed to satisfy the initial reporting obligations under this new framework.

The global minimum tax regime (*Regime do Imposto Mínimo Global* – RIMG) introduces a global minimum effective tax rate (ETR) of 15%. The primary objective of this regime is to mitigate tax competition and curb profit shifting to jurisdictions with lower tax rates.

The RIMG is structured around three fundamental rules:

- *Income Inclusion Rule (IIR)*: According to this rule, a group's ultimate or intermediate parent entity must calculate and pay a top-up tax on profits of its constituent entities located in a jurisdiction where the aggregate ETR is below 15%.
- *Undertaxed Profits Rule (UTPR)*: This rule ensures that any remaining top-up tax not collected under the IIR is paid by the constituent entities of an MNE group.
- *Qualified Domestic Minimum Top-Up Tax (QDMTT)*: This rule applies to the profits of constituent entities in Portugal if the group's ETR in Portugal is below 15%.

One notable feature of Ordinance 290/2025/1 is the option – rather than an obligation – for a single declaration submitted by a designated local entity to cover all Portuguese constituent entities. The declaration must identify the ultimate parent or designated reporting entity located in a jurisdiction with a qualified information exchange agreement. Key identification details, including foreign and Portuguese tax numbers (as appropriate), jurisdiction, legal name and address, must be provided. If no qualified information exchange agreement exists, submission of the GloBE Information Return will be required in Portugal.

## Raising of financing for non-resident investors: Portuguese Special Debt Securities Regime gets increased attention

Under the Portuguese Special Debt Securities Regime (Decree-Law 193/2005), interest and capital gains derived from Portuguese public and private debt

securities are exempt from Portuguese income tax when obtained by non-resident investors without a permanent establishment in Portugal, provided that some predefined conditions and formalities are met.

The main conditions and formalities for the Portuguese Debt Securities Exemption Regime to be applicable are:

- Bonds must be integrated in:
  - (a) a centralised system for securities managed by an entity resident for tax purposes in Portugal (which is the case for the CSD managed by Interbolsa);
  - (b) an international clearing system operated by a managing entity established in an EU member state other than Portugal (such as Euroclear or Clearstream, Luxembourg) or in an EEA state provided, in this case, that such state is bound to co-operate with Portugal under an administrative co-operation arrangement in tax matters similar to the exchange of information schemes in relation to tax matters existing within the EU member states; or
  - (c) other centralised systems not covered above in relation to which the Portuguese government expressly authorises the application of this regime.
- Beneficiaries must be central banks or governmental agencies, international bodies recognised by the Portuguese state, or any other entities without headquarters, effective management or a permanent establishment in the Portuguese territory to which the relevant income is attributable. In the last case, the special regime will not apply if these entities are domiciled in a blacklisted jurisdiction, unless such jurisdictions have a double tax treaty or a tax information exchange agreement in force with Portugal.
- Beneficiaries must evidence non-residence status.

Market players have coped well with the requirements above over the past years, with a high number of new issues coming into the market every year. Although the regime has been in force for more than 15 years, it has been raising increased attention as it might mitigate the risk a withholding tax (WHT) waiver is chal-

lenged based on EU law, given recent developments in the international tax outlook.

The concept of beneficial owner has been subject to increased scrutiny within the EU (including Portugal) following the recent case law of the European Court of Justice (ECJ) – habitually referred to as the “Danish Cases” (C-116/16 and C-117/16) – which developed a conservative approach to the concept of beneficial owner under the terms of the EU Interest and Royalties Directive. This case law challenges the concept of beneficial ownership in lending structures relying on back-to-back structures, where interest payments flow to an entity that would not be able to claim this benefit (namely a non-EU resident company). Additionally, according to the proposed Anti-Tax Avoidance Directive 3 (so-called ATAD 3 or Unshell Directive), “shell companies” will not be eligible for tax residence certificates.

Funding structures falling under the Portuguese Special Debt Securities Regime should fall out of said discussions given that the WHT exemption results from a domestic tax regime that clearly encompasses non-resident (and non-EU) lenders. Thus, to the extent the conditions and formalities identified above are complied with, no WHT should apply in Portugal.

In this regard, it is interesting to note that the Portuguese Special Debt Securities Regime allows for other forms of non-residence certification beyond the traditional certificate of residence, depending on the nature of the investor. By way of example, if the investor is an investment fund or other type of collective investment undertaking domiciled in any OECD country or any country with which Portugal has signed a double tax treaty or tax information exchange agreement, certification must be provided by means of a declaration issued by the entity which is responsible for its registration or supervision or by the tax authorities, confirming its legal existence and the law of its incorporation.

### *Stamp tax on commissions charged in the context of the issuance of bonds*

Apart from the above Portuguese income tax, bond loans should not be subject to stamp tax in line with a restriction provided by the Council Directive 2008/7/

EC concerning indirect taxes on the raising of capital (as opposed to straight bank loans, where stamp tax would be due over the principal amount at a rate of up to 0.6%).

However, according to the Portuguese law, stamp tax may be levied on the security package (if any) at a maximum 0.6% rate over the maximum secured amount. Further, stamp tax is usually due at a 4% rate on commissions for financial services.

