

Portugal

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

The R&D tax credit program (SIFIDE II) has been extended and now applies for tax periods through 2025 (previously 2020).

A new investment tax credit program (CFEI II) has been enacted to support investments in new tangible and intangible assets in the period 1 July 2020 through 30 June 2021. The purpose of the program is to incentivize corporate taxpayers to maintain investment plans despite the uncertainty caused by COVID-19, providing a corporate tax credit of 20% of qualifying investment up to EUR 5 million.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
SIFIDE II: R&D tax credits	Tax credit against corporate tax liability for expenditure incurred on R&D activities	32.5% of qualifying expenditure, plus 50% of the increase in expenditure over the average qualifying expenses in previous two years	<ul style="list-style-type: none"> Salaries and wages of personnel directly involved in R&D Overhead costs Costs of R&D contracts 	<ul style="list-style-type: none"> Expenses incurred exclusively on behalf of third parties are not eligible Applications must be submitted by the end of the fifth month after the fiscal year-end
Portugal 2020: R&D cash grants	Cash grants for projects involving applied research and/or experimental development activities leading to the invention or significant improvement of products, processes, or systems (individual or joint projects)	50% for eligible expenditure related to applied research activities, 25% for eligible expenditure related to experimental development	<ul style="list-style-type: none"> Salaries and wages of personnel directly involved in R&D Materials for prototypes or experimental units Overhead costs Costs of R&D contracts 	Applications must be submitted before the project commences and within specific calls for proposals issued by the competent authorities
CFEI II: Investment tax credits	Tax credits for investments in the period 1 July 2020 through 30 June 2021	20% of eligible capital expenditure up to EUR 5 million	<ul style="list-style-type: none"> Purchase of tangible assets (e.g., equipment and machinery) Purchase of intangible assets (e.g., know-how and licenses) 	Eligibility is broad, sectors traditionally excluded by other programs (e.g., retail trading, agriculture, banking, and insurance, etc.) are eligible under CFEI II



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Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
● Consumer Products	Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
● Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	Health & Social Care
Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport















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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)			 	Regional: Arrears Local: Not applicable	Tax credit against the corporate income tax liability for corporate taxpayers who have incurred qualifying R&D expenditure	Base rate of 32.5% of qualifying R&D expenditure incurred during the tax year; incremental rate of 50% of qualifying R&D expenditure exceeding the average amount spent in the prior two tax periods (where the taxpayer had active businesses in the two years before the credit year)	Base rate of 32.5% of qualifying R&D expenditure incurred during the tax year; incremental rate of 50% of qualifying R&D expenditure exceeding the average amount spent in the prior two tax periods (where the taxpayer had active businesses in the two years before the credit year). SMEs that have not been actively engaged in business for at least two tax years may benefit from a special increase of 15% to the base rate, i.e., a 47.5% credit on qualifying expenditure
Patent box			 	Regional: Arrears Local: Not applicable	Deduction of percentage of revenue generated from IP developed through R&D undertaken in Portugal by corporate taxpayers	50% of revenue generated from IP	50% of revenue generated from IP
R&D grant (national)			 	Regional: Advance Local: Not applicable	Cash grants based on qualifying expenditure related to applied research and/or experimental development activities incurred by enterprises either individually or as part of a consortium with universities and other research organizations	50% of eligible expenditure related to applied research activities, 25% of eligible expenditure related to experimental development	Small enterprises: 70% of eligible expenditure related to applied research activities, 45% of eligible expenditure related to experimental development Medium-sized enterprises: 60% of eligible expenditure related to applied research activities, 35% of eligible expenditure related to experimental development

Key:  = PERMANENT INCENTIVE  = TEMPORARY INCENTIVE  = NEGOTIABLE  = NO  = LIMITED APPLICABILITY  = NOT APPLICABLE

Notes:













- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Innovation (continued)							
R&D grant (EU)			 	Regional: Advance Local: Not applicable	Cash grants based on qualifying expenditure related to research and innovation actions addressing societal challenges linked to the policy priorities of the Europe 2020 strategy incurred by consortia formed by entities established in at least three different EU member states or associated countries	100% of qualifying expenditure for research and innovation activities, 70% of qualifying expenditure for pure innovation activities	100% of qualifying expenditure for research and innovation activities, 70% of qualifying expenditure for pure innovation activities
Investment							
Capex tax incentive: CFEI II			 	Regional: Arrears Local: Not applicable	Tax credit based on capital investment by corporate taxpayers in the period 1 July 2020 through 30 June 2021. Eligibility is broad and not limited to particular industries	20% of eligible capital expenditure up to EUR 5 million	20% of eligible capital expenditure up to EUR 5 million
Capex tax incentive: RFAI			 	Regional: Arrears Local: Not applicable	Tax credit based on capital investment related to (i) the creation of a new establishment, (ii) an increase in the capacity of an existing establishment, (iii) diversification of the production of an existing establishment, or (iv) a fundamental change of the production process of an existing establishment by corporate taxpayers engaged in business in certain sectors and regions	25% of qualifying capital expenditure up to EUR 15 million, 10% of the excess over EUR 15 million	25% of qualifying capital expenditure up to EUR 15 million, 10% of the excess over EUR 15 million













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Investment (continued)							
Capex tax incentive: BFC contractual tax benefits for investments above EUR 3 million			 	Regional: Advance Local: Not applicable	Tax credit based on capital investment related to (i) the creation of a new establishment, (ii) an increase in the capacity of an existing establishment, (iii) diversification of the production of an existing establishment, or (iv) a fundamental change of the production process of an existing establishment, for corporate taxpayers engaged in business in certain sectors and regions, proposing investment projects that exceed EUR 3 million	Tax credit of 10% of qualifying capital expenditure. Maximum rate of 25% depending on project location and number of jobs to be created	Tax credit of 10% of qualifying capital expenditure. Maximum rate of 25% depending on project location and number of jobs to be created
Capex grant: Portugal 2020—Business innovation			 	Regional: Advance Local: Not applicable	Financial incentives to support capital investments that lead to the production of new or significantly improved tradable goods and services, contributing to the international orientation of the Portuguese economy. Available to enterprises of any size engaged in business in certain sectors and regions	Base incentive rate is 15% of qualifying expenditure. Higher rates are available for projects with certain characteristics (e.g., projects located in low density areas). Financial incentive is nonrepayable	Base incentive rate may be up to 45% of qualifying expenditure. Higher rates are available for projects with certain characteristics (e.g., projects located in low density territories). 50% of financial incentive is nonrepayable, 50% is repayable (but interest-free)
Employment grant: National incentives to provide new/enhanced employment opportunities			 	Regional: Advance Local: Not applicable	Financial incentive to offset the monthly cost to qualifying employers for up to 12 months of internship positions occupied by certain individuals	65% to 95% of the eligible costs of the internship	65% to 95% of the eligible costs of the internship















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Environmental sustainability							
Sustainability: European Innovation Fund			 	Regional: Advance Local: Not applicable	Grants to support capital and operating expenditure related to the demonstration and scale up of innovative low-carbon technologies by enterprises from EU member states aiming to invest in highly innovative technologies that generate significant emission reductions	60% of relevant project costs, calculated as the difference between the project's total capital and operating costs over a defined period and the total costs of an equivalent project using conventional technology (reference project)	60% of relevant project costs, calculated as the difference between the project's total capital and operating costs over a defined period and the total costs of an equivalent project using conventional technology (reference project)
Other							
Portugal 2020: Qualification and internationalization of SMEs			 	Regional: Advance Local: Not applicable	Cash grants to support investments made by SMEs to strengthen their business capacity	Not applicable	45% of qualifying expenditure
Key:  = PERMANENT INCENTIVE  = TEMPORARY INCENTIVE  = NEGOTIABLE  = NO  = LIMITED APPLICABILITY  = NOT APPLICABLE							



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Country background

The standard corporate tax rate in Portugal is 21%, with a reduced rate of 17% applying to the first EUR 15,000 of taxable profits of small and medium-sized enterprises (SMEs). A state surcharge is levied on taxable profits at the following rates: 3% on profits over EUR 1.5 million and up to EUR 7.5 million; 5% on profits over EUR 7.5 million and up to EUR 35 million; and 9% on profits exceeding EUR 35 million. A municipal surcharge is levied on taxable profits at rates up to 1.5%, depending on the municipality, resulting in a maximum possible combined tax rate of 31.5%.

Innovation incentives

Research & Development (R&D)

Nature of incentives

The Tax Incentives Scheme for Corporate R&D (SIFIDE II), which applies until 2025, provides a current year tax deduction for research and development (R&D) costs, as well as the tax incentives described below.

