

Portugal



Background

The standard corporate tax rate is 21%, with a reduced rate of 17% applying to the first EUR 15K of taxable profits of SMEs (a municipal surcharge and a state surcharge apply in certain cases).

The Portuguese Tax Incentives Scheme for Corporate R&D (SIFIDE II) will be in place through 2020 and provides for the current deduction for R&D costs, as well as the tax incentives described below.

Nature of incentives

The incentive consists of a credit against the corporate tax liability for expenditure incurred on R&D activities (net of any cash grants awarded by the government to the R&D project). The tax credit is both volume-based and incremental:

- Base rate: 32.5% of the R&D expenditure incurred during the tax year. New SMEs may benefit, in certain cases, from a special increase of 15% of the base rate.
- Incremental rate: 50% of qualified spending exceeding the average amount spent in the prior two tax periods.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Qualifying activities can occur anywhere as long as the cost is incurred by a Portuguese company claiming the benefit.

Eligible expenditure includes:

- The acquisition cost of new fixed assets connected with R&D activities, except buildings and land.
- The wages of personnel directly involved in R&D activities provided the employee has a secondary level of education plus a traineeship, i.e., the employee must have a minimum rating level of four as defined in the National Qualifications Framework. In addition, 120% of the wages paid to personnel with a qualification level of eight (PhD's) are qualified for the research credits.
- Allocated costs of directors and professionals participating in the management of R&D institutions.
- Costs of contracting R&D activities from public entities and/or from entities recognized as possessing R&D capabilities.
- Certain general operating costs are eligible in an amount of up to 55% of personnel costs directly involved in R&D activities. These costs include:
 - Overhead, such as electricity, gas, water, rent, repairs, maintenance;

Portugal offers volume-based and incremental R&D tax credits.

- Contracted R&D services (from entities not officially recognized as possessing R&D capabilities);
- Wages of personnel involved in R&D activities with a qualification level below four.
- Expenditure incurred to raise capital for institutions that perform R&D and contributions to funds aimed to finance R&D.
- Costs of registration and maintenance of patents.
- Patent acquisition costs related to R&D activities (applicable only for SMEs).
- Costs of R&D audits (applicable only for SMEs).
- Expenses related to demonstration activities of approved R&D projects.

Expenses incurred in projects undertaken exclusively for third parties are not eligible for research tax incentives.

IP and jurisdictional restrictions

There are no specific jurisdictional restrictions on IP concerning R&D tax benefits.

Other concerns

The regime requires the submission of the applications by end of the seventh month after the year-end (usually in July of the following year since most taxpayers use the calendar year). If the tax liability for the year is insufficient to permit full utilization of the credit, any unutilized tax credit may be carried forward up to eight taxable periods.

SIFIDE II requires the certification of applications by the committee for corporate R&D tax incentives. The application requires a description of the technical details of the R&D activities carried out, the corresponding eligible expenditure and related incremental amounts compared with previous accounting periods. An entity may be subject to a technological audit at the end of the project.

Contact:

Sergio Oliveira
seoliveira@deloitte.pt
351 2104 27527

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Nature of benefit available	Income tax benefit generally available	Specific pre-approval required from government	Refundable/ Carryforward
Tax credit	<ol style="list-style-type: none"> 1. Base rate: 32.5% of the R&D expenditure during the tax year. Small and medium-sized enterprises (SMEs) may benefit, under certain circumstances, from a special increase of 15% of the base rate. 2. Incremental rate: 50% of the incremental expenditure of the period, over the simple average of the two previous tax years. 	Yes, applications are required to be submitted by the end of the 7th month after year-end.	The tax credit can be carried forward up to eight taxable periods.
R&D activities must occur in country	Cap/Limitations on benefits	IP must be retained in country	Industry eligibility restriction
No	No	No	No