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The Taxation of Royalty Income in Portugal: A Look at the Patent Box Regime

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By **Catarina Sardinha**, 3rd September 2025

For Portuguese taxpayers, royalty income is generally treated as part of their normal taxable income and is subject to the standard corporate income tax (CIT) rate. Any withholding tax (WHT) paid on this income is considered a pre-payment toward the final CIT liability. If the WHT exceeds the final tax due, the difference is refundable or deductible in the following 5 years, even if no CIT is ultimately owed, particularly in the case of domestic royalty income.

However, certain royalty income can benefit from Portugal’s “patent box” regime, which is a key incentive for innovation and intellectual property (IP) development. This regime is designed in line with the BEPS Action 5 (Authorized Nexus Approach) to ensure that tax benefits are linked to actual economic activity.

Key Features of the Portuguese Patent Box Regime

The regime offers an 85% tax exemption on income derived from the use or exploitation of various IP rights, including:

- Copyrights from computer programmes.
- Registered patents, designs, and industrial models.

This effectively reduces the tax burden on qualifying royalty income significantly.

To benefit from this regime, a company must meet specific criteria:

- **Nexus Approach:** The tax exemption is limited by a ratio between the eligible expenses and the total expenses incurred in developing or using the IP assets. This ensures that the tax benefit is proportional to the taxpayer's genuine investment in Research & Development (R&D).

- **Mark-up on Eligible Expenses:** The regime allows for a 30% mark-up on eligible expenses incurred in developing the IP assets. This is capped at the total expenses for the development of those assets, further enhancing the tax benefit.

- **Internal R&D:** The regime specifically applies to income from industrial property rights that were developed internally by the taxpayer.

- **Associated Enterprises:** The regime excludes transactions with associated enterprises, especially those located in black-listed jurisdictions, to prevent artificial profit shifting.

- **Accounting Separation:** To qualify for the regime, companies must maintain clear and separate accounting records for the profits and expenses related to the IP. This is crucial for distinguishing them from other sources of income and expenses.

- **Excluded Costs:** Expenses not directly related to R&D activities, such as interest or real estate depreciation, are excluded from the computation of eligible costs.

- **Registration Date:** The regime is applicable to patents and other industrial models or drawings that were registered on or after 1 July 2016.

Madeira International Business Centre and Portugal's Patent Box Regime

By establishing a company within the Madeira International Business Centre (MIBC), a taxpayer can combine the benefits of both regimes. The Madeira IBC offers a compelling legal framework for international businesses wishing to position themselves within the EU zone.

MIBC companies, approved by the EU and in line with the OECD and BEPS international standards, allows for a 5% corporate tax, provided the substance criteria are met. Companies may enhance both the patent box and MIBC regimes together to benefit from the respective activity undertaken.

This may entail the corporate taxation of 5% reduced with the application of the patent box's 85% exemption on royalty income.

Read here for more information on the Madeira International Business Centre.

In essence, Portugal's patent box regime provides an incentive for businesses to engage in R&D and develop intellectual property. The regime encourages innovation and helps to position Portugal as a competitive hub for IP-intensive activities. Contact Dixcart Portugal for more information (advice.portugal@dixcart.com).