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TAX INCENTIVES FOR COMPANIES TO INVEST: THE PORTUGUESE CASE IN 2019

Jose Campos Amorim

*School of Accounting and Administration of Porto (ISCAP), Polytechnic Institute of Porto (IPP),
Portugal
j.camposamorim@gmail.com*

Benjamim Sousa

*School of Accounting and Administration of Porto (ISCAP), Polytechnic Institute of Porto (IPP),
Portugal
benjamimsousa@iscap.ipp.pt*

Adalmiro Pereira

*School of Accounting and Administration of Porto (ISCAP), Polytechnic Institute of Porto (IPP),
Portugal
adalmiropereira@mail.telepac.pt*

Angela Vaz

*School of Accounting and Administration of Porto (ISCAP), Polytechnic Institute of Porto (IPP),
Andrade & Brandão, Lda (expertise), Portugal
angelavaz@andradebrandao.pt*

Abstract

The allocation of tax incentives aims to stimulate the economy by reducing or exempting, directly or indirectly, taxes, thus allowing the reduction of the tax burden, but also attracting new investments in the key sectors of the economy, can be a way to develop a country. The recently approved Investment Tax Code in Portugal creates new rules for obtaining tax benefits, which it is important to know here and is the main object of study here. The results show that companies benefiting from this can obtain considerable tax savings and tax efficiency. It is important to clarify the several options that the companies can have and what is the best solution. So, a review of the most important options is

extreme relevant. This paper presents a group of examples that demonstrate the ways the companies can benefit with the incentives presents in the Portuguese law.

Keywords

Investments, Tax Benefits, Tax Incentives, Profit Investment, DLRR, RFA

1. Introduction

The tax incentive policy of Portugal aims to stimulate certain sectors of activity and regions, in order to achieve certain economic and social objectives through the reduction or exemption, directly or indirectly of the taxes.

Fiscal policies have an influence on the economic growth rate (Castro (2006)), where the taxation level have an influence on the decision to invest, which in a way, can affect economic growth. The Portuguese tax system has a high number of instruments that can affect the economy. In terms of tax benefits, the benefits contained in the Tax Benefits Code (TBC) and especially in the Investment Fiscal Code (IFC), Pinto (2011).

1.1. Tax Benefits Opportunities

The tax benefits for investment are set out in the Investment Fiscal Code and relate to four types of benefits, the Tax Benefit Contract Investment Productive (BFCIP), the Fiscal Investment Support Scheme (RFAI), the Regime Deduction of Retained and Reinvested Earnings (DLRR) and, finally, the system of Tax Incentives for Research and Development Business II (SIFIDE II).

The BFCIP scheme and RFAI are regional schemes support. The DLRR is a system of tax incentives for investment in favor of micro, small and medium companies also approved the exemption of the General Regulations Activity Codes, published in the EU Official Journal No. C 187/1 of 26 June 2014.

European Union guidelines for regional aid for 2014-2020, are published in the EU Official Journal No. C 209/1 of 27 July 2013 and Regulation (EU) No 651/2014, of June 16, 2014, which approved the General Regulations Activity Codes, published in the EU Official Journal No. C 187/1 of 26 June 2014.

It is important to refer the Ordinance 297/2015 of 21 September, which regulates the application of tax benefits to investment, *RFAI* and *DLRR*, to ensure in particular the full implementation of the rules resulting from European legislation. This ordinance was issued following the publication of Regulation (EU) No 651/2014 of 16 June 2014, also called General Regulations Activity Codes.

1.2. Paper Structure

This paper aims, to determine whether the companies that enjoy the tax benefits obtained considerable tax savings, resulting in a higher net result at the end of the year. In this sense, we

proceed to the presentation of practical examples of the use of tax benefits, showing the procedure for the application, imposed by the Investment Tax Code, and consequently refer to tax savings obtained in Corporate Tax.

The research follows the following steps:

- Presentation of the different options for tax benefits in Portugal
- Application of the tax benefits

1.3. Methodology

Qualitative research is a form of non-statistical research. We will do a summary of the Portuguese law and then present the impact on companies using qualitative research.

2. The Tax Benefits (Theory)

As mentioned by Klemm (2010), we can define corporate income tax incentives as all the measures that provide for an unambiguously more favorable tax treatment of particular sectors, type of firms, activities or investments relative to the standard tax regime applying to general industry.

