

EXTENSION OF TAX BENEFITS APPLICABLE IN THE MADEIRA FREE TRADE ZONE

1. Last Friday saw the publication of Decree-Law 13/2008, of 18 January, which extended the tax regime applicable to companies that register to carry on business in the Madeira Free Trade Zone between 1st January 2007 and 31st December 2013. This decree-law comes about in the wake of the recent guidelines established for state aid as well as of the new development model for the Autonomous Region of Madeira, which was discussed during the first six months of last year and for which a favourable decision was obtained from the European Commission on 27th June 2007.

2. The new regime established in Article 34-A of the Tax Benefits Statute maintains the structure of the previous regime, which ended on 31st December 2006, providing, on the one hand, that companies registered to conduct business in the Madeira Free Trade Zone may be eligible for a reduced corporation tax rate on income derived from activities which are actually and materially carried out in that region and, on the other hand, making provision for the exclusion of certain activities from such tax benefits - (i) financial intermediation, (ii) insurance, (iii) financial intermediation and insurance support institutions, and (iv) intra-group services (i.e. coordination, treasury and distribution centres).

3. In effect, companies which are registered in the Madeira Free Trade Zone to engage in industrial, commercial, shipping and other activities or services which are not excluded under the present regime may be eligible for a reduction in the applicable corporation tax rate, as follows:

- from 2007 to 2009 - 3% rate;
- from 2010 to 2012 - 4% rate;
- from 2013 to 2020 - 5% rate.

4. Eligibility for the tax benefit in question will, however, be conditional on job creation and a minimum level of investment in the acquisition of fixed assets (tangible and intangible) in the initial months / years of operations, as well as being subject to maximum limits on the taxable income to which the reduced rate will apply, based on the number of jobs maintained each year. This ceiling may rise as high as 150 million euros in cases where more than a hundred jobs are created.

5. Furthermore, companies registered to carry on industrial activities in the Madeira Free Trade Zone may also be eligible for a 50% reduction in the income liable to corporation tax, provided that certain legal requirements are met. These include, among other things, contributing to the modernisation and diversification of the regional economy through innovative product technology and manufacturing processes or business models, the hiring of highly qualified human resources and the improvement of environmental conditions.

6. The income of holding companies (SGPS) registered between 1st January 2007 and 31st December 2013 may also be eligible for the above-mentioned reductions in corporation tax rates, except in respect of revenue deriving from Portuguese territory (with the exception of the free trade zones) or from other EU Member States, in which case they will be liable for tax in the usual manner.

7. Finally, the decree-law in question also makes provision for companies which have registered under previous regimes to take advantage of the new regime after 1st January 2012, when the previous regime comes to an end.

Lisbon, 31st January 2008

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