



The Benefits of Madeira's IBC within the Context of Brexit



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1 - Context: Brexit's Possible Outcomes

- Final outcome of EU/UK negotiations still uncertain.
- Future possible trading relationships with the EU range from:
 - Continued membership in some way of the single market namely by membership of the EEA such as Norway;
 - A bespoke special partnership involving “tariff free and interference free trade in goods and services”;
 - Departure without agreement and trade on WTO rules (clean break). Legally the UK would become a third country.



1 - Context: Brexit's Possible Outcomes

- Even if the UK opts for EEA membership or can negotiate a bespoke arrangement there will still certainly be changes:
 - It is unlikely that the UK will continue to be part of the EU VAT system;
 - Nor is it likely to continue to be covered by the EU tax directives such as the Parent-Subsidiary Directive, the Interest and Royalties Directive and the Mergers Directive;
 - The applicability of other EU law on cross-border transactions and flows may also not continue.



1 - Context: Brexit's Possible Outcomes

- However, Portugal could help UK business in both the event of a bespoke arrangement or a clean break involving trade on WTO rules:
 - The UK would maintain its Most Favoured Nation status while the double tax treaty with the UK would remain fully applicable;
 - The **Madeira's IBC** offers a way of replicating many of the advantages of EU directives for UK companies either through a branch or a subsidiary licensed in the IBC;
 - The **International Shipping Register of Madeira – MAR** provides full access to EU waters to shipowners within a set of competitive tax and operational advantages.





2 - Main characteristics of the Madeira's IBC tax regime: Credibility and Stability

- Total integration in the Portuguese and EU legal systems - Transparency;
- Tax regime agreed with the EU providing stability to the IBC: no changes until 2027;
- Not classified as a “tax haven” by the OECD;
- Not classified as a “harmful regime” by the EU’s Code of Conduct on Business Taxation;
- Not classified as an “offshore regime” – There is no “ring fencing”.



3 - BEPS & the EU's Intervention

The Madeira's IBC position *vis a vis* BEPS' main lines of intervention:

- Pre-agreed with the EU as a regime of legal State aid;
- Substance requirements: employment and investment;
- Portuguese controlled foreign company (CFC) rules fully applicable;
- Portuguese limits on interest deductions and other financial payments fully applicable;
- No financial and intra-group financing activities allowed;
- Not considered as a harmful tax regime by the EU's CCBT.



4 - Most Common Activities

- “Trading” (import/export);
- Holding companies;
- Intellectual property structures;
- Property development;
- E-commerce and telecommunication services;
- General rendering of services;
- Manufacturing, producing and warehousing at the Industrial Free Trade Zone;
- Shipping related activities.



5 - Main Benefits

Taxation of companies:

- Corporate tax rate of 5% until 2027;
- 80% exemption on taxation on capital duty and local taxes;
- Portuguese Participation Exemption Regime: worldwide dividends and capital gains (under specific conditions);
- Losses may be carried forward for at least 5 years with a limit of 70% of Taxable Income;
- Automatic VAT number allocated.



5 - Main Benefits

Withholding tax and taxation of shareholders:

- Exemption from WHT on worldwide distribution of dividends for both corporate and single shareholders not resident in black listed jurisdictions;
- No withholding tax on the worldwide payment of interest, royalties and services;
- Exemption on capital gains payments to shareholders not resident in black listed jurisdictions;
- Access to Portugal's network of double taxation agreements including the one with the UK;
- Substance requirements: job creation and/or minimum investment.



5 - Main Benefits

Tax and Operational Advantages for Shipping Activities provided by the International Shipping Register of Madeira - MAR:

- Portugal's 2nd register with full access to EU cabotage operations;
- High Quality Register: included in the White Lists of Paris MoU, Tokyo MoU and even qualified for the US Qualship 21 Programme;
- Crew: flexible nationality requirements, no personal income tax, exemption from Social Security for foreign crew members;
- Competitive mortgage regime, which allows the application of a foreign law.