These tax incentives can take many forms, which include, but are not limited to, the following: tax holidays, special zones, investment tax credits, investment allowances, accelerated depreciation, and reduced tax rates.

James (2013) did a study about the impact of the tax benefits in terms de companies' vs economy.

The impact of the revenue to the Portuguese government has been growing in the last years, as presented in the following figure.

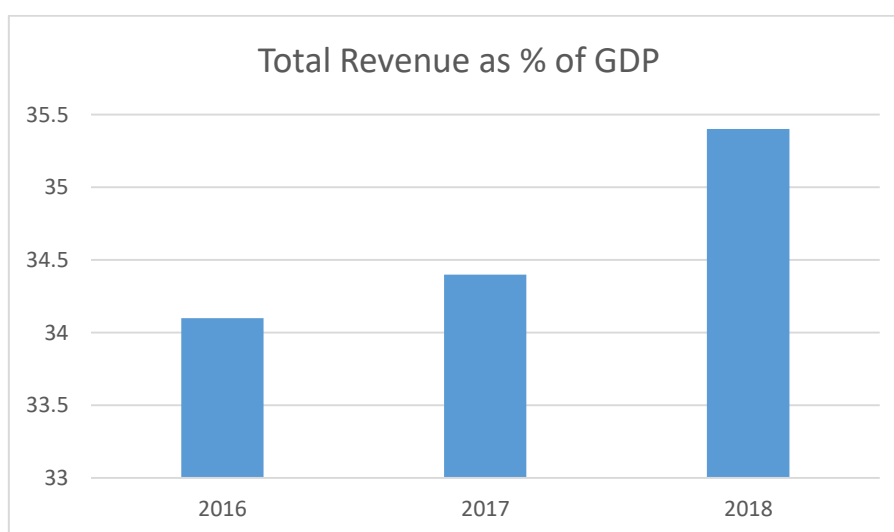


Figure 1: *Total Revenue as % of GDP in Portugal*

Source: OCDE website (2019)

3. Tax Benefits to Productive Investment Contract (*Bfcip*)

Investment projects carried out up to December 31, 2020, equal to or greater than € 3,000,000, relevant to the development of the sectors considered, can benefit from tax incentives, on a contractual basis, with duration of up to 10 years (Article 2, n. °1 IFC).

According to paragraph 1 of Article 8 of the IFC, the investment projects can be granted various tax benefits, such as:

- I. Tax credit, determined based on the application of a percentage, between 10% and 25% of the relevant design applications effectively held, to deduct the amount of the Tax on Company (IRC) value;
- II. Exemption or reduction of property taxes in respect of buildings used by the entity for the project;
- III. Exemption or reduction of Municipal Tax on Onerous Estate Transmission in respect of real estate acquired by the entity for the exercise of their activity;
- IV. Exemption or reduction of stamp duty in respect of all acts or contracts necessary for the execution of the project.

In the case of tax credit deduction, this is done on IRC settlement relating to the tax period in which the relevant applications were made, and may this deduction to be used under the same conditions, the settlement of the following tax periods until the end the term of the contract referred to in Article 16 of the IFC, when has not been deducted in full in the tax period (Article 8, paragraph 2 of the IFC). When it comes to the creation of companies, the annual deduction may correspond to the total collection calculated each year. In the case of existing companies, the maximum annual deduction may not exceed the greater of 25% of the total granted or 50% of the collection was determined in each taxation year (Article 8, n. ° 3 IFC).

The increases provided for investment in unfavorable regions in accordance with Article 9 IFC vary between 6% and 10%.

These tax benefits cannot be combined with other tax benefits of the same nature likely to be assigned to the same investment project, Article 13 of the IFC. However, the tax benefits are cumulative with *DLRR*,

Article 11 of the IFC, defines the eligible costs for the purpose of calculating tax benefits. The costs associated with the projects are related to:

- I. Fixed Assets affect the realization of the project, except: a) lands that are not included in sector projects in mining and quarrying; b) buildings and other structures not directly related to the production process; c) light or multipurpose vehicles and other transport equipment in the amount

exceeding 20% of eligible costs; d) furniture and articles of comfort and decoration, except hotel equipment affect the tourist exploitation; e) social facilities; f) production equipment intended for use for economic purposes, since recognized industrial and environmental interest.

