BUSINESS ENVIRONMENT

THE CONSUMER

Consumer Profile

Portugal has a population of 10.24 million people, with a negative growth rate of 0.2% in 2022 (CIA). The median age among the Portuguese population is 46.9 years (Data Reportal, 2022), with 13% of the population under the age of 15, 64% between 15-64 and 23% over 65 (World Bank, 2021). As of 2022, life expectancy is 81.5 years of age. About 67.4% of the population is urban, with the majority of people concentrated around the area of Lisbon (almost 3 million people) and Porto (1.3 million people) (CIA, 2022).
Nationally, the average household size is 2.5 people per household - compared to 3.3 people thirty years ago (Eurostat). Currently, 27.5% of households consist of only one person, 49.2% have two of three people, 19.3% have four or five and only 3.9% have six members or more. Of all households, 22.3% consist of a couple with children, 23.9% of a couple alone, and 4.7% of a single parent with children (Eurostat, 2020). The proportion of adults with upper secondary and tertiary attainment has been growing steadily in Portugal for the last two decades. About 55% of adults aged 25-64 have completed upper secondary education, lower than the OECD average of 79%, and around 28.2% have attained a tertiary education degree, lower than the the OECD average of 38.6% (OECD, 2021). Currently, 100% of children aged between 5 and 14 are enrolled in school. Surplus occupations include the following skilled professionals: mining professionals, workers in textile, clothing and leather industries construction workers and similar; blacksmiths, toolmakers and related trades workers; and keyboard operators. On the other hand, the ageing of the Portuguese population, which implies a greater need for healthcare services, drives the growing demand for health professionals.

Purchasing Power

GDP per capita increased in 2021, reaching USD 35,888.2 PPP (World Bank). The average monthly salary in Portugal is EUR 1,250.75, and the country's minimum wage of EUR 823 is the lowest in Western Europe. Consumer spending decreased during the Covid-19 pandemic, and in the context of the war in Ukraine and rising inflation, purchasing power has been decreasing. In 2020, purchasing power in Portugal stood at 76.4% of the EU average, with the country occupying the 16th place among countries in the EU, according to the the National Statistics Institute. Portugal is one of the most unequal countries in the EU, with 20% of its wealthiest citizens earning an income that is 5.7 times higher than 20% of its poorest. Inequality has been increasing, as has the country's Gini Index, which is currently 33 (INE). Furthermore, the wage gap between men and women in Portugal is 11.7%, which is the similar to the OECD average. Lisbon is the city with the highest wages in Portugal, followed by Porto and Funchal.

Consumer Behaviour

Recent developments in the social, economic and technological context have had a high impact on the consumption habits of the Portuguese, and today there is a greater concern with the management of the family budget, as well as a concern with the environmental aspect of products, such as sustainability and the origin of the products they consume. The Portuguese are becoming more concerned about their personal comfort and well-being, especially the younger generations. A trend among the Portuguese youth is to buy natural, organic, locally grown foods. According to Deloitte, 45% of Portuguese claim to be willing to pay more for products and services provided by companies committed to having a positive social and environmental impact. On average, Portuguese consumers tend not to be impulsive buyers, especially after years of recession. Portuguese consumers tend to be loyal to clothing brands, but they are usually not loyal to food brands, as they tend to buy whatever is cheapest. Additionally, consumers prefer foreign products - with the exception of food.
Nevertheless, in recent years there have been public awareness campaigns focused on encouraging people to buy domestic products. The Portuguese consumer has currently been described as "addicted to deals", as purchases of products on sale account for nearly half of all the purchases made in the country every year. Good prices and sales are the factors that most influence purchasing decisions and are what attract the Portuguese consumer. A typical Portuguese consumer values convenience and proximity in retail, favouring hypermarkets and being open to abundant promotions throughout the country. In the context of the Covid-19 pandemic and the rising inflation resulting from the war in Ukraine, the average consumer has decreased spending. Nowadays, consumers are becoming more connected and demanding, making consumption less impulsive and more thoughtful. Consumers are more price sensitive and have adopted more contained, conscious, responsible and sustainable consumer practises. Planning, rational choice, and the effort to reduce impulse buying are evidenced by the growing weight of sales. Consumers also value the interaction and experience when making a purchase.
Even though e-commerce has been growing in the country, in-store purchases are still preferred among Portugal's ageing population, with on-line shopping being favoured by those under 30. According to Hipersuper, 60.9% of Portuguese consumers shopped online in 2022. According to a survey held by Eurostat, the Portuguese are the ones using collaborative platforms such as Uber and Airbnb least amongst Europe. On average, only 6% of the Portuguese booked their accommodations online, compared to 17% of their other European counterparts. The same goes for online reservations of transportation services: the member States average is 8%, while in Portugal it is 2%.

