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THE ACCOUNTING REFLECTION OF THE INVESTMENT'S TAX BENEFITS

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ABSTRACT

Purpose: The central objective is therefore to explain the tax benefits for investment and their reflection in the rendering of accounts, by understanding the broad concept of tax benefits, understanding the diversity that exists, with a particular focus on effectively demonstrating their applicability.

Theoretical Framework: In view of the Portuguese economic context, the government has systematically created new programs and adopted tax measures aimed at granting tax benefits to promote the growth and economic development of companies. According to Teixeira (2008), the legislator establishes tax benefits with the aim of protecting the environment, encouraging savings, fostering employment and vocational training, preserving culture and cultural heritage, making incentives in tax systems crucial. In Portugal there are various types of tax benefits, such as income tax, tax deductions, investment tax and others. There are around 600 tax benefits that you can take advantage of if you consider all the conditions for their use.

Design/Methodology/Approach: In this research, the tax benefit being analyzed will be investment, due to its importance in the business world and the complexity associated with it, making it an important instrument in terms of promoting competitiveness, supporting investment and, consequently, the economy of countries.

Findings: It was possible to conclude that, except for the BFCIP, all the benefits are processed via IRC tax's deduction and can't be combined with other benefits of the same nature, except for RFAI and DLRR, which can be combined with each other if the limits aren't exceeded.

Research, Practical & Social Implications: This information can be used by any interested entitie to improve current conditions, optimize and enhance the usage of tax benefits for investment.

Originality/Value: Tax benefits are a hot topic in the business world and beyond, given that they are a special tax regime that allows companies to have a tax advantage or relief compared to the normal one, helping them to have a lower financial impact by bearing less tax.

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REFLEXO CONTABILÍSTICO DOS BENEFÍCIOS FISCAIS DO INVESTIMENTO

RESUMO

Objetivo: O objetivo central é a exposição dos benefícios fiscais ao investimento e o seu reflexo na prestação de contas, através da compreensão do conceito de benefício fiscal, da diversidade existente, com enfoque em particular na demonstração sua efetiva da aplicabilidade.

Referencial Teórico: Tendo em conta o contexto económico português, o Governo tem vindo sistematicamente a criar programas e a adotar medidas de teor fiscal direcionadas para a atribuição de benefícios fiscais com vista a promover o crescimento e desenvolvimento económico das empresas. Segundo Teixeira (2008), o legislador estabelece os benefícios fiscais visando proteger o ambiente, incentivar a poupança, fomentar o emprego e a formação profissional, preservar a cultura e o património cultural, tornando-se crucial os incentivos nos sistemas fiscais. Em Portugal existem diversos tipos de benefícios fiscais, ao rendimento, à dedução à coleta, ao investimento, entre outros. Encontramos cerca de 600 benefícios fiscais de que se pode usufruir, desde que se considerem todas as condições para a sua utilização.

Desenho/Metodologia/Abordagem: Na presente investigação, o benefício fiscal sob análise será ao investimento, pela complexidade a ele associada e pela importância que assume no mundo empresarial, tornando-se, assim, um instrumento importante para a promoção de competitividade, apoio ao investimento e, consequentemente, na economia dos países.

Resultados: Foi possível concluir que, com exceção do BFCIP, todos os benefícios são processados através da dedução do IRC e não são acumuláveis com outros da mesma natureza, exceto o RFAI e DLRR, que podem ser acumuláveis entre si se o os limites não são excedidos.

Pesquisa, Implicações Práticas e Sociais: Estas informações podem ser utilizadas pelas entidades interessadas para melhorar as condições atuais, otimizar e potenciar a utilização de benefícios fiscais ao investimento.

Originalidade/Valor: Os benefícios fiscais são uma temática muito presente no mundo empresarial, e não só, tendo em conta que se trata de um regime especial de tributação que permite às empresas terem uma vantagem ou desagravamento fiscal, contribuindo para obterem um menor impacto financeiro.