II. Intangible assets, consisting of costs of technology transfer, including acquisition of patent rights, licenses, "know-how", which may not exceed 50% of eligible project costs.

The relevant applications in land and buildings shall, in accordance with Article 11. Also considered eligible expenditure advances related to the investment project, up to 50% of the cost of each purchase, provided they made less than a year before the date of application for tax benefits, according to paragraph 6 of Article 11 of the IFC.

Moreover, is also eligible expenditure on studies directly related to the investment project, accounted for as intangible assets, provided there is less than a year before the date of application for tax benefits, in accordance with paragraph 7, the Article 11 of the IFC.

The application shall be submitted by the investment project promoter to the Agency for Investment and Foreign Trade of Portugal (AICEP) and the Agency for Competitiveness and Innovation (IAPMEI) pursuant to Article 15 of the IFC.

Example (Paiva (2014))

Company X Ltd, micro-enterprise, exerts its activity in the field of computer programming in the northern region of the country, and falls into the CAE 62010. - Computer Programming activities, as defined in Ordinance No. 282/2014, December 30. Once the activity is provided for in Decree No. 282/2014 of 30 December, the company X, Lda. Asks whether you can enjoy the BFCIP, since all the conditions laid down in IFC. In the period 2019, the company X, Lda. Has met all eligibility requirements to qualify for the BFCIP as stipulated in paragraph 1 of Article 3 of the IFC.

Let us assume further that in the 2019 period, the company X, Lda. Invested considered relevant. The investment was affection in its entirety to the northern region, where the company has its headquarters. In 2019 the company purchased a machine in financial lease in the amount of € 2,000,000.00, and various equipment used in a total amount of 3,000.00 €.

According to the Declaration Model 22, it was found that in the 2019 period was hereby noted that the taxable amount of € 500,000.00 which translates into an IRC in 2019 of € 104,400.00 (the duality of rates applies to subjects liabilities that qualify as SMEs under the annex to Decree-Law No. 372/2007 of 6 November).

To calculate the tax related to the period 2019, proceeded to the calculation of the tax benefit that the company X, Lda. would benefit, namely as far as BFCIP. It is made clear that in the past years Company X, Lda. did not enjoy this tax benefit, and in 2019 the first year in which it was used.

According to Article 11 of the IFC, the relevant application to be considered in determining the taxable benefit relates to the acquisition of a machine in financial lease (Article 11, paragraph 3 of the IFC).

During the period 2019 the company X, Lda., Will benefit from a portion of BFCIP, calculated for the period of 2019 related to the acquisition of the machine in financial lease in the amount of € 2,000,000.00. Thus, the deduction of collection operations is of € 200,000.00, corresponding to 10% of the investment, with the 50% limit of IRC, meaning € 52,200.00, as stipulated in Article 8, paragraph 3 IFC, with the deduction to be made under Article 90 of the CIRC.

In this case, due to insufficient IRC cannot full deduction of 10% of the relevant applications, and the remaining being transferred for the following periods, which can be used under the same conditions, the settlement of taxation periods until the end of the contract. Note that the benefit calculated respects the ceilings applicable to regional aid in force in the north, and the effective assistance rate of 25%.

Thus, applying this tax incentive, the company X, Lda. presents a tax saving of € 52,200.00.

4. Financial Support to Investment Scheme (*Rfai*)

The *RFAI* is an incentive regional nature, for certain sectors of activity, which allows companies to deduct from collecting a percentage of investment in non-current assets, tangible and intangible. It is the major tax incentive to revitalize the regional economy.

The recipients of *RFAI* taxpayers who exercise, primarily, an activity in the areas specifically set out in paragraph 2 of Article 2 of the IFC, taking into account the defined activity codes in the ordinance referred to in paragraph 3 of that article. The sectors concerned are: the mining and manufacturing; tourism; activities and IT services; farming activities, aquaculture, fisheries, agricultural and forestry; research and development activities and technology-intensive; information technology and production of audiovisual and multimedia; defense, environment, energy and telecommunications and shared service centers activities.

Can benefit from incentives IRC taxpayers that cumulatively fulfill the following conditions (Article 22, paragraph 4 of the IFC):

- a) Accounting is offered regularly organized;
- b) The tax profit is calculated by direct methods;
- c) Keep the company to assets investment for at least 3 years in the case of SMEs, and 5 years in all other cases; when lower, at least during the period of useful life or until the period where there is the appropriate physical slaughter;

d) are not debtors to the state and social security;

e) not be considered firms in difficulty;

f) undertake significant investment that provides for the creation of jobs and their maintenance until the end of the deduction period the collection of RFAI.

