

# Madeira's Free Trade Zone Tax Regime Extended until 2020

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**A**fter a long and delicate negotiation process with the Portuguese State, the European Commission has recently extended - under European Community Treaty State Aid Rules - Madeira's preferential tax regime until the year 2020.

Known by many as the Pearl of the Atlantic because of its natural beauty and warm weather, Madeira will now certainly remain one of the most interesting and competitive free trade zones in Europe.

The new scheme provides tax reductions worth €300 million until 2020 to companies setting up in the Madeira Free Trade Zone (MFTZ) between 2007 and 2013 and will certainly attract more investment in Madeira within the next few years.

The fiscal advantages provided by this scheme are qualified as operating aid, which is generally prohibited under EU State aid rules. However, in exceptional cases, the EC Treaty recognises the specific permanent handicaps of the outermost regions and accepts tax benefits under certain conditions. The Commission's examination of the MFTZ showed that the aid provided to Madeira is proportionate to the specific costs of the regions handicaps. It also concluded that past measures have contributed positively to regional development.

This new scheme allows companies licensed to operate within the Madeira International Business Centre (MIBC) before the year 2001 - almost 4,000 in total - to continue to benefit from, among other exemptions, a full exemption from corporate tax until the end of 2011, as well as from withholding taxes on dividends, royalty payments and capital duty, also ensuring that as of 2012 those companies will fall under the new regime now approved by the European Commission which shall be valid (at least) until the year 2020.

Companies licensed as of 2007 and until the end of 2013, will enjoy reduced corporate tax rates of 3% between 2007 and 2009, 4% between 2010 and 2012 and 5% between 2013 and 2020. These new companies, amongst other tax benefits, will remain totally exempt from withholding taxes on dividends and royalty payments, as well as from capital duty until 2020. In order to benefit from this preferential tax regime, companies

will be required to meet specific eligibility criteria based on the number of permanent jobs created. The tax benefits will be limited by a ceiling placed on the taxable base per company which ranges from €2 million (where less than three new jobs are created) to €150 million (where more than one hundred new jobs are created).

As part of Portugal, Madeira also benefits from EU Directives such as the Parent Subsidiary Directive and the Mergers Directive, as well as from the extensive network of double tax treaties concluded by Portugal (presently, the only double tax treaties that provide for certain limitations to the MFTZ are the ones concluded with Brazil and the United States).

Madeira also benefits from one of the lowest Value Added Tax (VAT) standard rates in Europe - presently 15%. Although the Madeira Regional Government has already said they will ask the Portuguese government for a lower VAT rate (probably 13%).

Madeira is politically stable, with a President who remains unchanged since 1978, offering foreign investors an uncharacteristic pro-business attitude, and high quality infrastructure. The MFTZ's business development zone, international services centre and international shipping register are already attracting investors from across Europe and around the world, especially from Southern America.

As under the previous scheme, financial and insurance intermediary activities, financial and insurance auxiliary activities and "intra-group services" (coordination, accounting and distribution centres) are excluded from the application of this new scheme.

Following the EC's announcement it is now expected that the Portuguese Government will soon transpose the new scheme into domestic rules. This prorogation of the MFTZ regime may as well be seen as an interesting sign towards the irreversibility of the MFTZ tax regime in the future.

Any investor looking for a safe, credible and efficient business location should definitely consider the MFTZ on their short list.

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Tras una larga y delicada negociación con el estado portugués, la Comisión Europea ha extendido recientemente - según el Reglamento del Tratado de la Comunidad Europea sobre Ayudas Estatales - el régimen fiscal preferente de Madeira hasta el año 2020. Conocido por muchos como la perla del Atlántico por su belleza natural y agradable temperatura, Madeira continuará siendo una de las zonas francas más interesantes y competitivas de Europa. Tiago Marreiros Moreira, de Vieira de Almeida, nos explica cómo el nuevo plan prevé reducciones fiscales por encima de los 300 millones de euros para las empresas que se establezcan en la Zona Franca de Madeira entre los años 2007 y 2013, y cómo ciertamente éstas atraerán más inversiones a Madeira en los años venideros.