Consumer Recourse to Credit

Consumers are becoming more optimistic about the Portuguese economic future, which has been reflected by growing levels of spending. Consumers are also more willing to borrow in order to pay for purchases, especially when it comes to expensive items, such as cars and houses. With the improvement of confidence levels that made consumers more prone to making purchasing decisions supported by the use of loans, credit concession recorded the highest levels in a decade, in 2018, as the improvement of the economic prospects among Portuguese households has made them more confident towards assuming financial commitments with banks (consumer credit also experienced a decline in non-performing loans). Nevertheless, while outstanding balance on consumer credit recorded higher current value growth in 2019 compared to the previous year, gross lending experienced a notable slowdown. The situation worsened in 2020 following the outbreak of COVID-19 epidemic: according to figures from the Bank of Portugal, new consumer credit decreased 64% in April compared with the same period of the previous year, to EUR 203 million (whereas as of 2018, an average of EUR 20 million of consumer credit was requested in Portugal every day).
Use of electronic payment instruments has certainly been growing since they replaced the older means of payments, namely the cheque, which had a strong usage in Portugal in the past. Recently, the public administration gave a significant boost to electronic means of payment in particular when pensions began to be paid with credit transfers rather than cheques. Contactless card payments are not that popular yet, but their utilisation is now growing every day, and they are becoming as common as they are in the rest of Europe. As at 31 December 2019, there were 24.6 million active payment cards in Portugal (+4.2% y-o-y), with the number of debit cards growing by 5.8% and credit cards reversing the trend with a decreased of 1.6% (Bank of Portugal).

Growing Sectors

Aeronautical industry, construction, mining, cultural and creative industries, textiles, agriculture, biotechnology, healthcare, ICT, infrastructure, water and energy, maritime industry, fishing, and tourism.

Consumers Associations

DECO , Portuguese Association for the Defence of the Consumer
Portal do Consumidor , General Consumption Direction

IMPORTING & DISTRIBUTING

Import Procedures

The following documents must be presented to the Customs office:

1. a brief declaration (air or maritime manifest) of the goods.
2. a common law declaration (SAD, single administrative document), as well as the accompanying documents to allow their clearance. The SAD form can be obtained from Chambers of Commerce or an authorised printer. A computerised Customs clearance platform (SOFI: International freight computer system) can be accessed in Customs offices or in some Chambers of Commerce.
3. Commercial invoice
4. Packing list
5. Certificate of origine
6. Insurance certificate (where applicable)

In the case of deliveries and purchases within the European Union, the declaration of exchange of goods (DEB) or Intrastat declaration must be sent to the Customs service.
All companies established outside of the EU are required to have an Economic Operator Registration and Identification (EORI) number if they wish to lodge a customs declaration or an Entry/Exit Summary declaration.

As part of the 'SAFE' standards advocated by the World Customs Organisation (WCO), the European Union has set up a new system of import controls, the 'Import Control System' (ICS), which aims to secure the flow of goods at the time of their entry into the customs territory of the EU. This control system, part of the Community Programme eCustoms, has been in effect since January 1, 2011. Since then, operators are required to pass an Entry Summary Declaration (ENS) to the customs of the country of entry, prior to the introduction of goods into the customs territory of the European Union.