Palavras-chave: Benefícios Fiscais, Investimento, Fiscalidade, Lucros Retidos, Lucros Reinvestidos.

EL REFLEJO CONTABLE DE LOS BENEFICIOS FISCALES DE LA INVERSIÓN

RESUMEN

Objetivo: El objetivo central es, por tanto, explicar los beneficios fiscales para la inversión y su reflejo en la rendición de cuentas, comprendiendo el concepto amplio de beneficios fiscales, comprendiendo la diversidad que existe, con especial atención a demostrar efectivamente su aplicabilidad.

Marco teórico: En vista del contexto económico portugués, el Gobierno ha creado sistemáticamente nuevos programas y adoptado medidas fiscales destinadas a conceder beneficios fiscales para promover el crecimiento y el desarrollo económico de las empresas. Según Teixeira (2008), el legislador establece beneficios fiscales con el objetivo de proteger el medio ambiente, fomentar el ahorro, fomentar el empleo y la formación profesional, preservar la cultura y el patrimonio cultural, haciendo que los incentivos en los sistemas fiscales sean cruciales. En Portugal existen diversos tipos de beneficios fiscales, como el impuesto sobre la renta, las deducciones fiscales, el impuesto sobre las inversiones y otros. Hay alrededor de 600 beneficios fiscales que puede aprovechar si considera todas las condiciones para su uso.

Diseño/Metodología/Enfoque: En esta investigación, el beneficio fiscal que se analiza será la inversión, debido a su importancia en el mundo empresarial y la complejidad asociada a la misma, convirtiéndola en un instrumento importante en términos de promoción de la competitividad, apoyo a la inversión y, en consecuencia, a la economía de los países.

Conclusiones: Se pudo concluir que, salvo la BFCIP, todos los beneficios se tramitan mediante la deducción del impuesto IRC y no pueden combinarse con otros beneficios de la misma naturaleza, excepto RFAI y DLRR, que pueden combinarse entre sí si no se superan los límites.

Investigación, Implicaciones Prácticas y Sociales: Esta información puede ser utilizada por cualquier entidad interesada para mejorar las condiciones actuales, optimizar y mejorar el uso de los beneficios fiscales para la inversión.

Originalidad/Valor: Los beneficios fiscales son un tema candente en el mundo de los negocios y más allá, dado que son un régimen fiscal especial que permite a las empresas tener una ventaja o desgravación fiscal en comparación con el normal, lo que les ayuda a tener un menor impacto financiero al soportar menos impuestos.

Palabras clave: Beneficios Fiscales, Inversión, Impuestos, Ganancias Retenidas, Ganancias Reinvertidas.

INTRODUCTION

Theoretical Framework

In the Portuguese economic context, the government has adopted tax measures aimed at granting tax benefits to promote the growth and economic development of companies.

Tax benefits are a very popular topic in the business world and beyond, as they are special tax regimes that allow companies to have an advantage or a tax break compared to the normal regime, helping them to have a lower financial impact by bearing less tax.

According to Teixeira (2008), the legislator establishes tax benefits with the aim of protecting the environment, encouraging saving, fostering employment and vocational training and preserving culture and cultural heritage, which is why incentives in tax systems are crucial.

One of the most important aspects that influences the entire business world is investment, which helps companies grow economically, enabling them to reach other dimensions in the Portuguese market and in any international market.

There are various types of tax benefits in Portugal, such as the income tax benefit, the tax deduction benefit, the investment tax benefit, among others. There are around 600 tax benefits that you can take advantage of if you consider all the conditions for their use.

In this research, the tax benefit studied will be the investment tax benefit, due to the its complexity and importance in the business world, making it an important instrument to promote competitiveness, supporting investment and, consequently, to the economy of countries.

Objective

The main aim of this research is explaining the investment tax benefits and their impact on reporting, by understanding the concept of tax benefit, the various existing for investment, and presenting an empirical study via deduction for retained and reinvested earnings (DRRE).

