



Tax & Business Lawyers

# NEWSLETTER

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## PORTUGAL - BETWEEN GEOGRAPHY, GEOPOLITICS, AND STRATEGY (INCLUDING TAX)

For decades, Portugal has defined itself as a peripheral country. This narrative has shaped its priorities and ignored its geography. When analyzed in terms of trade flows, infrastructure, legal framework, and new work models, Portugal's position as Europe's Atlantic gateway must now definitively shape its strategy.

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Advisory

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## GEOGRAPHICAL AND HISTORICAL CONTEXT

Portugal is located at the intersection of three axes: the Atlantic, continental Europe, and the Portuguese-speaking world, with outreach to Africa, Latin America, and, through institutional channels, Asia.

Lisbon is approximately 5.700 km from New York (about a 7.5-hour direct flight) and 9.000 km from São Paulo (about a 10-hour flight). Hamburg is 6,100 km from New York (an 8,5-hour flight) and Rotterdam is 5.870 km away (an 8-hour flight). Lisbon is a capital city in continental Europe with regular direct flights to more than 15 North American cities, including New York, Boston, Washington, Miami, Chicago, and Los Angeles.

The time zone of mainland Portugal is often an overlooked factor. Lisbon has a working-day overlap of approximately 5 hours with New York, 4 hours with Chicago, and 2 hours with Los Angeles. At the same time, it shares the same time zone as London and Dublin. This dual time window—mornings with the United States, full days with Europe—is structurally relevant for financial, technology, and service operations with transatlantic exposure, and is why U.S. companies may choose Lisbon as their European headquarters for support and development operations.

The Azores archipelago underscores this geography, with nine islands spread across approximately 600 km, 1.500 km from Lisbon (a 2-hour flight) and 2.400 km from New York (a 4,5-hour flight). The island of Terceira is home to Lajes Air Base, which has been used continuously since the 1940s to the present day by allied forces and the United States for military and logistical operations. Anyone analysing the North Atlantic from a map centred on the ocean (rather than continental Europe) realizes that the Azores are a strategic chokepoint.

This Atlantic presence has historical substance. Portugal has been a founding member of NATO since 1949, one of the twelve original signatories of the Washington Treaty. The Lajes Air Base was used to support Israel during the Yom Kippur War (1973), for refuelling operations during the Gulf War (1990–91), and in operations in Afghanistan and Iraq after 2001. In 1973, Portugal was the only European country to authorize the use of its territory for the refuelling of U.S. military aircraft, with lasting diplomatic and economic consequences, within a bilateral relationship that should be maintained and strengthened.

The relationship with the United Kingdom has equally deep historical roots. The Treaty of Windsor, signed in 1386, marks a political and strategic relationship between the two states that has been renewed and reaffirmed over the centuries. During the Napoleonic Wars, it served as a base for Wellington's forces on the Iberian Peninsula, with the landing of tens of

thousands of British soldiers and the construction of the Lines of Torres Vedras. Today, the United Kingdom accounts for about 14% of Portuguese exports of goods and services, and the shared time zone allows for direct operational integration, without the overlaps that affect operations with Madrid or Amsterdam. And air connections reflect this proximity between Lisbon and London, with about 20 daily direct flights (flight time of approximately 2 hours and 20 minutes), operated by TAP, British Airways, EasyJet, and Ryanair, at a frequency comparable only to that of short-haul domestic routes and flights between cities within the same country.

### **TAXATION, INFRASTRUCTURE, AND ATTRACTING TALENT AND INVESTMENT**

The tax framework turns this geographical and historical position into a measurable advantage. The general corporate income tax rate in Portugal is currently 19% (18% in 2027 and 17% starting in 2028), to which is added a municipal surcharge of up to 1.5% and, unfortunately still, a progressive state surcharge of 3% to 9% on profits exceeding 1.5 million euros. This first tier of the general corporate income tax is competitive compared to that of the United Kingdom (25%), Germany (around 30%), and France (25%), although higher than that of Ireland (12.5%), Hungary (9%), or Bulgaria (10%). And the 15% minimum rate agreed upon within the OECD/G20, to be phased in starting in 2024, seeks to reduce this competitive gap through the nominal rate. Tax competition therefore tends to channel savings and investment toward stable and competitive special regimes, an area in which Portugal has sought to build differentiation over the past 15 years

Portugal has approximately 80 Double Taxation Agreements (DTAs) in force, covering all relevant jurisdictions: the United States, China, and Japan. All European countries, key Asian nations, Latin American countries, and Portuguese-speaking African nations. Without an agreement, withholding taxes on dividends, interest, or *royalties* could reach 25% to 35%. Under Portuguese DTAs, these rates are reduced to 5% to 15% on dividends, 0% to 10% on interest, and 0% to 10% on royalties. The DTA with the United States provides for a maximum withholding tax of 15% on dividends (5% if the recipient company holds at least 25% of the paying company), 10% on interest, and 10% on *royalties*. The DTA with Brazil—one of the most advantageous and preferential agreements Brazil has in force with European countries, also due to the linguistic proximity, provides for rates of 10% to 15% on dividends and 15% on *royalties*, making Portugal a structuring platform frequently used by international business groups.