A credit is granted against the corporate tax liability for expenditure incurred on R&D activities (net of any cash grants awarded by the government in relation 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; and
- Incremental rate: All taxpayers may take an additional incremental credit of 50% of qualifying expenditure exceeding the average amount spent in the prior two tax periods. This incremental credit applies only to taxpayers that had active businesses in the two years before the credit year. However, SMEs that have not been actively engaged in business for at least two tax years can benefit from a special increase of 15% to the base rate, i.e., a 47.5% credit computed on qualifying expenditure.

Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Eligible activities may take place within or outside Portugal, provided that the cost is incurred by the Portuguese company claiming the benefit.

Qualifying expenditure includes:

- A proportion of the acquisition cost of new fixed assets (except buildings and land) in line with their allocation to R&D activities;
- The wages of personnel directly involved in R&D activities provided the employee has completed a secondary level of education and 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 (PhDs) are eligible 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 in an amount of up to 55% of personnel costs directly involved in R&D activities. These costs include:
 - Overheads, such as electricity, gas, water, rent, repairs, and maintenance;
 - Contracted R&D services (from entities not officially recognized as possessing R&D capabilities); and
 - 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 intended to finance R&D;
- Costs of registering and maintaining patents;
- Patent acquisition costs related to R&D activities (applicable only to SMEs);



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- Costs of R&D audits (applicable only to SMEs); and
- 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

An application must be submitted by the end of the fifth month after the year-end (usually in May of the following year since most taxpayers use the calendar year). Where the tax liability for the year is insufficient to fully utilize the credit, any unutilized tax credit may be carried forward for up to eight subsequent taxable periods.

SIFIDE II requires applications to be certified by the National Innovation Agency. The application must contain a description of the technical details of the R&D activities carried out, the corresponding qualifying expenditure, and related incremental amounts compared with previous accounting periods. An entity may be subject to a technological audit (i.e., an audit on the technical specifications of the project to validate the activities described) at the end of the project.

Patent box

The patent box regime provides a deduction of up to 50% of the revenue generated by IP developed through R&D undertaken in Portugal. Fifty percent of the income from the sale or grant of the temporary use of industrial property rights (i.e., patents, industrial drawings, models, and software) is exempt from corporate income tax. Income from the development of trademarks, copyrights (other than related to software), and know-how is not eligible for benefits under the regime.

The patent box regime was amended on 30 June 2016 to bring it in line with the recommendations of the OECD under action 5 of the BEPS project. The revised regime adopts the modified nexus approach by providing that only the share of income attributable to R&D undertaken in Portugal will qualify for the incentive. The deduction is determined in proportion to qualifying expenses incurred based on the following formula: $(\text{Qualifying expenditure incurred to develop the IP asset(s)} / \text{Total expenditure incurred to develop the IP derived from the active IP tax benefits}) \times \text{Overall income from IP asset(s)} \times 50\% = \text{Qualifying IP income}$. Portuguese taxpayers may benefit

from the regime to the extent they can show that they incurred R&D expenditure on or after 1 July 2016 that gave rise to the patent income. Grandfathering provisions apply for patents and industrial designs acquired by 1 July 2016 that allow taxpayers to maintain the benefits of the previous regime until 30 June 2021.

R&D grant (national)

The “Portugal 2020: R&D” program provides cash grants for projects involving applied research and/or experimental development activities, leading to the invention of new products, processes, or systems, or significant improvements to existing products, processes, or systems (individual or joint projects). The program requires the submission of an application within specific calls for proposals issued by the competent authorities. Eligibility is broad and includes all economic activities, in particular, those aimed at the production of tradable goods and services. The following industries are excluded (i) finance and insurance, (ii) defense, and (iii) lotteries and gambling. Funding for large enterprises under this program consists of 25% of qualifying expenditure, plus a further 25% (i.e., 50% in total) for qualifying expenditure related to applied research activities. The funding opportunity is increased for medium-size companies by 10%, and for small companies by 20%.

R&D grant (EU)

The European program “Horizon 2020” provides cash grants for research and innovation activities addressing societal challenges linked to the policy priorities of the Europe 2020 strategy. The program requires the submission of an application within specific calls for proposals. Proposals must be submitted by consortia formed by entities established in at least three different EU member states or associated countries (these entities can be SMEs, large enterprises, universities, or other research organizations). Horizon 2020 provides two types of grant funding of up to 100% of qualifying expenditure for research and innovation activities, and up to 70% of qualifying expenditure for pure innovation activities.