LITERATURE REVIEW

Concept of Investment

The Plano Oficial de Contas (POC) came in 1977 with the publication of Decree-Law (DL) 44/77, which also created the Comissão de Normalização Contabilistica (CNC). However, over the years, POC has undergone several changes. In 1986, when Portugal joined the European Economic Community, it was needed to adjust POC to the Community Directives.

From 1989 until 2007, the POC underwent significant changes due to the evolution of the accounting landscape and the importance of keeping up with International Accounting Standards, while always considering the characteristics of the Portuguese economy.

Decree-Law 35/2005 obliged Portuguese listed companies' statements to be based on International Financial Reporting Standards (IFRS) also adopted by the European Union (EU).

With the aim of ensuring compliance with the IFRS, in July 2007 the CNC introduced a new accounting model called Sistema de Normalização Contabilistica (SNC), were, according to Farinha (2009), information is no longer prepared with the aim of satisfying the needs of a single user (tax authorities), but with the main objective of providing useful information to all its users (stakeholders: investors, financiers, suppliers, clients, employees, tax authorities, etc.)

After a long period of discussion, the SNC was approved by Decree-Law 158/2009, repealing the POC and complementary legislation, being compulsory for all the organizations.

The transition brought several changes to the accounting assumptions in the investment class, where reliable measurement is a key point for their recognition.

Concept of Tax Benefit

According to article 2 of the Estatudos dos Beneficios Fiscais (EBF), tax benefits are exemptions, rate reductions, deductions, accelerated amortizations and other tax measures that obey the exceptional nature instituted to protect relevant extra-fiscal public interests that are greater than those of taxation itself, which, in short, corresponds to tax relief.

According to the provisions of Decree-Law no. 215/89, of 1 July, in article 4, no. 1, situations of non-taxation are not considered tax benefits, i.e. structural tax measures of a normative nature that establish negative delimitations of incidence.

The concept of tax benefits can be distinguished from incentives, as they can be static or dynamic. From the point of view of the first ones, these are tax advantages in relation to situations already completed, a reward for activity, while the second one it's related to the stimulation of future behavior that brings benefits, with economic activities socially desirable.

Benefits can be characterized by being automatic, when they result directly from the law, or they can be dependent on actions for their recognition, (Article 5, EBF).

In Portuguese legislation there are approximately 600 tax benefits, divided up as shown in Table 1. This figure doesn't include the tax benefits decided by local authorities.

Table 1. Number of Tax Benefits by Tax

Taxes	No. of Tax Benefits
IRS (personal income tax)	147
Corporate Income Tax (IRC)	121
VAT (Value Added Tax)	79
IS (Stamp Duty)	61
ISV (Vehicle Excise Duty)	37
IABA (Tax on Alcohol and Alcoholic Beverages)	33
ISP (Petroleum Products Tax)	32
IUC (Single Circulation Tax)	18
IT (Tobacco Tax)	14
Total	542

Source: GTEBF (2019).

The weight of tax benefits is concentrated in the direct personal income tax (IRS), as in corporate income tax (IRC), which has a weight of 22% since 1/3 of companies don't pay IRC. The main benefit is exemptions, allowing a lower financial impact are (Table 2):

Table 2. Number of Tax Benefits by Category

Category	No. of Tax Benefits
Tax Exemption	330
Deduction from the tax base	90
Preferential Rate	63
Collection Deduction	52
Fee Reduction	4
Tax Deferral	1
Other	1
(blank)	1
Total	**542**

Source: GTEBF (2019).