The following tax benefits to IRC taxpayers are granted in accordance with Article 23 paragraph 1 of IFC:

I. Deduction of IRC determined under subparagraph a) of paragraph 1 of Article 90 of the CIRC, the following amounts of the relevant applications:

a) 25% of the relevant applications, for investments up to € 10 million, conducted in the North, Center, Alentejo, Azores and Madeira;

b) 10% of the relevant applications in relation to the investment that exceeds € 10 million, conducted in the North, Center, Alentejo, Azores and Madeira;

c) 10% of the relevant applications, if the investment is made in the Algarve and in Lisbon.

II. Exemption or reduction of IMI (Tax on real estate) for a period of 10 years from the date of acquisition or construction of the building in relation to buildings used in the investment;

III. Exemption or reduction of IMT (tax on purchase of real estate) on purchases of properties constituting relevant applications;

IV. Stamp duty exemption on purchases of properties constituting relevant applications.

Are considered relevant applications, and thus are eligible expenses under the RFAI, investments in these assets, since pertaining to the operation of the company (Article 22, paragraph 2 of IFC): I. Fixed Assets acquired in new condition, except for: a) land, except if it is intended to mining concessions, natural mineral waters and spring waters, quarries, pits and harnesses on projects; b) construction, acquisition, repair and extension of any buildings unless they are manufacturing facilities or affects the administrative activities; c) light passenger or multipurpose vehicles; d) Furniture and comfort items or decoration, except hotel equipment affect the tourist exploitation; e) social facilities; f) other investment assets other than those pertaining to the operation of the company. II. Intangible Assets,

Please note that the RFAI cannot be combined with other tax benefits of the same kind in respect of such relevant applications, provided the IFC or other legislation.

As for the process of tax documents, shall contain the calculation of the tax benefit, as well as proof of eligibility conditions, as required by Article 25 of the IFC. The taxable person shall include at tax documentation process referred to in Article 130 of the CIRC, the following information:

- Description of the initial investment, namely the objectives, areas of intervention and major investments, as well as the appropriate framework in one of the types referred to in subparagraph d) of paragraph 2 of Article 2 of the Ordinance;
- Identification and date of the acquisition cost of all relevant applications, and the list of invoices that shows the respective acquisition;
- Identification of the region or regions in which the investment was made and the respective relevant applications;
- Calculation of the tax benefits provided for in paragraph 1 of Article 23 of the IFC concerning investment in relevant applications in the tax period and respective updated values in accordance with the provisions of Article 4 of this Ordinance;
- Identification of other State aid granted to the same investment and calculating the amount of aid, updated in accordance with the provisions of Article 4 of this Order;
- Determination of the intensity of the aid granted to the same investment as a percentage resulting from the ratio between the total amount of State aid and the amount of the relevant applications;
- Calculating the aid ceiling according to Article 43 IFC;
- Clearance, where applicable, the excess of the aid ceiling and the amount of State aid granted to the same investment.

5. Deduction Scheme for Profits Retained and Reinvested (*Dlrr*)

The DLRR is a system of tax incentives for investment intended for micro, small and medium-sized enterprises, which allow the deduction to the IRC retained earnings that are reinvested in relevant applications. This tax incentive was introduced by Law No. 83-A / 2013 of 31 December, with effect from January 1, 2014.

The DLRR regime, which was provided for in articles 66 to 66 C-L-TBC, rose to Article 28 of the IFC, which determines who can benefit from DLRR the IRC taxpayers resident in the country as well as non-resident taxpayers but with a permanent establishment in Portugal, engaged primarily an activity of commercial, industrial or agricultural nature. To benefit from this incentive, IRC taxpayers must fulfill the following conditions:

- be micro, small or medium-sized enterprises;
- dispose of proper accounting;
- tax profit not be determined by indirect methods;
- have regularized the tax and contributory situation.

The beneficiaries of this scheme may deduct from collecting the tax periods beginning on or after January 1, 2014, up to 10% of retained earnings that are reinvested within three years counting from the end of the tax period to which correspond retained earnings. The maximum amount of retained earnings and reinvested in each tax period, is € 7,500,000 per taxpayer (Article 29, paragraphs 1 and 2 of the IFC).