The *participation exemption* regime generally exempts dividends and capital gains obtained by Portuguese companies from holdings in foreign subsidiaries - from corporate income tax, provided the holding is at least 10% and maintained for one year. This

exemption applies to both dividends received and capital gains on the sale of equity interests, making Portugal a competitive location for intermediate *holding companies* for groups with subsidiaries in multiple countries. Ireland and the Netherlands have equivalent regimes, but Portugal combines them with lower operating costs and institutional access to the Portuguese-speaking and Latin American markets.

The *patent box* regime exempts up to 85% of qualifying income from taxation, thereby reducing the effective corporate income tax rate. This regime is aligned with OECD requirements regarding the link between the tax deduction and the R&D activity carried out.

The IFICI provides an exemption for most non-domestic income and a 20% personal income tax rate on domestic employment and self-employment income for 10 years, targeting researchers, professors, and other qualified professionals and staff, replacing the non-habitual resident regime (NHR) that attracted tens of thousands of taxpayers between 2009 and 2023.

At the same time, Portugal applies a capital gains tax exemption on crypto-assets held for more than 365 days, a feature that few countries replicate. And here, the residence permit regime for professionals from third countries is far more attractive than that in other countries, including Spain, allowing immigration to be tailored to the needs of an aging country with a labour shortage.

The Madeira Free Zone, authorized by the European Commission under the state aid regime as an outermost region as provided for in the treaty, allows a 5% corporate income tax rate for eligible companies, subject to job creation and the existence of economic substance — one of the few free zones within the European Union that combines low taxation with full access to the European internal market and the network of Portuguese CDTs.

The Madeira International Ship Registry (MAR) had 1.337 registered vessels as of 31 December 2025, of which 1.178 were merchant ships, with an aggregate gross tonnage of approximately 28.8 million tons. MAR's (stated) goal of becoming one of the world's top 10 ship registries is legitimate and technically achievable. It presupposes, however, that the national government treats ship registration as an instrument of foreign economic policy, with promotional resources, with contacts in the main shipowner markets, and with real and effective coordination among the ministries responsible for transportation, the economy, and foreign affairs. This also presupposes that the promotion of the MAR ceases to fall, exclusively, on regional entities and instead becomes part of a new national strategy for the maritime sector.

In terms of physical infrastructure, the Port of Sines has a natural depth in the access channel of over twenty meters, allowing for the operation of large vessels (*ultra-large container vessels*). It is located less than 3.000 nautical miles from the east coast of the United States and about 1.800 nautical miles from Las Palmas, at a crossroads of routes between Europe, West Africa, and South America. In 2023, it handled approximately 3.5 million TEUs (container ships), with consistent growth of over 10% per year over the past decade. Rotterdam handled approximately 14.8 million TEUs in the same year but operates more than 5.900 km from New York and faces growing congestion in maritime and land access. Unlike the major ports of Northern Europe, Sines faces no restrictions, neither urban nor expansion-related, and has adjacent industrial areas with direct connections to the container terminal.

Sines is also one of Europe's main landing points for submarine fiber optic cables. EllaLink, operational since 2021, connects Europe to South America with significantly lower latency than previous routes; 2Africa encircles the African continent; and Medusa serves the Mediterranean and North Africa. More than 95% of global data traffic flows through submarine cables, and proximity to these landing points reduces latency and interconnection costs, likely explaining why Microsoft, Google, and other operators have announced data centres in Portugal.

Lisbon Airport surpassed 31 million passengers in 2019, already operating well above its projected capacity. Beja Airport, with a single 3.450-meter runway, is sufficient for commercial transport aircraft but currently operates at less than 5% of its capacity, with potential for integrated air cargo operations with Sines, located about 80 km away.

But the most significant infrastructure gap remains in rail, as Portugal transports only about 10% of its goods by rail, below the European average (17% to 18% - Eurostat, 2023) and significantly lower than Switzerland (37%) or Austria (30%). Without a standard-gauge rail link between Sines and the Spanish border, the full logistical potential of the coming decade will remain unfulfilled.

The widespread adoption of remote work has, however, changed the criteria for attracting talent. More than 70% of Portuguese people aged 25 to 34 have functional English skills, one of the highest rates in Southern Europe. The cost of living in Lisbon is 30% lower than in London and 20% lower than in Amsterdam, for a comparable standard of urban services. Portugal also consistently ranks among the five to ten safest countries in the world on *the Global Peace Index*. And this indicator directly influences multinational companies' risk assessments when establishing operations and assigning foreign personnel.