Table 3. Number of Tax Benefits by Function

Function	No. of Tax Benefits
Economic Affairs | Job Creation	3
Economic Affairs | Industry	51
Economic Affairs | Research and Business Development	9
Economic Affairs | Investment	31
Economic Affairs | Other	57
Economic Affairs | Savings	12
Economic Affairs | Regional Promotion	46
Economic Affairs | Corporate Restructuring	9
Economic Affairs | Tourism	3
Artistic Creation	5
Defence	2
Education	10
Environmental protection	36
Social Protection	47
International Relations	45
Health	8
Security and Public Order	6
Housing and collective development services	9
General Public Administration Services	10
Recreational, Cultural and Religious Services	16

Function	No. of Tax Benefits
(blank)	127
Total	**542**

Source: GTEBF (2019).

In the Table 3, the tax benefits that lack a function is the one with the highest number. According to the source, the lack of classification means that the Tax Authority doesn't consider that there is an extra-fiscal function for the expenditure and, therefore, it may be classified as structural. Table 4 shows some examples of tax benefits and their application:

Table 4. Tax Benefits and Their Application

Tax benefits	Description
Retirement Savings Account	IRS exemption for interest on pension savings accounts in the part whose balance doesn't exceed 10,500 euros, with a view to attributing a higher net remuneration to these investments. Law no. 43/2018, of 9 August.
Public Entity Financial Services	The entities referred to in IRC's Article 9 that carry out financing operations for companies using funds borrowed from credit institutions: i) Are exempt from withholding tax at the rate of 25% on interest earned; ii) Are taxed on the interest obtained by the difference between the interest and other capital income they hold in relation to these operations and the interest owed to these institutions, i.e. on the financial margin.
Deposits from non-resident credit institutions	IRC exemption for interest on term deposits made by non-resident credit institutions.
IRC exemption for interest on term deposits made by non-resident credit institutions	1. Deduction from the taxable amount of 25% of cash donations under the patronage scheme provided for in Articles 62 to 62-B of the EBF, with a limit of 15% of the taxable amount in cases where they are subject to limitation and if they have not been accounted for as costs. 2. Deduction from the taxable amount of 25% of cash donations, up to a limit of 15% of the taxable amount, increased by 30% granted to churches and religious institutions and if they have not been accounted for as costs.

Source: GTEBF (2019).

The EBF is the result of the application of Decree-Law no. 215/89 of 1 July, as amended by Law no. 42/2016 of 28 December. It's divided into three parts. The first deals with the general principles or rules of tax benefits, in terms of their concept, that guide their design, specific characteristics and, finally, how they are extinguished. The second part regulates benefits of a structural nature and, in a final part, of a temporary one.

However, Decree-Law no. 162/2014, of 31 December, established the Investment Tax Code (CFI), which sought to bring together all the tax benefits for investment and the capitalization of companies that were scattered across various pieces of legislation.

The system of contractual tax benefits for productive investment, which was set out in the EBF, was included in the new CFI from 1 July 2014.

The CFI is structured differently from the EBF, since each tax benefit scheme is presented in a different chapter. The first sets out the purpose of the tax benefits, and the following ones deal with the contractual tax benefits for productive investment (BFCIP), the investment support tax regime (RFAI), the deduction for retained and reinvested profits (DLRR) and the system of tax incentives for research and business development (SIFIDE II), which will be dealt with in a later chapter. A final one will underline the limits applicable to regional state aid.

Tax Benefits for Investment

RFAI – Special Investment Support Scheme

Created by 2009's Supplementary Budget (Article 13 of Law no. 10/2009), it was subsequently extended by the State Budgets for 2010 (Law no. 3-B/2010), for 2011 (Law no. 55-A/2010) and for 2012 (Law no. 64-B/2011).

The Investment Support Tax Regime (RFAI) applies to IRC taxpayers, where investments intended for the company's operation are eligible. It stems from the importance of investments in production, i.e. investing so that production can be increased in quantity and quality (Moura, 2019), and is catalogued as the most widely used tax benefit for productive investment in Portugal. It consists of a deduction from IRC for certain sectors of activity enshrined in articles 22 to 26 of the Investment Tax Code (CFI), set out in DL no. 162/2014.