The deduction is limited by 25% of the collection of the IRC, however, in the case of micro and small companies the deduction provided for is made up to the amount of 50% of the collection of the IRC. The deduction covers situations where during the tax period are met the requirements (Article 29, paragraphs 3 and 4 of the IFC).

Are considered relevant applications, and so are eligible expenses under this support, the following applications:

I. Fixed Assets acquired new, expect:

- a) land, except where they are intended for the operation of mining concessions, mining natural waters and spring waters, quarries, pits and sandpits in extractive industry projects;
- b) the construction, acquisition, repair and expansion of any benefit, unless affects the productive and administrative activities;
- c) light passenger or mixed cars, unless used to the operation of public service transport, or intended to be hired in the course of normal activity of the taxable person, pleasure boats and private aircraft;
- d) articles of comfort or decoration, except hotel equipment affect the tourist exploitation;
- e) Assets affects the activities under concession agreements or public-private partnership entered into by public sector entities.

II. If the assets were acquired under finance lease, the deduction is subject to the exercise of the purchase option by the taxpayer within five years from the date of acquisition;

III. The relevant applications to be realized reinvestment of retained earnings should be held and accounted for in accordance with the rules that determine your eligibility for a period of five years;

IV. When occurs the onerous transfer of assets to be realized reinvestment of retained earnings before the period laid down in the preceding paragraph, the taxpayer must reinvest in the same tax year or the next tax period the respective realizable value in relevant applications, which must be held at least for the period necessary to complete the term of 5 years. (Article 30 IFC)

The DLRR may be added to the RFAI in terms and conditions contained in Articles 13 and 24 of the IFC, respectively (Article 31 of the IFC).

Taxpayers benefiting from the DLRR should proceed, on balance, the establishment of a special reserve where the value is the amount of retained earnings and reinvested. This value can be used for distribution to shareholders before the end of the fifth year after its constitution (Article 32 of the IFC).

The failure by the taxpayer involves the return of the tax amount which has become settled in different situations:

- The non-implementation of the entire investment pursuant to Article 30 until the end of the three-year period referred to in paragraph 1 of Article 29 not only implies the return of the tax amount, as it is added the amount of tax payable for the third following tax period, plus the corresponding compensatory interest scaled up by 15% to compensate the State for the delay in collecting the tax;
- In the portion corresponding to the assets that are transmitted before the expiry of five years or is not exercised the option, implies the return of the tax ceased to be paid plus the corresponding compensatory interest scaled up by 15%;
- The failure to set up the special reserve implies the return of the tax amount, the amount of tax payable for the third following tax period is added, plus the corresponding compensatory interest scaled up by 15% (Article 34 of the IFC).

Example

Z Company, SA, micro-enterprise, carries on provider activity of rural tourism services in the northern region, which falls under the CAE - 55202 - Rural Tourism, according to Ordinance No. 282/2014, December 30.

In the period 2019 the company fulfilled the eligibility conditions to benefit from DLRR, as stipulated in Article 28 of the IFC, namely:

- it is a micro enterprise as defined in Recommendation 2003/361 / EC of the Commission of 6 May 2003;
- has organized regular accounting in accordance with the accounting standard system;
- the tax profit is not determined by indirect methods;
- it is not beholden to the state and not to Social Security.

In addition, the company fulfills the requirements of paragraph 2 of art. 9 of Decree No. 297/2015 of 21 September, that is, is not subject to an order for recovery of illegal and incompatible aid with the internal market and not as a firm in difficulty within the meaning of the Commission communication.

According to the Declaration Model 22, it was found that in the 2019 period was hereby noted that the tax base in the amount of € 80,000.00, which reflects an IRC collection in 2019 of € 16,200.00 (it qualifies as an SME under Annex to Decree No. 372/2007 of 6 November). In the period 2019 the

company achieved a net profit in the amount of 75.000,00 € and therefore taxable income of € 80,000.00.

To increase the company's ability, it proceeded to the retained earnings in the amount of 40,000 €, for this amount via reinvestment in relevant applications. For this purpose, it was set up a special reserve corresponding to this amount, which was duly accounted being duly reflected in the company's balance sheet, specifically in equity, and may not be distributed to shareholders before the end of the fifth year following its constitution as stipulated in paragraph 2 of Article 32 of the IFC.