The Modernised Customs Code (MCC) of the European Union simplifies various procedures such as: introducing a paperless environment, centralised clearance and more. For more information, check the EU’s Customs website. Further details are available on the website of Portuguese customs (in Portuguese).

Specific Import Procedures

As a member of the European Union, goods entering Portugal may be placed under any of the following treatments:

Transit, which comprises external and internal transit:

- External transit: non-Union goods may be moved from one point to another within the customs territory of the EU without being subject to import duties, other charges related to the import of the goods (i.e. internal taxes) and commercial policy measures. Moving goods to another EU Member State means the customs clearance procedures are transferred to the customs office of destination.
- Internal transit: Union goods may be moved from one point to another within the customs territory of the EU without any change to their customs status. This includes transporting goods through another territory that is outside the EU customs territory.

Storage, which comprises customs warehousing and free zones:

- Customs warehousing: non-Union goods may be stored in premises or any other location authorised by the customs authorities and under customs supervision ('customs warehouses') without being subject to import duties, other charges related to the import of the goods and commercial policy measures.
- Free zones: Member States may designate parts of the customs territory of the Union as free zones. They are special areas within the customs territory of the Union where goods can be introduced free of import duties, other charges (i.e. internal taxes) and commercial policy measures, until they are either assigned another approved customs procedure or re-exported. Goods may also undergo simple operations such as processing and re-packing.

Specific use, which comprises temporary admission and end-use:

- Temporary admission: Non-Union goods can enter the EU without the payment of import duties, provided they are intended for re-export without being changed. The maximum period for temporary import is two years.
- End-use: goods may be released for free circulation under a duty exemption or at a reduced rate of duty on account of their specific use.

Processing, which comprises inward and outward processing:

- Inward processing: Goods can be imported into the EU, without being subject to duties, taxes and formalities, to be processed under customs control and then re-exported. If the finished products are ultimately not exported, they become subject to the applicable duties and formalities.
- Outward processing: Union goods may be temporarily exported from the customs territory of the Union for processing purposes. The processed goods may be released for free circulation with total or partial relief from import duties.

The EU framework sets forth several regulations that can have an impact on import procedures: Waste Electrical and Electronic Equipment Directive (WEEE Directive), the ROHS Directive, Cosmetics Regulation, and Registration, Evaluation and Authorisation of Chemicals (REACH), agricultural documentation and sanitary certificates (Fisheries).

Distribution channels

The Portuguese population is concentrated along the coast. The major distribution centres are Lisbon in the south and Porto in the north, although the regional centres of Braga (north of Porto) and Setubal (south of Lisbon) have come into their own in recent years. The Lisbon area has the highest purchasing power in the country and suffers.

In 2020, the retail sector was negaitvely impacted by the Covid-19 pandemic but the food segment performed well. According to figures from the Portuguese Association of Distribution Companies (APED), food retail sales increased 8.1% in volume in 2020 compared to the previous year. In value, food sales in large-sized commercial establishments increased by 2.9% compared to 2019, reaching EUR 13.8 billion in 2020 (INE). Supermarkets remained the largest channel within grocery retailing in the country in terms of value in 2021. Given the increasing trend for local consumers to make more frequent trips to grocery retailers (although with a lower overall spend), major chains have been adapting by opening smaller stores nearer to local neighbourhoods and enhancing customers in-store experience (for example introducing leisure areas). At the same time, the weight of promotions in food retailing continued to increase, making Portuguese consumers those who show greater appetite for promotional campaigns in Europe.

The competitive environment is quite concentrated in the grocery store-based retailing, with Continente accounting for the largest share, followed closely by Pingo Doce. The market share of the five major distribution groups in Portugal has considerably increased in the last decade, accounting for around 70% (USDA, latest data available). However, in 2019 the Spanish retailer Mercadona opened its first store in Portugal (it had 32 stores in July 2022), and it could impact retail dynamics in the Portuguese market.