It was initially set up as an anti-cyclical fiscal instrument which, by promoting investment in certain regions and job creation, intended to revitalize the national economy (Ferreira, 2019).

To benefit from the RFAI, the requirements set out in Article 22, no. 4, of the CFI must be met: Have organized accounts; Don't use indirect methods to calculate taxable income; Assets must be kept in the company for a period of: three years for SMEs and five years for non-SMEs, or for the asset's useful life; Not being a State debtor, i.e. having a regularized tax and contribution situation; The company is not considered to be a company in difficulty, according to what was published in the Official Journal of the European Union, no. C 249, of 31 July 2014; There is investment that provides net job creation and its respective maintenance until the end of the minimum useful life of the assets.

Article 107, no. 3, of the Treaty on the Functioning of the European Union (TFEU) defines the eligible regions, namely in points a) and c), to which the following amounts referenced in Article 23 of the CFI are associated: Subparagraph a) – 25% for investments of up to €15,000,000; 10% for the ones over that; Subparagraph c) – 10% of relevant applications.

These deductions are made in the IRC assessment that refers to the tax period in which the relevant investments are made, with the exception to the ones made in the tax period where the activity begins and in the two following ones, the limit applies up to the competition of the total IRC collection calculated in each of these periods and, for the remaining situations, up to 50% of the IRC collection calculated in each tax period (Article 23, no. 2, CFI).

This article also establishes other benefits as exemption or reduction of IMI, IMT and IS.

Relevant applications are those referred to in the CFI's Article 22, no. 2: Tangible fixed assets (AFT), acquired in new condition, with the exceptions of the a) sub-paragraphs; Intangible assets (AI), consisting of expenditure on technology transfer, namely through the acquisition of patent, licences, *know-how* or patent unprotected technical knowledge.

When it is found that the collection is insufficient in terms of the amount not yet deducted, a deduction is allowed for up to the next ten periods, a change made when this benefit was transferred to the CFI (Article 23, no3, CFI).

The RFAI is therefore a tax instrument to support investment that favors sustainable growth, job creation and the strengthening of companies' capital structure, for which no application is required, just entering it in the corresponding field in Modelo 22 (Moura, 2019).

This benefit can't be combined with any other of the same nature. It's, however, cumulative with the DLRR, which was explained following the preparation of this study, provided that the applicable ceilings are not exceeded (Article 24, CFI).

CFEI II – Extraordinary Investment Tax Credit II

CFEI II corresponds to a tax benefit applied through a deduction from IRC in the amount of 20% of investment expenses in assets allocated to operation, which are made between 1 July 2020 and 30 June 2021 (Article 3, no. 1, Law no. 27/2020), with a limit of 5 million euros per taxable person applying to these same expenses (Article 3, no. 2, Law no. 27/2020).

IRC taxpayers who carry out a commercial, industrial, or agricultural activity as main one and fulfil all the following conditions can benefit from this application (Article 2, Law no. 27/2020): Have organized accounts; Don't use indirect methods to calculate taxable income; Not being a State debtor, i.e. having a regularized tax and contribution situation; Don't terminate employment contracts for three years after this benefit takes effect.

The deduction must be made in the IRC for the tax period beginning in 2020 or 2021, up to 70% of the tax collection (Article 3, no 3, Law 27/2020), the amount that can't be deducted may be so, in same conditions, in the following five tax periods (Article 3, no 6, Law 27/2020).

Eligible expenses are investment expenses in assets used for operation, which correspond to those relating to AFT and biological assets that aren't consumable, acquired in new condition and put into use by the end of the tax period starting on or after 1 January 2021, and investment expenses in AI subject to depreciation made between 1 July 2020 and 30 June 2021. Are also included the expenses with asset additions and those which, not relating to advances, result in additions to ongoing investments started in those periods (Article 4, Law no. 27/2020).

This benefit can't be combined with any other tax benefits of the same nature for the same eligible investment expenses (Article 5, Law 27/2020).