5 - Main Benefits

Tax and Operational Advantages for Shipping Activities:

- As an EU flag, MAR allows shipowners to maintain access to tonnage tax regimes in their home countries;
- Significant growth in recent years - since 2014 the strongest growing EU flag – as a result of the requirement to transfer tonnage into EU flags (but also as a result of Brexit, in 2017);
- Incorporation of shipping companies not mandatory in Madeira to register vessels.



6 - Portuguese Double Taxation Treaties

Total DTTs: 79 | In Place: 76 | Await. Approval: 3

EUROPE: Andorra - Austria - Belgium - Bulgaria – Croatia - Cyprus - Czech Republic - Denmark - Estonia - Finland - France – Georgia - Germany - Greece – Hungary - Iceland - Ireland - Italy - Latvia - Lithuania - Luxembourg - Malta - Moldova Rep. - Netherlands - Norway - Poland - Romania - Russia - San Marino - Slovakia - Slovenia - Spain - Sweden - Switzerland - Turkey - Ukraine - United Kingdom

AMERICA: Brazil - Canada - Chile - Cuba - Mexico - Panama - Peru - Uruguay - USA - Venezuela - Colombia

AFRICA: Algeria - Cape Verde – Ethiopia – Guinea Bissau - Ivory Coast - Morocco - Mozambique - Republic of South Africa - S. Tome & Prince – Senegal - Tunisia

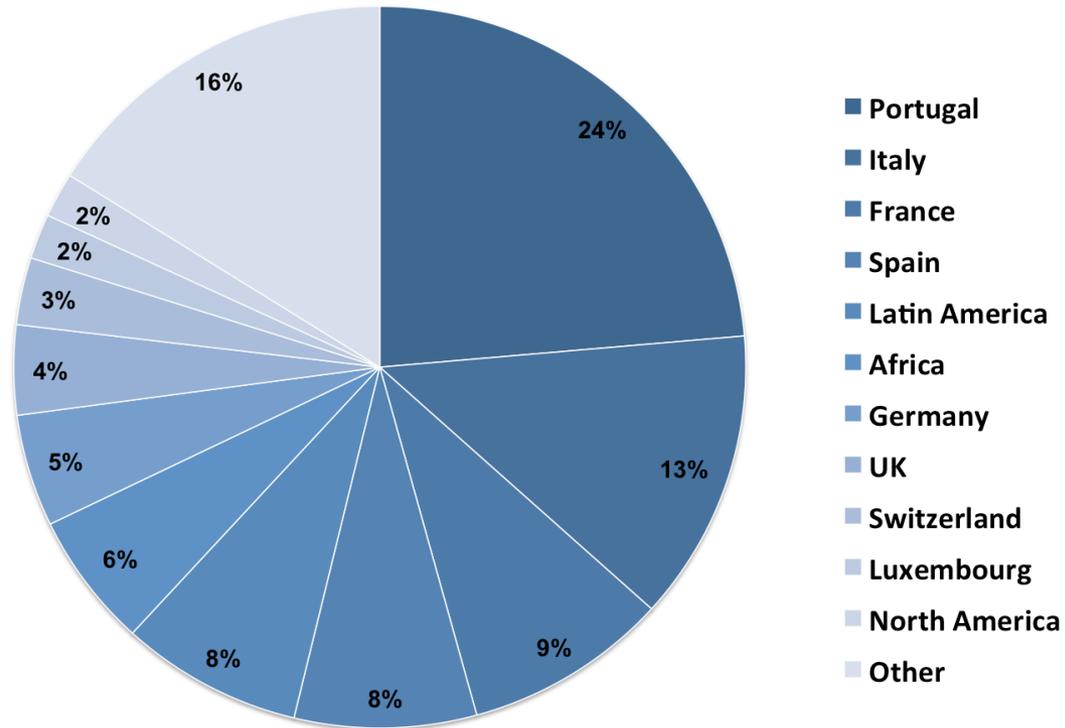
ASIA & ME: Bahrein - China - Hong Kong - India - Indonesia - Israel - Japan - Qatar - Kuwait - Macao - Oman - Pakistan - Saudi Arabia - Singapore - South Korea - United Arab Emirates - Vietnam