Changing consumer habits, demographic factors and the development of e-commerce and new technologies are leading the sector to conceive new commercial formats, where consumers increasingly appreciate proximity and value-added services. Consumers are buying more online and retailers are increasingly investing in this channel, especially following the outbreak of the COVID-19 pandemic and the restrictions that followed.

Distribution market players

Portugal's retail sector is among the most concentrated and competitive in Europe. Grocery retailers remain the largest of the retail sector.

According to the latest figures available from the USDA, the Portuguese food retail market is highly concentrated, with a market share divided as follows (2020):

- Sonae Group (including Continente, Modelo Continente - hypermarkets brand leader) is the country's most popular grocery retailer with a market share of 26.8%
- Jeronimo Martins in the challenger (Pingo Doce - supermarket leader) has a share of 22.9%
- German discount Lidl - 11.3%
- Intermarché (France) - 8.8%
- Auchan Group (from France) - 5.6%
- Dia (Span) - 3.9%
- Leclerc (France)
- Aldi (Germany)

Retail Sector Organisations

Portuguese Association of Distribution Companies (APED)
Ministry of Economy

OPERATING A BUSINESS

Type of companies

The Sociedade por quotas de responsabilidade limitada (Lda): Limited Liability Company
Number of partners: Two partners minimum. There may be one partner only in the case of a Single Person Private Limited Liability company (SUQ).
Capital (max/min): Minimum EUR 1.
Shareholders and liability: Liability is limited to the amount of capital contributed.

The Sociedade anonima de responsabilidade limidada (SA): Public Limited Company
Number of partners: Five partners minimum; they may be foreigners and non-residents.
Capital (max/min): 50,000 EUR minimum, entirely taken up, with the obligation to release at least 30%.
Shareholders and liability: Liability is limited to the amount of capital contributed.

The Sociedade em nome colectivo: General Partnership
Number of partners: Two partners minimum.
Capital (max/min): No minimum share capital.
Shareholders and liability: Liability is joint and indefinite regarding third parties.

The Sociedade em comandita: Limited Joint-stock Partnership
Number of partners: Two partners minimum, with active partners and silent partners.
Capital (max/min): No minimum share capital.
Shareholders and liability: Liability is indefinite for active partners, and limited to the amount of capital contributed for silent partners.

Setting Up a Company	Portugal	OECD
Procedures (number)	6.0	5.2
Time (days)	6.5	9.5

Source: Doing Business - Latest available data.

Cost of Labour

Minimum Wage

EUR 705 per month if based on 14 payments in a year, or EUR 823 based on 12 payments (source: Eurostat, Government of Portugal, 2022)

Average Wage

Gross average monthly wage: EUR 1,250.75 (source: INE-Statistics Portugal, 2020)

Social Contributions

Social Security Contributions Paid By Employers: 23.75% on the monthly gross remuneration of employees, and insurance premium to cover occupational accidents at a rate varying according to risks.
Social Security Contributions Paid By Employees: 11% on the monthly gross remuneration of employees, and insurance premium to cover occupational accidents at a rate varying according to risks.

Intellectual Property

National Organisations

For the protection of intellectual Property: the National Institute for Industrial Property, the organisation for the protection of intellectual property.

For copyright: the Portuguese Authors' Society. For other bodies involved in managing copyright, consult this list.

Regional Organisations

For the protection of patents: the European Patent Office (EPO). To control trademarks, designs and models: the European Union Intellectual Property Office (EUIPO).

International Membership

Signatory to the Paris Convention For the Protection of Intellectual Property
Membership to the TRIPS agreement - Trade-Related Aspects of Intellectual Property Rights (TRIPS)

TAX RATES

Consumption Taxes

Nature of the Tax

Imposto Sobre o Valor Acrescentado (IVA) = Value-Added Tax (VAT)

Tax Rate

23% (Mainland Portugal); 22% (Madeira); 16% (Azores)