It should be noted that failure to comply with the eligibility rules for the investment expenses provided for will result in the return of the amount of tax that has ceased to be paid because of the application of this scheme, plus the corresponding compensatory interest increased by 15 percentage points (Article 8, Law no. 27/2020).

BFCIP – Contractual Tax Benefits for Productive Investment

Previously regulated by the Tax Benefits Statute (EBF) under the name of Major Investment Projects, it was mainly aimed at granting benefits for the restructuring and internationalization of companies (Ferreira, 2019).

As stipulated in Article 2, no 1, of the CFI, until 31 December 2020, tax benefits may be granted, on a contractual basis, for up to 10 years from the conclusion of the investment project to investment projects whose relevant applications are equal or greater than 3,000,000.00 euro.

Paragraph 2 of the article defines the economic activities covered by these investment projects, which include: Mining and manufacturing; Tourism, including activities of interest to tourism; Computer and related activities and services; Agricultural, aquaculture, fish farming, farming and forestry activities; Research and development and technology-intensive activities; Information technologies and audiovisual and multimedia production; Defense, environment, energy and telecommunications and Shared service center activities.

It's further stipulated that investment projects are eligible when (Article 3, no. 1, CFI): Have technical and management skills and organized accounts; Demonstrate a balanced financial situation; Taxable profit isn't calculated by indirect valuation methods; The contribution from own resources or via external funding corresponds to at least 25% of the eligible costs; Have a regularized tax and social security situation.

To access this benefit, conditions are defined through which projects become eligible, and this access is carried out via application, which must be sent to the Portuguese Investment and Foreign Trade Agency (AICEP) or the Competitiveness and Innovation Agency (IAPMEI).

Thus, initial investment projects are eligible, which are defined as related to investments in a new establishment, increasing the capacity of an existing one or fundamentally altering the overall production process of an existing establishment or diversifying products not previously manufactured in an existing establishment, the realization of which hasn't begun before the application provided for in Article 15 and which demonstrate technical, economic and financial viability and provide for the creation or maintenance of jobs (Article 4, no. 1, CFI).

They are also conditional on at least one of the following requirements being met: Are relevant to the strategic development of the national economy or to the reduction of regional asymmetries; Contribute to boosting technological innovation and national scientific research, improving the environment, or strengthening competitiveness and production efficiency.

The tax benefits associated with these investment projects include, and may be cumulative (Article 8, no. 1 CFI): Tax credit to be deducted from the amount of IRC tax collected, from 10 to 25% of the relevant investment project applications actually made; Exemption or reduction of Municipal Property Tax (IMI) for the contract duration; Exemption or reduction of Municipal Property Transfer Tax (IMT); Stamp Duty exemption (IS).

To deduct the tax credit, it must be made in the IRC assessment for the tax period in which the relevant investments were made. This deduction can also be used, under the same conditions, in the assessment of tax periods up to the end of the term of the contract referred to in Article 16, when it hasn't been fully made in that tax period (Article 8(2) CFI).

Regarding business start-ups, these benefits become even more attractive since the deduction can correspond to the total tax collected in each period. When for the existing companies the maximum deduction may not exceed 25% of the total tax benefit granted or 50% of the tax collected in each tax period (Article 8, no. 3 of the IFC).

The increases granted to investment projects can vary between 5% and 10%, depending on whether exceptional relevance to the national economy is recognized (Ferreira, 2019).

Also noteworthy is Article 13 of the IFC, which states that contractual tax benefits relating to the relevant applications of the project detailed in the respective contract can't be cumulated with any other tax benefits of the same nature relating and relevant applications, including tax benefits of a non-contractual nature, provided for in this or other legislation.

DLRR – Deduction for Retained and Reinvested Earnings

The deduction for retained and reinvested earnings (DLRR) incentive is a measure aimed at micro, small and medium-sized enterprises (SMEs) which encourages reinvestment in the company itself through self-financing via equity (Barbosa, 2018).

