

# *Paying Taxes 2014*



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# Portugal

2014 should be a turning point for Portugal

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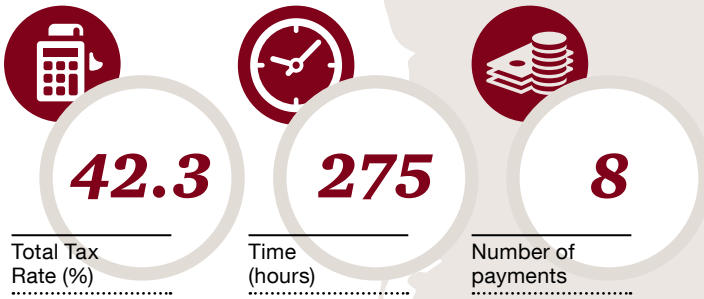
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In the *Paying Taxes* 2014 study the ranking for Portugal has fallen by 4 places to 81. Our case study company has not however found it harder to pay its taxes in Portugal. The fall is the result of other economies introducing tax reforms and other measures that have improved their tax systems and as a consequence their ranking. Portugal is not alone in struggling to attract foreign investment, to increase competitiveness and in implementing measures to help improve its economic environment.

Since the last study, Portugal has maintained the number of tax payments at 8 per year, and also the time to comply – currently at 275 hours. This compares with the 328 hours first reported in *Paying Taxes* 2006. Portugal has reduced its Total Tax Rate to 42.3%; but with a fall of only 1.5 percentage points since the first *Paying Taxes* back in 2006.

While the number of tax payments in Portugal compares well with the global average (only 21 economies in the study have fewer payments), the country still has a long way to go to achieve a similar position for the time to comply sub-indicator. With 275 hours required every year to deal with the tax system, the average is above the world average. This does not compare well with other European economies such as Luxembourg which with 55 hours takes the least amount of time in the EU. Portugal's neighbour Spain also performs better in terms of the time to comply sub-indicator, taking 167 hours. This illustrates a recurring theme of the *Paying Taxes* studies; that while changes to the Total Tax Rate, are often necessary, they are not sufficient on their own to maintain or improve an economy's ease of paying taxes ranking in the study. Changes in the compliance burden are also needed and can often have a more significant impact.



Looking forward, it is hoped that future *Paying Taxes* reports will reflect substantial changes which will flow from corporate income tax reforms that are expected to be approved in 2013 and which will apply from 2014. These reforms are aimed at simplifying the tax system and lowering the tax burden. Portugal is taking important steps towards improving its tax system with a view to becoming more competitive.

One reform that is expected to affect the case study company results is the gradual reduction of the standard corporate income rate in the short term. Currently 25%, the rate will be lowered to 23% in 2014 and 21% in 2015 with it reaching between 17% and 19% in 2016.

There are also a number of reforms which will be important for encouraging investment, but which will not affect the *Paying Taxes* sub-indicators owing to the fact pattern of our case study company. These reforms include:

- the introduction of a participation exemption regime exempting dividends and capital gains in general from corporate income tax
- an optional exemption regime for permanent establishments abroad
- an extension of the existing tax exemption for inbound dividends
- changes to the requirements for group taxation
- a patent box regime for intangibles, providing for a relief from taxation of 50%, and
- an extension to 12 years of the period in which tax losses can be carried forward.

While the focus for Portuguese companies has shifted from a purely domestic perspective to a more international one as companies seek to take advantage of business opportunities around the world, the goal for the Portuguese Government is to make Portugal an attractive destination for doing business. Portuguese companies must be able to compete with their international peers, and at the same time there is a need to provide foreign investors with the conditions that encourage them to invest in Portugal and to consider using Portugal as a hub for investments in other countries such as the Portuguese speaking African countries and the regional integration areas of which they are members.

Despite the current economic and financial difficulties that Portugal is facing, and recognising that more needs to be done, a reduction in the corporate income tax rate as early as 2014, and a reduction in the time to comply, both afforded by the corporate income tax reform, should improve the ease of paying taxes in Portugal in the near future.

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