Reduced Tax Rate

Reduced VAT rates are available at 13% and 6%.
The 13% rate (12% in Madeira and 9% in Azores) applies to: some foodstuffs; restaurant & cafe food; some agricultural supplies; wine; mineral water; diesel for agriculture; some goods and services for consumption onboard transportation; access to direct broadcasting of concerts, theatres, amusement parks, museums, cinemas and similar events; sale and installation of specific heaters and boilers that work with biomass; pellets and briquets made from biomass. Click here for a full list.
The 6% rate (5% in Madeira and 4% in Azores) applies to: basic foodstuffs; water supplies; certain pharmaceutical products; medical equipment for disabled persons; children's car seats; children's diapers; domestic passenger transport; some books (excluding e-books); certain newspapers and periodicals; TV licence; social housing; renovation and repair of private dwellings; certain agricultural supplies; hotel accommodation; some social services; some medical and dental care; collection of domestic waste, minor repairs of bicycles; domestic care services; fruit juices; firewood; cut flowers and plants for decorative use and food production; construction work on new buildings; some legal services; some goods for consumption onboard transportation; treatment of wastewater; some works of art, collectors' items and antiques. Click here for a full list.

Other Consumption Taxes

There are different types of excise duties, such as petroleum and energy products tax, alcohol and alcoholic beverages tax, tobacco tax, vehicle tax, excise on non-alcoholic beverages with added sugar, etc.
Other taxes include a vehicle tax (IUC), payable each year from the day of registration of a vehicle with Portuguese authorities. Its rate varies according to the model of the vehicle, size, date of manufacture and CO2 emission rate. A 10% stamp duty is levied on gifts and inheritances (unless the heir is the spouse, descendant or ancestor of the donor/decease). An acquisition tax for property sales and transfers also applies.
A carbon tax due by the user in the amount of EUR 2 applies on air, sea and river travel. A levy amounting to EUR 0.30 per package applies to disposable plastic and aluminium packages (the latter contribution shall not apply to single-use beverages and will come into force as of September 2023).

Corporate Taxes

Company Tax

21% for mainland Portugal

Tax Rate For Foreign Companies

A company is deemed to be resident in Portugal if its head office or effective management is located in Portugal. Any fixed place of business (e.g. a place of management, a branch, an office, a factory, a workshop, etc.) in Portugal through which the business of an enterprise is wholly or partly carried on is deemed to constitute a permanent establishment in the country.

Capital Gains Taxation

Capital gains are generally included in taxable profits and taxed at the standard corporate rate. Gains on the disposal of shares may be exempt if the following conditions are met: 1) the shareholder is not considered a transparent entity 2) the entity has held at least 10% of the capital of the subsidiary for at least 12 months 3) if the entity is a foreign company the corporate income tax in its country of residence covers at least 60% of the tax due in Portugal. The exemption does not apply if the dividend payment is tax-deductible. Since 1 January 2018, capital gains on the indirect sale of certain properties are also subject to corporate income tax.
If tangible fixed assets, biological assets, or intangible assets (excluding those acquired from or sold to related parties or investment properties) are sold after being held for at least one year, 50% of the resulting gains can be exempted from taxes if the entire proceeds from the sale are reinvested within a specified timeframe. However, this reinvestment rule does not apply to gains evaluated in the context of mergers, demergers, or asset-for-share transactions, nor does it apply when assets are transferred for reasons unrelated to the taxpayer's business activities.

Main Allowable Deductions and Tax Credits

Expenses incurred to generate profits and certain provisions (including bad debt and inventory losses) are deductible from the corporate tax base. With certain limitations, impairment losses on doubtful debts are deductible for tax purposes when insolvency or recovery has been requested or the credits have been claimed in court. Small companies also benefit from special tax regimes. Start-up and research expenses are deductible for tax purposes in the respective tax year.

Donations to authorised charitable institutions are allowable at up to 0.8% of turnover, with the possibility for an increase of the amount actually spent up to 150%, same as for donations of computers, software equipment, training, and consultancy in the area of computers granted to the national government, municipalities, foundations, museums and other charitable institutions. Donations to authorised educational, sport and environmental institutions are allowable at up to 0.6% of turnover, with the possibility for an increase of the amount actually spent up to 140%. Contributions made to the state, municipalities, and foundations in which the state or municipalities have an initial capital stake can be fully deducted, and there is also a potential to increase the deductible cost by up to 140%.