It allows IRC taxpayers resident in Portuguese territory and non-resident taxpayers who have a permanent establishment in this territory and who carry out a commercial, industrial, or agricultural activity (Article 28, CFI) to deduct from their taxable income. To benefit from this support, they must also fulfil the following cumulative conditions: Have organized accounts; Taxable profit isn't calculated using indirect valuation methods; Not being a State debtor.

Article 29, no. 1 and 2 of the IRC Code states that taxpayers who benefit from this regime may deduct up to 10% of retained profits that are reinvested within four years of the end of the period to which the retained profits correspond, from the IRC taxable amount for each tax period, up to a maximum of 12 million euros per taxpayer.

This deduction is made up to 25% of the IRC collected (Article 29, no. 3), while for micro and small entities this deduction is set at 50% (Article 29, no. 4).

This benefit applies to everything that is a relevant application, including (Article 30, no. 1): Land, unless it is intended for the exploitation of mining concessions, natural and spring mineral waters, quarries, clay pits and sand pits in extractive industry projects; Construction, acquisition, repair and extension of any buildings, except those used for production or administrative activities; Light passenger or mixed-use vehicles, unless they are used to operate a public transport service or are intended to be rented out in the course of the taxable person's normal business, pleasure boats and tourist aircraft; Comfort or decorative items, except for hotel equipment used for tourism; Assets allocated to activities under concession or public-private partnership agreements signed with public sector entities.

This regime also includes AI made up of expenditure on technology transfer, namely through the acquisition of patent, rights, licenses, know-how or patent unprotected technical knowledge, if they cumulatively meet the following conditions stipulated in Article 30, no. 2) of the IFC: Are subject to amortization or depreciation for tax purposes and aren't acquired from entities with which there are special relationships (Article 63, no. 4 of the IRC Code).

It should be noted that if the assets have been acquired under a financial lease, the deduction is conditional on the taxable person making the purchase within seven years of the date of acquisition (Article 30, no. 5 CFI).

The DLRR isn't cumulative, in relation to the same relevant eligible applications, with any other investment tax benefits of the same nature, such as SIFIDE, but it is cumulative with the contractual benefits regime and the RFAI (Article 31, CFI), if it doesn't exceed the maximum rates regulated by Article 43 of the CFI.

For these beneficiaries, a special reserve must be set up in the balance sheet, corresponding to the amount of retained and reinvested earnings. This reserve may not, however, be used to distribute dividends before the end of the fifth financial year following that in which it was set up (Article 32, CFI).

The application of the DLRR has some limitations with negative impacts, namely the fact that it requires a great deal of control, since there is no reporting of any excess. Also, the fact that it is based on future investments which, if they don't occur, imply the return of the benefit. In addition, it can only be used in the year in which the reserve is set up (Ferreira, 2019).

SIFIDE II – System of Tax Incentives for Research and Business Development

Currently known as the system of tax incentives for research and business development II (SIFIDE II) after the introduction of Law 83-C/2013 of 31 December, these benefits are aimed at supporting research and development related to the creation or improvement of a product, program, process, or equipment that presents a substantial improvement, in force for tax periods from 2014 to 2025 (Barbosa, 2018).

Research expenses are those incurred by the IRC taxpayer with a view to acquiring new scientific or technical knowledge and development expenses are those incurred by the IRC taxpayer by exploiting the results of research work or other scientific or technical knowledge with a view to discovering or substantially improving raw materials, products, services, or manufacturing processes (Article 36, CFI).

IRC's taxpayers resident in Portugal who carry out agricultural, industrial, commercial and service activities as their main activity and non-residents with a permanent establishment in Portugal are eligible for this incentive (Article 38, no. 1, CFI).

