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SPECIAL TAX ADVANTAGES IN PORTUGUESE REAL ESTATE INVESTMENT FUNDS

Portuguese Real Estate Investment Funds (herein after "FII") are likely to become a privileged vehicle for investing in real estate located in or outside Portugal, whether for resale or rental purposes, as well as for building projects. Portuguese legal frame allows certain types of FII to apply for credit without any limitations as regards their levels of indebtedness.

FII also benefit from a very special tax regime: (i) **exemption of real estate sales tax and real estate municipal tax**; (ii) **exemption of VAT** in administration and management operations, namely rental or sale of assets; (iii) **exemption of stamp duty** on transactions or acts in respect of participation units; (iv) **withholding tax exemption** on real estate income benefits; (v) **12,5 % rate on capital-gains** resulting from real estate sales; (vi) **10% on other capital-gains**; (vii) **withholding tax exemption** on any other income derived from outside the Portuguese territory. Concerning the participation units, the holder liable to Personal Income Tax in Portugal can be tax exempt and no withholding taxes are levied under certain circumstances. As for non-residents, no tax or withholding taxes are due, **including dividends distribution to tax havens**, which may be very interesting for tax planning purposes. In addition, when holders are not tax exempt, any tax paid by the FII is fully deductible.

This very favourable tax frame allows an effective tax burden of 3 to 6% for construction and resale of real estate assets.

NEW VAT RATES IN PORTUGAL WITH EFFECT FROM 1 JULY 2005

The Portuguese Value-Added Tax rates will change with effect from 1 July 2005. The normal rate will be 21%, the intermediary rate 12% and the reduced rate

5%. However, in Autonomous Regions of Azores and Madeira the normal rate shall be 15% and the intermediary and reduced rates of 8% and 4%, respectively.

ACQUISITION IN THE MEDIA SECTOR UNDER INVESTIGATION BY THE COMPETITION AUTHORITY

The Portuguese Competition Authority has decided to initiate an in-depth investigation into the acquisition by Controlinveste of the sole control of the holding Lusomundo Serviços through the acquisition of all the shares held by PT Multimédia (one of the main Portuguese telecommunication services providers) in said holding. The Competition Authority considered that said operation might lead to a dominant position, creating significant obstacles in several relevant markets in the media sector, namely in the market of general daily press, released nationwide.

This concentration operation, notified to the Competition Authority in March 2005, is of great importance due to the activities carried out by the companies involved: Lusomundo Serviços holds, through its subsidiaries, some of the most important newspapers and radio stations in the country, while Controlinveste is mainly active in the sports area, namely through shares held in a sports newspaper and in a television network.

Business

€500M LISBON BASED MEDICAL RESEARCH FOUNDATION LAUNCHED

European medical scientists have received a substantial competitive boost on June 14 when a charitable foundation to support research in fields ranging from stem cells to neuroscience was launched with a €500m endowment in Lisbon.

António Champalimaud, a Portuguese industrialist who died last year at the age of 86, donated a quarter of his €2bn estate to set up the new foundation. This large scale European foundation will support projects from all over the world with a focus on ophthalmology research. In addition, a 1 million euro annual prize will be set up.

PRIORITY GIVEN TO FOREIGN PROJECTS OF POTENTIAL NATIONAL INTEREST

The Portuguese government approved a new model for dealing with large scale investment by establishing the Recognition and Follow up System for Projects of Potential National Interest (hereinafter "PIN projects"), thus adopting new instruments for sweeping investment projects procedural following up.

The aim is to ease administrative formalities and procedures as well as to adequate instruments and procedural governing rules for incentives to private investments.

Projects with an adequate environmental and territorial sustainability, representing a global investment above 25 million euros and possessing a positive impact in, at least, four out of seven relevant topics are considered as PIN projects.

Projects below the 25 million euros limit that have a strong component of Research and Development (R&D), applied innovation or of acknowledged environmental significance can also be considered PIN projects, to the extent that they fulfil the same requirements.

PORTUGUESE GOVERNMENT DETERMINED TO REDUCE DEFICIT

Portugal's socialist government has launched a three-year plan of measures to tackle excessive deficit. These include a gradual increase in the retirement age for Portugal's 700,000 civil servants from 60 to 65, freezing public sector promotions and reducing sick-leave payments, a 2 percent increase in Value-Added Tax to 21 percent, a rise in tobacco and fuel taxes, the creation of a new income tax band of

42 percent on incomes greater than €60,000 and an attack on privileges and benefits enjoyed by the public administration.

This Newsletter is designed to provide a summary of the subject matter. It does not purport to be comprehensive or a substitute for specialist legal advice in individual circumstances.

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