By that in the 2019 period, the company can deduct the collection of IRC to 10% of retained profits, ie € 4,000.00, which will be reinvested in relevant applications, in accordance with Article 30 of the IFC and Article 11 Order No. 297/2015 of 21 September, during the periods 2019 and 2020. However, in accordance with paragraph 4 of Article 29 of the IFC, the deduction is limited by 50% in corporate tax collection, because it is a micro. As well as 50% of the collection (€ 8,100.00) is above 10% of the value of retained earnings (€ 4,000.00), then can be made deduction of € 4,000.00 relating to the tax benefit with DLRR under Article 90 of the CIRC.

As stipulated in paragraph 1 of Article 33 of the IFC in the 2019 period, Z, SA can take advantage of all the tax benefit in the amount of € 4,000.00 concerning DLRR, which corresponds to 50% of the refined collection in the period. The company must commit to reinvest the amount of retained earnings (€ 40,000.00) during the period from January 1, 2020 and December 31, 2021 in relevant applications, particularly in AFT acquired in new condition except as noted Article 30 of the IFC. Upon completion identify shall be the relevant applications that have been reinvested object, namely, the date and the acquisition cost of all relevant applications, and the list of invoices that titrate the respective acquisition, which should appear in a document as an integral part of the tax dossier.

6. Incentive Tax System for Research and Development Company II (*Sifide II*)

The State Budget Law for 2011, Law No. 55-A / 2010 of December 31, subsequently amended by Law 83-C / 2013 of December 31, has come to establish the SIFIDE II, which came in turn replace the SIFIDE, with the aim of increasing the competitiveness of enterprises and strengthening research activities and development - R & D - the companies.

The SIFIDE II, aims to support activities of R & D related to the creation or improvement of a product, a program, a process or even a piece of equipment, showing a substantial improvement and that do not result just a simple use of an existing practice.

According to Article 38, paragraph 1 of the IFC, can benefit from this incentive residents IRC taxpayers in the country engaged in, primarily, an activity of an agricultural nature, industrial,

commercial and services and non-resident with a permanent establishment in Portugal, which have R & D expenses. Beneficiaries can recover up to 82.5% of R & D investment, as regards the part which was not financing from object state-repayable, made during the tax period of January 1, 2014 through December 31, 2020.

The deduction from IRC (up to your competition 100% collection) has a double percentage: base rate of 32.5% of costs incurred in that period and incremental rate of 50% for expenses increase carried out in that period compared to the average simple the previous two years, up to € 1,500,000.00.

For IRC taxpayers that are SMEs that have not yet completed two years activity and do not benefit from the incremental rate applies an increase of 15% to the base rate (32.5%), Article 38 paragraph 2 of IFC.

Expenses that, for lack of collection, cannot be deducted in the year they were made can be deducted up to eighth following year according to Article 38 paragraph 4 of the IFC.

To qualify for this incentive, taxable persons must, under Article 39 of the IFC, meet the following requirements: Tax Profit should not be determined by indirect methods; taxable persons should not be indebted to the state and social security of any taxes or contributions or have the payment duly secured.

The following expenses are eligible (Article 37, paragraph 1 of the IFC.): a) the acquisition of Fixed Assets for the execution of buildings and land, since it created or acquired as new and directly submitted to the realization of R & D activities; b) expenditure on staff, with minimum academic homes level 4 of the National Qualifications Framework (NQF), directly involved in R & D tasks; c) the cost of the participation of leaders in the management of R & D institutions; d) the operating costs, up to a maximum of 55% of staff costs with minimal educational qualifications of level 4 of the NQF, directly involved in R & D tasks, accounted for as compensation, wages or salaries, for the financial year; e) the costs relating to the concentration of R & D activity from public entities or beneficiaries of the status of public utility or entity whose suitability for research and development is recognized by joint order of the Ministers of Economy and Innovation and Science, Technology and Higher Education; f) participation in the capital and R & D institutions and contributions to mutual funds, public or private, to finance companies devoted mainly to R & D; g) costs and maintenance records of patents; h) the cost of acquisition of patents that are predominantly intended for the development of R & D activities (only SMEs); i) the costs of audit for R & D; j) the costs of demonstration actions arising from R & D projects supported. to finance companies devoted mainly to R & D; g) costs and maintenance records of patents; h) the cost of acquisition of patents that are predominantly intended for the development of R & D activities (only SMEs); i) the costs of audit for R & D; j) the costs of demonstration actions arising from R & D projects supported. to finance companies devoted mainly to

R & D; g) costs and maintenance records of patents; h) the cost of acquisition of patents that are predominantly intended for the development of R & D activities (only SMEs); i) the costs of audit for R & D; j) the costs of demonstration actions arising from R & D projects supported.