Investment incentives

CAPEX tax incentive: CFEI II

CFEI II provides tax credits for investments in new tangible and intangible assets in the period 1 July 2020 through 30 June 2021. Eligibility is broad, and sectors traditionally excluded by other programs (e.g., retail trading, agriculture, banking, and insurance) are eligible under CFEI II. The purpose of the program is to incentivize corporate taxpayers to maintain investment plans despite the uncertainty caused by COVID-19, providing a corporate tax credit of 20% of qualifying investment up to EUR 5 million.

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CAPEX tax incentive: RFAI

RFAI provides tax credits for initial investments related to (i) the creation of a new establishment, (ii) an increase in the capacity of an existing establishment, (iii) diversification of the production of an existing establishment, or (iv) a fundamental change of the production process of an existing establishment. Eligibility is broad, but some regions and/or sectors are excluded due to national and/or European restrictions. Investments must lead to net job creation. The tax credit is 25% of qualifying capital expenditure up to EUR 15 million and 10% of qualifying capital expenditure above EUR 15 million.

CAPEX tax incentive: BFC contractual tax benefits for investments above EUR 3 million

This program is similar to RFAI, but is available only for initial investments that exceed EUR 3 million. Taxpayers must prepare and submit an application in advance, i.e., before the beginning of the investment period. Successful applicants are offered the opportunity to sign a tax grant agreement. The tax credit is 10% of qualifying capital expenditure, with a potential increase of up to a further 15% (giving a maximum credit of 25%), depending on the project location and number of jobs to be created.

CAPEX grant: Portugal 2020—Business innovation

Portugal 2020: Business innovation provides financial incentives for initial investments that lead to the production of new or significantly improved tradable goods and services, thus contributing to the international orientation of the Portuguese economy. For large companies, the base incentive rate is 15% of qualifying expenditure. The financial incentive is nonrepayable. For SMEs, the base incentive rate is up to 45% of qualifying expenditure. Fifty percent of the financial incentive is nonrepayable and 50% is repayable (but interest-free). Rate increases are available for projects with certain characteristics (e.g., projects located in low density areas). Applications may be made under the scheme until 31 December 2020.

Employment grant

This program supports internships that provide practical experience to jobseekers, with the objective of promoting their integration in the labor market. Eligible interns include young unemployed registered jobseekers aged between 18 and 30 years old. The program provides a financial incentive for two types of project: standard projects and

strategic projects (in the latter case, the project must involve at least 25 internships). The financial incentive consists of a percentage of the monthly costs incurred by the employer (e.g., wages and food allowances for the interns), ranging from 65% to 80% for standard projects (nine months), and from 80% to 95% for strategic projects (up to 12 months). An additional lump sum grant of up to EUR 2,194.05 per intern is granted to employers that enter into a permanent employment agreement with an intern within a period of 20 days after completion of the internship. Qualifying employers are organizations of private law, and may include not-for-profit entities.

Environmental sustainability incentives

European Innovation Fund

This is one of the world's largest funding programs for demonstration of innovative low-carbon technologies. It is not a research program, but is designed to bring highly innovative technologies to the market. The program is aimed at technologies that are at a technology readiness level of at least six (on a scale from one to nine), but not fully deployed in the market. The program covers all EU member states and funds up to 60% of the project's relevant costs, which are calculated as the difference between the project's total capital and operating costs over a defined period, and the total costs of an equivalent project using conventional technology (the reference project). The funds are disbursed flexibly, following the cash flow needs of the project, and up to 40% of the grant may be released based on predefined milestones before the project is fully operational.

Other incentives

Portugal 2020: Qualification and internationalization of SMEs

This program provides cash grants to strengthen the business capacity of SMEs through investments in a variety of areas, including (i) participation in international exhibitions, (ii) prospecting of international markets (with an ultimate objective of entering those markets. Subsidized activities include consultation and preliminary contacts with potential clients and other stakeholders located in the targeted markets), (iii) implementation of quality certifications, (iv) adoption of digital tools, (v) adoption of information and communication technologies, and (vi) creation of brands and design. Nonrepayable cash grants may provide SMEs with funding of up to 45% of qualifying expenditure (40% for projects in the Lisbon region).