

The logo for MdME is displayed in a large, bold, black sans-serif font. It is positioned in the upper left quadrant of the page, overlaid on a background image of a modern building with light-colored stone or concrete panels. The building has a curved facade and a flat roofline. The sky is a clear, light blue.

LEGAL UPDATE

Extension of Tax Benefits for Madeira's International Business Centre Until 2028

2025 Portuguese State Budget

I. Madeira's International Business Centre ("IBCM")

The IBCM was established in the beginnings of the 80's with the aim of attracting international investment to boost the social and economic development of the region by offering several tax benefits for companies to set up there. While these benefits were only applicable to new companies established therein until 31/12/2024, with the approval of the Portuguese 2025 State Budget, said benefits, applicable up to 31 December 2028, will be extended to companies established in the IBCM up to 31/12/2026.

It should be noted that while the law does not foresee any extension of this deadline for applications, it should be mentioned that the IBCM benefits have been renewed several times since its creation in the 80's.

In a nutshell, these companies can benefit from a reduced tax rates, special deductions and exemptions in taxes such as corporate income tax (CIT), personal income tax (PIT), Real Estate Transfer Tax (IMT), Municipal Tax (IMI) and Stamp Tax.

II. Tax Benefits

Companies in the IBCM have access to several tax benefits.

Please see below benefits available until 31/12/2028 for companies licensed between 01/01/2015 and 31/12/2026:

Benefits available until 31/12/2028	
CIT	5% + 50% CIT deduction under certain circumstances ¹
WHT (dividends, interest, royalties paid to non-resident entities)	Exemption
VAT	Normal rate: 22% Intermedium rate: 12% Reduced rate: 5%
Stamp Tax	80% exemption on documents, contracts and other acts requiring public registration, provided they are carried out with entities not resident in Portugal or licensed in the IBCM
IMT & IMI	80% exemption on acquisitions of real estate intended for its installation, as well as other local taxes and fees
Custom Duties	For entities licensed in the industrial free trade zone, it should be noted that certain goods in the IBCM are considered not to be in the customs territory for the purposes of customs duties, quantitative restrictions and other charges or measures having equivalent effect, without prejudice to the application of provisions that may be adopted in exceptional cases. The same applies for VAT purposes, where payment of the tax is suspended

¹ Only available for companies licensed to operate in the industrial free trade zone of Madeira and provided two conditions are met: (i) modernisation of the regional economy, through technologic innovation of products and production processes or business models; (ii) diversification of regional economy through new high value activities; (iii) hiring of new high qualified human resources; (iii) improvement of the environment; (iv) create at least 15 new jobs to be maintained for a minimum period of 5 years.

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Additionally, there are other tax benefits available, but only available until 31/12/2027, such as:

Benefits available until 31/12/2027	
CIT	<p><u>Exemption</u> on interest from loans taken out by entities established in free zones, provided that:</p> <ul style="list-style-type: none"> (i) The proceeds are intended for the realisation of investments and the normal operation of the lenders, within the free zone, and (ii) The lenders are non-residents in Portuguese territory (with the exception of their permanent establishments located therein);
CIT & PIT	<p><u>Exemption</u> on income from the granting or temporary assignment, by entities not resident in Portuguese territory (with the exception of permanent establishments located there and outside free zones), of invention patents, operating licences, utility models, industrial designs and models, trademarks, names and insignia of establishments, manufacturing processes or conservation of products and similar rights, as well as those derived from technical assistance and the provision of information relating to a given experience in the industrial, commercial or scientific sector, <u>provided that they relate to the activity carried out by the companies within the free zone;</u></p> <p><u>Exemption</u> on income from the supply of services obtained by non-resident entities and not attributable to a permanent establishment located in Portuguese territory outside the free zones, <u>provided it is owed by entities established there and relates to the activity carried out there;</u></p> <p><u>Exemption</u> on income paid by offshore trust companies and branches established in the free zones to users of their services, <u>provided these are entities established in the free zones or non-residents in Portuguese territory;</u></p>
PIT	<p><u>Exemption for crew members</u> of ships registered in the international shipping register set up and regulated within the Madeira Free Trade Zone, or in the international shipping register to be set up and regulated under the same terms within the Santa Maria Free Trade Zone, in respect of remuneration earned in that capacity;</p>
Stamp Tax	<p><u>Exemption</u> on the documents, books, papers, contracts, operations, acts and products foreseen in the General Stamp Duty Table relating to entities licensed in the Madeira and Santa Maria Free Zones, as well as the concessionaires companies of the same Free Zones, <u>except when they have as interveners/recipients entities resident in Portuguese territory</u> (with the exception of free zones, or permanent establishments of non-resident entities located there).</p>

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III. Requirements

Companies must initiate their activity in 6 months, except for those with industrial activities, shipping or aviation activities, which are allowed to start in 1-year time.

It is also necessary to fulfil one of the two eligibility criteria bellow:

- (i) Creation of 1 to 5 new jobs, in the first 6 months of activity and doing a minimum investment of EUR 75,000.00 in the acquisition of intangible or tangible fixed assets in 2 first years of activity; or
- (ii) Creation of 6 or more jobs in the first 6 months of activity.

IV. Limitations

Nonetheless, companies are subject to two sets of limits:

1. Annual limits to the tax benefits:
 - a) 20.1% of the gross added value generated annually in Madeira;
 - b) 30.1% of the annual labour costs incurred in Madeira; or
 - c) 15.1% of the annual turnover realised in Madeira.
2. Limitations on the benefits to be granted through maximum plafonds to the taxable base to which the reduced rate provided for applies to:
 - a) 2.73 million euros for the creation of one to two jobs;
 - b) 3.55 million euros for the creation of three to five jobs;
 - c) 21.87 million euros for the creation of six to 30 jobs;
 - d) 35.54 million euros for the creation of 31 to 50 jobs;
 - e) 54.68 million euros for the creation of 51 to 100 jobs;
 - f) 205.50 million euros for the creation of more than 100 jobs.

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