Applications must be submitted by May of the year following the year in question, according to art. 40, paragraph 3 of the IFC, and the deduction cannot be combined, for the same expenses with tax benefits of the same nature, including tax benefits of a contractual nature as provided in this or other acts (Article 42 IFC).

For information, in 2017, the main company to benefit from this incentive in Portugal was the Volkswagen Autoeuropa, Lda., which benefited from a deduction to the collection of 7,956,684, 62 €.

Example

W, Lda, micro-enterprise, activity in the north of the country in the clothing trade sector, being framed in CAE 46421 - Wholesale of clothing and accessories. As one of the activities included in the IFC, W, Lda. can enjoy the SIFIDE II, provided that all the conditions laid down in IFC.

Between 2019 W, Lda. has fulfilled all the eligibility conditions to benefit from SIFIDE, as stipulated in Article 39 of the IFC, namely that your Tax Profit not be determined by indirect methods and not be liable the State or Social Security.

In the period 2019, the Company W, Lda. performed R & D activities in the years 2017 and 2018, having incurred significant expenses totaled € 30,000.00 and € 40,000.00, respectively. The investment was affection in its entirety to the North.

It should be noted that W, Lda., does not enjoy any other financial benefit in the Portugal 2020 (R & D).

According to the Declaration Model 22, 2019 period was calculated one tax base in the amount of € 90,000.00, which reflects an IRC collection in 2019 of € 18,300.00 (qualified as an SME in accordance with Annex to DL 372 / 2007 of November 6).

To calculate the tax related to the period 2019, it proceeded to determining the taxable benefit that W, Lda. would benefit, in particular under SIFIDE II. It is made clear that in the past years W, Lda. Did not enjoy this tax benefit, and in 2019 the first year in which it was used.

The costs to consider in determining the taxable benefit are:

- affections purchase of equipment R & D: € 3,000.00;
- Personnel qualification level equal to 4 and 6: € 25,000.00;
- Patent Registration: € 3,500.00;
- Operating costs: € 15,000.00 (up to the limit of 55% of staff costs with a level less than 4 - Article 37 paragraph 1 of IFC) (compensation of employees with lower level of qualification can be 4 considered as operating costs).

Applying the rules of SIFIDE II:

- base rate: € 15,112.00 (32.5% of the costs incurred in the 2019 period) $(3,000 + 25,000 + 3,500 + 15,000) \times 32.5\% \Rightarrow € 46,500 \times 32.5\%$
- incremental fee: € 5,750.00 (50% of the increase in expenditure in 2019 compared to the average of the two previous years). $(46,500 - ((30,000 + 40,000) / 2) \times 50\% \Rightarrow € 11,500 \times 50\%$)

According to the provisions of paragraph 1 of Article 38 of the IFC in the 2019 period, W, Lda. has enjoyed a tax benefit in the amount of € 20 862 (15 112 + 5750) concerning the SIFIDE II, the deduction was made pursuant to Article 90 of the CIRC (there is the possibility of SIFIDE II can be deducted to autonomous taxation, when the present insufficient collection for use of tax benefit).

It follows that in the Annex to 2019 period Balance in the note relating to Income Tax, shall be referred to the tax ceased to be paid as a result of the deduction for the total tax benefit accrued during the period, including the IRC amount which ceased to be paid for the use of tax benefit (€ 18,300.00) as well as the amount that was reported for the following years (€ 2562.00).

