

SIGI' - A New Type Of Portuguese Real Estate Company and its Benefits

Recent interest in Portuguese real estate has motivated the Portuguese Government to introduce a new investment vehicle dedicated to real estate investment.

By **Cátia Silva**, 12th April 2019

Background

Recent interest from the international financial and investment community in Portuguese real estate has motivated the Portuguese Government to introduce a new investment vehicle, exclusively dedicated to real estate investment.

Introduced in February 2019, the 'Sociedades de Investimento e Gestao Imobiliaria', ('SIGI') introduces a number of features generally associated with Real Estate Investment Trusts.

The SIGI is a new type of real estate company designed to acquire and/or manage, commercial or residential, properties within the rental market.

The tax framework mirrors that of another investment vehicle, the 'OIC - Organismos de Investimento Colectivo', and the tax benefits relevant to the latter are also applicable to SIGI's, and regulated by the Portuguese Company Code.

The Advantageous Tax Regime

A key advantage of an SIGI is its tax framework.

The goal is to attract small investors and to provide them with re-assurance that, as long as there are profits to be distributed, they will benefit from them. The Law therefore

states, that 9 months following the end of the tax year, the SIGI should pay, as dividends:

- 90% of the profit arising from; dividends, income generated by its own shares, or income generated by other shares or units (when the SIGI holds the shares of other SIGI's, or units in an investment fund);
- 75% of the profits generated by the direct real estate activity;
- In addition, at least, 75% of the net profit resulting from the sale of assets under the management of the SIGI, must be reinvested. This reinvestment should be made in other assets, within a 3 year period.

Failure to comply with any of the above requirements will result in SIGI status being withdrawn, for a minimum of 3 years.

Corporate tax, applicable to the profits of the SIGI, is at a rate of 21%.

However, in calculating the net profit, the following sources of income are NOT included:

- Capital gains;
- Income arising from real estate (including rental income);
- Income arising from capital.

These exemptions are not available, if the source of the income is a country considered to be a tax haven by Portugal.

In relation to withholding tax:

- If the investor is an individual tax resident in Portugal, withholding tax at a rate of 28% is applicable, when dividends are paid;

- If the investor is an individual who is not tax resident in Portugal, the withholding tax rate is 10%;
- If the dividends are paid to a Portuguese company, withholding tax is 25%;
- Where dividends are paid to a company, the participation exemption may be applicable, and, in that case, there will be no withholding tax.

Criteria

An SIGI must comply with the following rules:

1. Registered as a stock company ("Sociedades Anónimas")
2. Appoint an external auditor and an internal tax committee;
3. Use a specified Objects Clause;
4. Have a minimum share capital of €5,000,000, represented in ordinary shares (it is not possible to have different classes of shares);
5. Comply with certain limits relating to debt and the composition of assets;
6. Include reference to "SIGI" or "Sociedades de Investimento e Gestão Imobiliária" in their name;
7. The shares must be available to trade on a stock market or on a Multilateral System in Portugal or another EU Member State (Euronext Access or Alternext, Portugal).
8. To provide additional opportunities to small investors, at least 20% of the shares must be held by investors, each holding less than 2% of the voting rights.

All assets acquired by the SIGI must be retained for at least 3 years and the debt ratio (debt includes: shareholder debt excluding equity, and bank debt) cannot be greater than 60% of the total value of the company assets, at any time.

Land that is acquired for the purpose of construction needs to be designated as urban property or as independent units, within 3 years of the acquisition date.

OIC's (Organismos de Investimento Coletivo) and stock companies can be converted into SIGI's.

Additional Information

If you would like additional information regarding Portuguese SIGI's and their potential benefits, please contact the Dixcart office in Portugal: advice.portugal@dixcart.com.
Alternatively, please speak to your usual Dixcart contact.