AWAITING APPROVAL: Barbados - East Timor - Montenegro



7 – Main Statistics 2017

Total of companies in Madeira's IBC (as of the 31st December 2017): 1.588*



*Including 49 companies in the industrial park

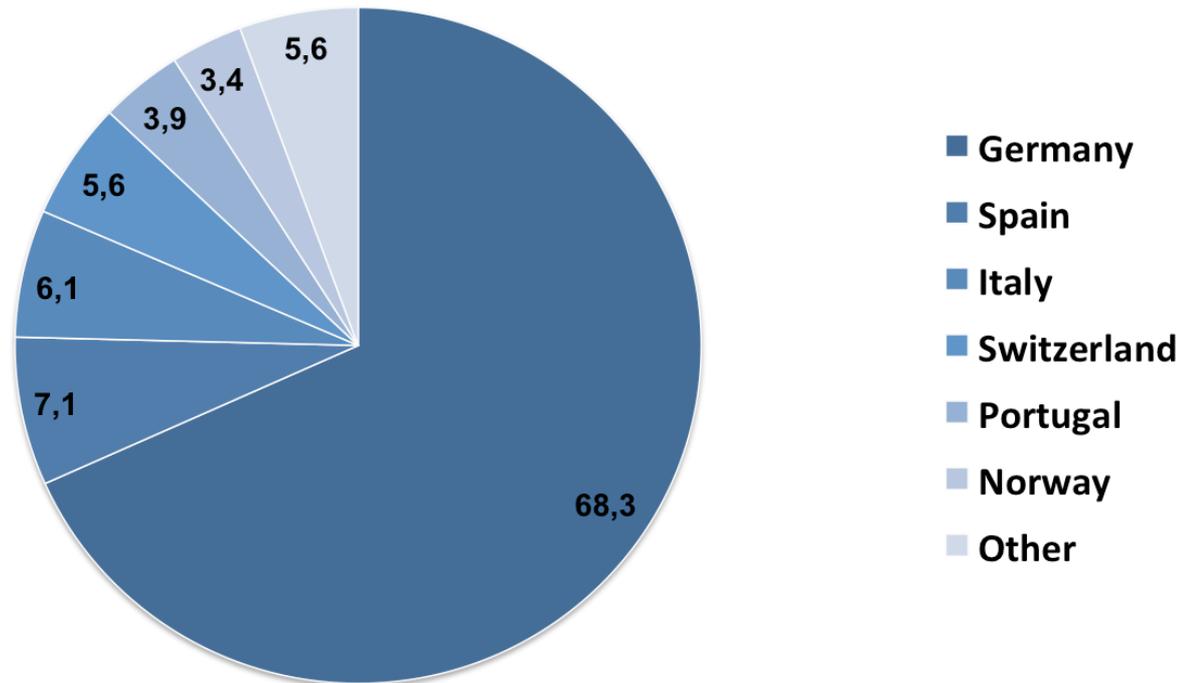


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7 – Main Statistics 2017

Total Commercial Vessels and Yachts in MAR: 588



Commercial Vessels: 476
Yachts: 112
Total: 588

Commercial Vessels:
Total Gross Tonnage: 15,324,425
Average age: 12,1 years
Average Tonnage per Vessel: 32,194



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8 – Other General Figures of Interest

In 2016, Madeira's IBC represented for the island's economy:



- More than **2/3** of the total CIT collected;
- **21,8%** of all tax revenue collected;
- Nearly **3,000** direct jobs, most of which qualified;
- **12%** of all FDI into Portugal (in 2014).



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Thank You!

www.ibc-madeira.com

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