



January 2012

Macao

## DOUBLE TAXATION AND TAX EVASION CONVENTION BETWEEN MACAO AND CAPE VERDE

The Convention for the elimination of double taxation and tax evasion in relation to income tax that was agreed between Macao and the Republic Cape Verde has now been published in Macao. The Convention was signed by the representatives of both governments in 2010, a decade after the signature of the Convention for elimination of double taxation and tax evasion between Portugal and the Special Administrative Region of Macao. It also follows the recent entry into force of the Convention for elimination of double taxation and prevention of tax evasion signed by the Government of Macao and the Government of the Republic of Mozambique.

With a view to promoting and strengthening economic relations between Macao and the other Portuguese-speaking countries, the Convention aims to develop trade and professional exchanges in an attempt to make the most of the potential for economic growth in these countries and the advantages of the common use of the Portuguese language. It provides professionals and investors living in Macao and Cape Verde ("Convention Countries") with a new bridge to development of relationships and investment between the two continents through the tax facilities set out below:

- The profits of a company in one Convention Country with a permanent establishment in the other Convention Country are taxed in the former but with the possibility of deducting expenses paid abroad that have contributed to creating this income.
- Dividends, interest and royalties may be taxed in the source country at a rate not exceeding 10%, if the person that receives the dividends, interest or royalties is the actual beneficiary of them and is resident in another Convention Country.
- Income earned by a resident in a Convention Country from real estate assets located in another Convention Country may be taxed in the former, including, among others, the income from agricultural or forestry operations and it includes the rights to fixed or variable remuneration from the exploitation or concession of exploitation of mineral deposits, springs and other natural resources.
- Capital gains, as long as they do not relate to assets that are part of the assets of a permanent establishment or fixed installation that a company from one of the Convention Countries has in the other Convention Country, are only taxed in the country of residence of the seller of the asset.
- The income of directors and high-level professionals of companies in one of the Convention Countries may be taxed in the country of residence or the source country.
- Income from salaried employment and from self-employed work is taxed in the country of residence and the income may also be taxed in the Convention Country where the work is done as long as:
  - (i) the remuneration is paid by or in the name of an employer that is resident in this country and supported by a permanent establishment or fixed installation that the employer has in this country, in the case of salaried employment under an employment contract; or
  - (ii) the person receiving the income has a fixed installation to which this income is imputed in the case of an independent professional; and



(iii) the person receiving the income remains there for a minimum period of 183 days in every 12 months beginning or ending in the tax year in question.

- Provision is also made for an exemption from tax on income earned in a Convention Country for work in teaching and/or research by residents of another Convention Country, as long as this work is done in a non-profit institution for a period not exceeding two years from the date of arrival in this other Convention Country.

- The amount received to pay expenses of maintenance, study or training by a student or trainee resident in a Convention Country who has moved to another Convention Country with the sole objective of studying or training there, will be exempt from tax in this other Convention Country for the period of time which is reasonable to complete the studies or training, as long as such amounts come from sources situated outside this Convention Country.

#### ELIMINATION OF DOUBLE TAXATION

Double taxation will be eliminated in Macao when a Macao resident earns income which under the terms of the Convention may be taxed in Cape Verde, meaning that the resident is exempt from tax in Macao.

In Cape Verde double taxation may be eliminated in the following way:

- when a Cape Verde resident earns income which, in accordance with the provisions of this Convention, may be taxed in Macao, Cape Verde will deduct from the income tax an amount equal to the income tax paid in Macao;

- however, the amount deducted may not exceed the fraction of the income tax calculated before the deduction corresponding to the income that may be taxed in Macao;

- when, in accordance with the provisions of this Convention, the income earned by a Cape Verde resident is exempt from tax in Macao, Cape Verde may take into account the exempt income in calculating the amount of income tax of the remainder of the income of this resident.

This Convention will come into force six months after the date of the last notification from one of the Convention Countries to the other informing it that it has concluded the procedures required by the legislation for the Convention to take effect and we are now awaiting the official publication of the Convention by Cape Verde.

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