

## Editorial

2007 will be a very significant year for Madeira. The negotiations with the European Commission for the new tax regime, to be in force between 2007 and 2020, are close to an end and everything indicates that Madeira will benefit from a favourable regime that will allow this jurisdiction to remain amongst the most credible and competitive ones of the European Union. We shall come back to this matter whenever there will be relevant news.

In our continuous effort to improve the service provided to our customers, newmadeira launches in 2007 a new site that will include a private area where each client will be able to consult relevant information on his/her company. At this moment we are undertaking a customer satisfaction enquiry, in order to identify areas of potential improvement. In 2007 newmadeira will also implement an ambitious marketing plan so that we may adequately promote the new tax regime of Madeira to our current and potential clients.

### Extension of the VAT regime applicable to the electronic services

Directive 2006/138/CE has been published, extending up to December 31 2008 the VAT regime applicable to telecommunication and electronic services.

According to this Directive, non-EU suppliers of telecommunication services and of electronic services selling such type of services to final consumers residing in EU Countries must:

- Register for VAT purposes in an EU Country;
- Collect VAT at the rate in force of the Country of consumption.



The EU legislation equally establishes that EU suppliers in the same situation (as it is the case for Madeira) must collect the VAT of the Country of origin.

Leading American and European companies of telecommunications and electronic services have chosen Madeira as a base for their operations B2C within the Community's sphere, due to its VAT rate, which is the lowest in the European Union (15%). Besides VAT, such companies benefit from other advantages such as:

- Administrative simplification when dealing only with one VAT rate, instead of 27;
- Access to the most competitive tax regime of Europe, in terms of taxation on profits;
- Safety and credibility resulting from their operations in a mature and well regulated EU jurisdiction, where EU directives relating to electronic commerce have all been transposed to the national laws;
- Excellent levels of bandwidth and of connectivity. Due to its geographic location, Madeira is a hub in the Atlantic of submarine cables connecting different continents;
- Modern and efficient telecommunications' infrastructures.

Considering that any change to the taxation rules within the European Union requires the unanimous vote of the 27 member States, it is quite certain that, by the end of 2008, we shall witness successive extensions of such regime.

### Parent-Subsidiary Directive

The minimum direct holding percentage of the participation of the non resident entity in the share capital of the Portuguese Company, required to be entitled to the exemption from withholding corporate income tax (IRC) on profits distribution, is now reduced from 20% to 15%, in such cases where the companies fulfil the requirements provided for in the Parent-Subsidiary Directive [Directive N° 90/435/CEE, of July 23rd].

Furthermore, this regime is extended to the Swiss Confederation, in which case it is required, besides other requirements, a social participation of at least 25%.

Copyright © January 2007 by New Madeira Investment Serviços, S.A. ALL RIGHTS RESERVED.

No part of this publications may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission.

# newmadeira update

## Double economic taxation of distributed profits

The regime of elimination of the double taxation is enlarged, by 50%, to the profits distributed by entities resident in other member States of the European Union, whenever the requirements of percentage or of holding time are not fulfilled.

The article providing for an anti-abuse norm in the sense of non-application of the double taxation in such cases where profits have not effectively been taxed has been revoked, being replaced by a new rule defining that, in such cases, dividends will be taxed at 50%, except when the beneficiary is a Pure-Holding Company (SGPS).

## Accounting international rules

The National Parliament (Assembleia da República) has authorized the Government to proceed to necessary legislative amendments in order to adapt the Portuguese corporate tax rules to the international rules of Accounting.

## Double taxation agreements

The Agreement with Indonesia and the revision of the protocol of the one with Ireland have been ratified. The agreement with Turkey has now entered into force. From the agreements ratified by Portugal, only those with Chile, Indonesia, Pakistan and Ireland haven't yet entered into force (revision of protocol).

## Efficiency of the tax administration

In a recent press-release, the Minister for Finance revealed the results of the Directorate-General for Taxes at the level of efficiency and speed in the appreciation of the claims from taxpayers. A 36%-reduction in the time taken to analyse processes has been observed in 2006.

## Minimum wage

The minimum wage in force in Madeira will be updated to €411 in 2007. Such value is important since it is used as reference in several cases, namely in the identification of the minimum contribution for the social security applicable to directors of Madeira companies. Considering 31.25% to be the rate of social security (21.25% at the company's charge and 10% to be paid by the director) the monthly minimum contribution for social security will be updated to €128.44.

## Reduction of the share-capital

The Council of Ministers has approved a decree-law that changes the legal regime of reduction of the social capital of commercial entities, thus eliminating the compulsory judicial intervention and promoting the global simplification of the regime.

## Claims via internet

As from December, the delivery and consultation of claims of IRS (personal income taxation), IRC (corporate income taxation) and VAT and withholding taxation may be made via Internet, through the site of the Directorate General for Taxes, [www.e-financas.gov.pt](http://www.e-financas.gov.pt).

## Crewmembers of official spanish speaking countries

The Portuguese Government has, as from now, also authorized the embarkation of citizens of official Spanish speaking Countries (namely from Argentina, Chile, Cuba, Mexico and Peru) as crewmembers onboard vessels registered at Madeira's International Shipping Register – MAR belonging to Spanish Ship-owners. This is expected to highly increase MAR's competitiveness in Spain, as it may represent a significant reduction of the management operational costs of such vessels.

## Team building action

On the 22nd December 2006 newmadeira's team has dressed to the occasion and launched a team building action, with a pleasant promenade through the natural beauty of Madeira Island.

The day has relied on moments of co-fraternization and culminated with a lunch where the company's strategy for 2007 has also been presented.

The balance is positive, the team is motivated to give its best in 2007 and the experience is to be repeated.