The stamp tax on financial fees was challenged in an arbitration tax court, and the matter was referred to the ECJ. On 19 July 2023, the ECJ issued a ruling (Case C-335/22) stating that Article 5 (2)(a) of Council Directive 2008/7/EC must be interpreted as precluding national legislation that provides for the imposition of stamp tax on fees for financial intermediation services provided by a bank in connection with the placement of securities (bonds and commercial paper), regardless of whether the provision of such financial services is a legal requirement or merely optional.

On the same day, the ECJ also issued a ruling (Case C-416/22) stating that the same provision of Council Directive 2008/7/EC must be interpreted as precluding national legislation that provides for the imposition of stamp tax on fees for financial intermediation services provided by a bank in connection with:

- an offer for the cash purchase of securities;
- the placement and subscription of securities; or
- a public offer for subscription of shares, regardless of whether the provision of such financial services is a legal requirement or merely optional.

In the previous case, C-656/21, the ECJ had emphasised that in light of the objectives pursued by Council Directive 2008/7/EC, a broad interpretation of Article 5 is required to ensure the practical effects aimed at by the prohibitions it lays down are achieved. Thus, the tax prohibition shall apply whenever taxation is imposed on a transaction forming part of another overall transaction that relates to the raising of capital even if the underlying transaction itself would not (at least directly) be covered as it is not expressly mentioned in the Directive.

These decisions may provide a basis for recovering stamp tax imposed on commissions charged by financial institutions in bond issuances and other capital-raising operations over the last four years, with the Portuguese arbitration courts following the ECJ case law (Case No 791/2024-T, of 14 January 2025). Furthermore, they may have a broader impact as they could potentially extend to the taxation of security created to guarantee obligations arising from bond issuances and other capital-raising operations.

Regarding the specific question of stamp tax on guarantees in the context of a bond issuance, the issue has been brought before national courts, and a Portuguese arbitration court has referred to the ECJ the question of whether those guarantees are covered by the prohibition laid down under Council Directive 2008/7/EC.

It will be interesting to monitor these developments as Portugal may be closer to having zero stamp tax in the overall capital-raising operation, significantly reducing the cost of capital raised in debt issuances.

### *Withholding tax of foreign funds (AllianzGI-Fonds AEVN case law) – the story continues (and the law remains unchanged)*

Under the current national law, foreign collective investment vehicles (CIVs) investing in Portugal are subject to WHT on dividends paid by Portuguese companies, which results in a clear disadvantage compared to resident CIVs, which are not subject to CIT on the same dividends.

Considering this discrimination, several CIVs have been challenging the WHT applied to Portuguese-sourced dividends based on a breach of EU law (in line with litigation in other member states). These cases have been brought before Portuguese tax arbitration courts by several CIVs that have claimed for the application of a full exemption (*pari passu* with Portuguese CIVs).

This litigation was initially filed before tax arbitration courts in Portugal, one of which requested a preliminary ruling on whether the difference in treatment was in breach of the free movement of capital and therefore incompatible with EU law.

In the well-known case C-545/19 of 17 March 2022 (*AllianzGI-Fonds AEVN v Autoridade Tributária e Aduaneira*), the ECJ confirmed that the Portuguese WHT on dividends paid to non-resident CIVs is incompatible with EU law, in line with the arguments that were presented at the above-mentioned proceeding before the Portuguese tax arbitration court.

Following the ECJ decision, several cases have been brought before Portuguese tax courts by foreign (mostly EU) CIVs, leading to a full WHT refund.

The impact of this decision goes beyond national borders, paving the way for the elimination of WHT on dividends received by CIVs throughout Europe.

In the aftermath of the ECJ's ruling, Portuguese law was expected to be updated to remove the discriminatory regime. However, in similar instances where Portuguese law had to be amended due to incompatibilities with European law, changes were not immediate, which appears to also be the case with the WHT regime applicable to CIVs.

Foreign CIVs that have been subject to WHT on Portuguese-sourced dividends received in the past can request the refund of the amounts withheld in the previous two years, through a formal appeal submitted to the Portuguese tax authorities. Alternatively, Portuguese law also provides a mechanism through which foreign collective investment undertakings in this situation may request the Portuguese tax authorities to review the collection of the amounts withheld, which has the advantage of allowing the return of the amounts withheld in the previous four years. As the ECJ decision is based on the free movement of capital, this WHT recovery should also be accessible to CIVs from countries outside the EU.

## *Outlook for 2026*

In the context of ongoing economic challenges and the aftermath of the extraordinary legislative elections held in May 2026 – which may signal shifts in Portugal's political landscape – the government's commitment to the continued implementation of the Recovery and Resilience Plan through to 2026 remains central. This strategy is pivotal in sustaining the stable, investor-friendly environment that Portugal has nurtured over the past decade and is expected to reinforce confidence among international investors.

The successful approval of the State Budget Law for 2026, amid a fragmented parliament, alongside the continued introduction and optimisation of tax incentives – including further reductions to the CIT rate, refined IFICI and SIFIDE regimes, and innovative measures in the real estate and investment sectors – reflects Portugal's clear focus on fostering economic resilience, competitiveness and sustainable growth. These developments affirm that Portugal's corporate tax framework remains robust, modern, and highly attractive to both domestic and foreign investors, ensuring the country's position as a leading destination for business and investment in Europe throughout 2026 and beyond.

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