Pension, invalidity, and health schemes are tax-deductible up to a rate of 15% of annual staff expenses, only if, among other conditions, they are available to all employees and the management and disposition of the benefits are outside the control of the taxpayer. Companies may only deduct net financing expenses up to the higher of the following limits: EUR 1 million or 30% of the earnings before depreciation, amortisation, taxes, and net financing expenses, adjusted for tax purposes.

A tax credit covering 32.5% of research and development expenditure is available for the year in which these expenses are incurred and can be carried forward for a period of eight years. Companies can claim an additional tax credit of 50% of R&D expenditure if their expenditure exceeds the average in two fiscal years (capped at EUR 1.5 million). Other tax incentives are available for qualifying new investment projects, fixed-asset investments, intellectual property, and the creation of jobs.

Costs incurred by SMEs in 2021 and 2022 with joint external promotional activities are tax deductible for 110% of the respective amount.

For the assessment of the 2022 taxable profit, costs and losses associated with the consumption of electricity and natural gas, exceeding the amount from the previous tax year and excluding any received funding, can be considered for 120% of their respective value. Similarly, costs and losses incurred or borne in acquiring specific goods used in agriculture can be considered for 140% of their respective amount for the purpose of assessing the 2022 taxable profit.

Net operating losses can be carried forward (up to 65% of taxable profits) without time limitation. The carryback of losses is prohibited.

Other Corporate Taxes

Other taxes levied include property transfer tax (*Imposto Municipal sobre as Transmissões Onerosas de Imóveis* or IMT - payable by the buyer at a maximum rate of 6.5% on the transfer of residential property, 5% on the transfer of rural property, 7.5% on the transfer of other urban property and 10% if the purchaser is located in a listed tax haven); municipal real estate holdings (*Imposto Municipal sobre Imóveis* or IMI - 0.3% to 0.45% for urban real estate, 0.8% for rural real estate, 7.5% for property owners residing in a tax heaven); stamp duties (0.5% to 10%, the latter being applicable to certain donations and inheritances).

A standalone tax of 35% is levied on indemnities and compensation as well as bonuses paid to members of the board and managers (if exceeding 25% of their annual remuneration and EUR 27,500). Certain deductible expenses are subject to a standalone tax, including entertainment expenses (10%), undocumented expenses (taxed at 50%, or 70% in the case of taxpayers enjoying a partial or total tax exemption), expenditures on private cars (taxed at rates from 5% to 35% depending on the acquisition price of the car), daily allowances and employees' travelling costs (taxed at 5%).

A special contribution is levied on companies operating in the financial sector, with two different tax bases: the contribution is applicable at a maximum of 0.11% on base I and at 0.00030% on base II.

Social security contributions paid by the employer amount to 23.75% of the monthly gross remuneration.

A carbon tax due by the user in the amount of EUR 2 applies on air, sea and river travel. A levy amounting to EUR 0.30 per package applies to disposable plastic and aluminium packages (the latter contribution shall not apply to single-use beverages and will come into force as of September 2023).

Special taxation rules apply to entities engaged in activities such as oil exploration, prospecting, and production, and to those operating in the gaming industry.

Other Domestic Resources

Portuguese Tax and Customs Authority

Doing Business: Portugal, to obtain a summary of taxes and mandatory contributions

Double Taxation Treaties

Countries With Whom a Double Taxation Treaty Have Been Signed

Double Taxation Agreements (DTA) signed by Portugal

Withholding Taxes

Dividends: 25% (paid to a company)/28% (individual)/35% (resident of a tax haven)
Interest: 25% (paid to a company)/28% (individual)/35% (resident of a tax haven)
Royalties: 25% (paid to a company or a non-resident individual)/16.5% (resident individual)/35% (resident of a tax haven)