7. Cases Study

7.1. Practical Example of the Eligible Investment for the Purpose of Calculating RFAI:

The company "XPTO Ltd" based in city A, which is dedicated to the production of housing, greatly increased its production capacity in 2018, making the following investments:

Table 1: Investment

Cash advances for Tangible Assets	€ 950.000
Tangible Assets in progress	€2.000.000
Acquisition of new production facilities	€13,5 million
Construction of factory building	€2.750.000
Transfer to Fixed Assets Tangible of ongoing investments since 2015	€450.000
Acquisition of a private motor vehicle	€45.000
Acquisition of unique computer program for production control for a defined period of time	€17.300

Source: Authors Elaboration

Eligible investment for the purpose of RFAI:

- Assets Tangible Adding in progress: € 2,000,000;
- Acquisition of new production facilities (AFT): € 13.5 million;
- Construction of factory building: 2.750.000 €

- Acquisition of unique computer program for production control for a defined period of time:
17,300 €

Total eligible investment: € 18,267,300 (exclude cash advance and vehicle)

7.2. Practical example of calculating the effective RFAI:

Hypothesis A:

A company whose head office is situated in City B, with traditional restoration activity over two decades, made in 2019 Investments in Fixed Assets Tangible amounting to € 280,000, having obtained the same year a corporate income to be taxable of € 148,200. It is intended to know the tax benefit under RFAI:

- Calculation of the deduction to the value to be taxable: $25\% \times 280,000 = 70,000 \text{ €}$
- limit (50% of the collection): $50\% \times 148,200 = \text{€ } 74,100 \text{ €}$

Benefit amount = 70,000 €

Hypothesis B:

The same company made in 2019 Investments in Fixed Assets Tangible amounting to € 280,000, having obtained the same year a tax collection of corporate income tax of € 65,000. It is intended to know the tax benefit under RFAI:

- Calculation of the deduction to the collection: $25\% \times 280,000 = 70,000 \text{ €}$
- limit (50% of the collection): $50\% \times \text{€ } 65,000 = 32,500 \text{ €}$

Benefit amount = 32,500 €

Note that the difference between € 70,000 deduction to the collection and € 32,500 limit, meaning € 32,500 may be deducted in 10 periods following tax.

7.3. Practical Example of Calculating the Benefit under DLRR

A company SME, the net result in 2018 amounted to € 350,000, as well as an IRC collection € 65,000 in the same year:

- a) Maximum limit of deduction to the collection:

$$25\% \times 65,000 = 16,250 \text{ € €}$$

- b) Special reserve value required for maximum deduction:

$$\text{€ } 16,250 \times 10 = 162,500 \text{ €}$$

It should be implemented in eligible investments by the end of 2021.

- c) Report obligations

Mod 22 - shall mention in field 355 the value of 16 250 5

Shall state in Appendix D - Field 727: 16,250 €

Note that the amount of the benefit is not used during the period, no reports for the following periods.

8. Conclusion

The tax benefits are a tax policy choice, with permanent or temporary, designed to provide an economic incentive, that the company may take advantage of social and economic nature in return for tax ceases to be paid. If, at first sight, the tax benefits are considered as an expense for the state, it happens on the other hand, they end up stimulating growth and economic development.

In recent years, there has been an increase in the number of firms. Only in the year 2017 the deductions to the collection represented approximately 33.71% of the total benefits granted, having been heavily influenced by SIFIDE II, RFAI and DLRR, INE (2018). These three benefits represent, as a whole, about 90.92% of the total granted deductions.

Successive extension of some of these benefits has contributed to the development of small businesses that take advantage of this tax savings to stimulate their activities, but has also promoted some economic sectors and created some economic and social stability in some regions, Nabais (2005).

This incentive ends up presenting a double advantage for companies and less favored regions. This tax advantage obviously depends on the economic sector, type of company, of the investment, the percentage of deduction and collection of specific limits for each benefit. The use of these tax benefits leads to a real tax savings for businesses informed about the nature of these tax benefits.

It is noted that the methods have benefits tax calculation assumptions, different procedures and tax purposes, which is not always understood by companies, making it difficult to obtain such benefits or even cause a certain lack of interest by the taxpayer. Added to this situation the fact that the legislation is found in different documents, which may hinder the collection of information necessary to obtain this benefit and to their use.

Given this, it is required to better dissemination of the legislation and the necessary documents for future work, it would be interesting to analyze the tax benefits were so availed by small, medium or large companies; and it would be interesting to see what kind of tax benefits for investment in existing corporate income tax in other EU countries, and calculate the deductions, their requirements and the type of beneficiary.

For future works we can develop a comparison between Portugal and other country. One of the limitations of this work was the availability of data information from the companies.

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