

BANKING

Issuance of commercial paper in Portugal

Tiago Marreiros Moreira (left) and Ricardo Seabra Moura (right)
 Vieira de Almeida & Associados
 Lisbon

Further to the entering into force of Decree Law 193/2005 in January 1 2006 (that introduced the Debt Securities Special Tax Regime), investment income and capital gains derived by qualified non-resident beneficial owners arising from debt instruments issued by Portuguese entities are exempt from Portuguese income taxes, if certain conditions are met.

The Debt Securities Special Tax Regime was introduced with the main purpose of encouraging the development of the bond market in Portugal and the raising of financing with non-resident investors. A growing number of issuers, including major public corporations, private companies and the Portuguese State has already profited from this efficient solution.

However, since debt securities with a maturity of less than 1 year (commercial paper) were not covered by this beneficial tax regime, after 2006 the issuance of commercial paper has been progressively replaced by the issuance of bonds. Last December and further to some interesting signs of recovery of the country's economic activity, the Portuguese Government decided to stimulate other sources of funding by introducing relevant changes to the Debt Securities Special Tax Regime, including:

- a) The extension of the scope of such regime to cover commercial paper integrated in a centralized system or EU/EEA international clearing system; and
- b) The extension of the number of potential investors able to benefit from the income exemptions, which include: (i) central banks and government agencies; (ii) recognised international organisations; (iii) entities resident in a jurisdiction with either a tax treaty or a tax exchange information agreement in place with Portugal; (iv) any other non-residents that are not resident in a blacklisted jurisdiction. Non-resident entities owned in more than 20%, directly or indirectly, by a Portuguese entity will also become eligible for the exemption (previously excluded).



These amendments were recently complemented with other facilitating measures that allow the issuance of commercial paper without any fundraising limit (previously, the potential issuers, except for credit institutions or other entities from the financial sector, were not able to use this instrument to collect funds higher than three times their own equity). Also, the issuance of debt securities and interest payments are not subject to Portuguese stamp duty as usually occurs in standard financing.

Considering the current monetary market environment and the difficulties in obtaining financing for business activities with financial institutions, the issuance of commercial paper is a very attractive solution for Portuguese companies to raise funds in the international market due to the tax benefits applicable to the investors and may now be an alternative to the issuance of bonds.