The Community of Portuguese-Speaking Countries (CPLP), for its part, comprises nine countries with a total population exceeding 260 million people, and Portuguese is the fifth most spoken language in the world, with significant growth projected in Africa over the coming decades. Angola and Mozambique possess significant reserves of oil, natural gas, and critical minerals (lithium, cobalt, graphite) that the European energy transition will make increasingly relevant, and Portugal is the only CPLP member integrated into the European Union and NATO, thus serving as a natural institutional interface between that region and Western blocs.

And the geopolitics of the past decade have permanently altered the context in which Portugal operates. The Russian invasion of Ukraine in February 2022 produced three structural effects with a direct impact on Portuguese strategy.

First, it accelerated the overhaul of Europe's energy supply chains. Dependence on Russian gas, which accounted for about 40% of European consumption before the war, made the diversification of routes and suppliers urgent. Portugal, with its operational LNG terminal in Sines and its capacity to receive large vessels, came to be identified as one of the alternative entry points for North American and Qatari LNG bound for Central Europe. In 2022 and 2023, the volumes of LNG received in Sines increased significantly, and the gas interconnection infrastructure with Spain and France gained a political priority it did not have before the war.

Second, the conflict reinforced NATO's role and the importance of members with an Atlantic presence in maritime surveillance of the North Atlantic.

Third, the war drove capital, companies, and people from countries close to the conflict toward stable and more distant European jurisdictions. The conflict in the Middle East, particularly the war in Gaza that began in October 2023 and the ensuing instability in the Red Sea, produced a logistical effect with direct consequences for Portugal. Houthi attacks on commercial ships in the Bab-el-Mandeb Strait forced dozens of shipowners to abandon the Suez Canal route and opt to circumnavigate Africa via the Cape of Good Hope. This detour increased the average travel distance between Asia and Europe by approximately 3,500 nautical miles and 10 to 14 days of sailing and has a significant side effect. However, ships circumnavigating Africa pass closer to Sines than those using the Suez Canal bound for Rotterdam or Hamburg.

## **CONCLUSION**

Current geopolitical fragmentation tends to place greater value on geographic locations, stable jurisdictions, proprietary infrastructure, and clear institutional alignment. In a world

where supply chains are shortened or regionalized, Portugal's position within the European Union and NATO, with direct access to the Atlantic and the Portuguese-speaking world, takes on a relevance it did not have in a world of unrestricted globalization.

Looking ahead to the next decade, Portugal's strategy must leverage the convergence of its geographic position, infrastructure investment, and a new institutional framework to produce real and effective results. Portugal has one of the largest exclusive economic zones in the world (approximately 1.7 million km<sup>2</sup>, the third largest in the European Union), with significant potential for offshore wind energy, green hydrogen, and seabed minerals. The European Union has committed to achieving carbon neutrality by 2050 and reducing dependence on imported fossil fuels, and Portugal can serve as a supplier of renewable energy and green hydrogen for export via Sines, with a green corridor linking Portugal, Spain, and France (the *H2Med* pipeline), which will connect Barcelona to Marseille with a Portuguese branch

Sines' location, combined with the establishment of data centres by major tech operators, also creates a value chain around digital infrastructure that can be further developed through specialized training and by attracting people and companies in related service sectors. The completion of the European-gauge railway corridor between Sines and the Spanish border, planned as part of the Atlantic Corridor of the Trans-European Transport Network, with European funding already allocated, is the missing piece needed to compete with the major ports of Northern Europe as an entry point for goods destined for the European internal market. And as sub-Saharan Africa becomes one of the regions with the highest economic growth in the coming decades, with a population that could exceed 2 billion by 2050, Portugal's institutional, linguistic, and business presence in the Portuguese-speaking world is an asset that no other European country possesses.

But the most significant structural weakness lies in the size of our companies, which can be addressed through tax policy. More than 99% are SMEs, and about 60% have fewer than 10 employees. Evidence points to productivity gains of 30% to 50% in companies with more than 250 employees compared to micro-enterprises in the same sector. This fragmentation limits export capacity, investment in R&D, and negotiating power and in international value chains. And this is the main gap in potential revealed by the analysis of location, infrastructure, and institutional framework. Singapore, with 5.5 million inhabitants and no natural resources, has built an economy with a per capita GDP exceeding \$ 65.000 based on its geographic position, institutional framework, and infrastructure. The Netherlands has developed a model where logistics directly accounts for about 13% of GDP. Switzerland—without access to the sea—has become a financial and intellectual property hub thanks to its legal stability and geographic positioning.

Portugal today meets comparable conditions across several of these dimensions, and the current geopolitical context reinforces such conditions. What is lacking is not Geography, History, and Timing, but strategic decisions and consistent international communication that can transform these assets into a national purpose and sustained growth.

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