For this purpose, the following expenses are considered deductible (Article 37, no. 1 CFI):

- Acquisitions of tangible fixed assets, with the exception of buildings and land, provided they are created or acquired in a new state and in proportion to their use in carrying out research and development activities;

- Expenditure on staff with a minimum qualification of level 4 of the National Qualifications Framework, directly involved in research and development tasks, considered at 120% of their quantity;
- Expenditure on the participation of managers and staff in the management of research and development institutions;
- Operating costs, up to a maximum of 55% of the costs of staff with a minimum level 4 qualification in the National Qualifications Framework directly involved in research and development tasks accounted for as wages or salaries for the financial year;
- Expenses relating to the contracting of research and development activities with public entities or entities with public utility status or entities whose suitability in terms of research and development is recognized;
- Participation in the capital of research and development institutions and contributions to investment funds, public or private, aimed at financing companies dedicated mainly to research and development, including the financing of the valorization of their results, whose suitability in terms of research and development is recognized by the National Innovation Agency, S.A.;
- Patent registration and maintenance costs; Expenditure on the acquisition of patents that are predominantly used to carry out research and development activities or on research and development audits;
- Expenditure on demonstration actions arising from supported research and development projects.

This benefit consists of a double percentage deduction from the amount of income tax, up to its concurrence, of the amount corresponding to research and development expenses, in the part that hasn't been the subject of a non-repayable financial contribution from the state, incurred in the tax periods between January 2014 and December 2025: 32.5% of expenditure for the base rate; 50% of the difference in expenditure realized in the year in question minus the average of the two previous financial years, up to 1.5 million euros for the incremental rate.

In the case of SME's that haven't yet completed two financial years and benefited from the incremental rate set, a 15% surcharge applies to the base rate (Article 38, no. 2 CFI).

If, due to insufficient collection, the expenses that can't be deducted in the financial year where they were incurred, can be so up to the eighth following years (Article 38, no. 4 CFI).

In order to benefit from this incentive, it is necessary to cumulatively fulfil the condition that taxable profit is not determined by indirect methods and isn't owed to the State (Article 39, CFI), and this must be justified by a supporting declaration, to be requested by the interested entities, or proof of the submission of the request for the issuance of such a declaration, that the activities carried out or to be so actually correspond to research or development activities, the respective amounts involved, the calculation of the increase in expenditure in relation to the average of the previous two financial years and other elements deemed relevant, issued by the National Innovation Agency, S. A. (Article 40, no. 1, CFI), and applications for which must be submitted by the end of the 5th month of the year following (Article 40, no. 3, CFI).

SIFIDE II cannot be combined with tax benefits of the same nature, including tax benefits of a contractual nature, for the same expenditure (Article 42, CFI).

Impact of Investment Tax Benefits on Accountability

After analyzing the investment tax benefits that exist in Portugal, it's important to detail their impact on the rendering of accounts, in other words, to understand how they are accounted for and their consequences on the entity's financial statements, as well as, in the field of taxation, their implications on Model 22 and on the Simplified Business Information (IES).

The tax benefits presented, except for the BFCIP, have in common the deduction they provide for occurs directly on the amount of the IRC, while in the exceptional case, instead of this procedure, it involves a fixed tax credit, which may also be increased.

Table 5 summarizes the tax benefits previously selected and presented in this study, trying to summarize their function, as well as the respective eligibility for them.

Table 5. Summary of Tax Benefit Characteristics

Tax Benefits	Scope	Deductions	Application Method
RFAI	Investment in AFT and AI to create and maintain jobs.	Deduction of 25% from the IRC for investments of up to 15 million euros, or 10% for those above this amount.	Documents integrated into the tax documentation process, to identify the amount in applications relevant to the scope of the process.
CFEI II	Investment in operating assets made between 01/07/2020 and 30/06/2021.	Deduction of 20% from the IRC, provided the investment is up to 5 million euros.	Documents integrated into the tax documentation process, to identify the amount in applications relevant to the scope of the process.
BFCIP	Investment in AFT and AI until 31/12/2020, provided the value is equal or greater than 3 million euros.	Deduction of tax from the amount of IRC tax, with rates between 10% and 25%.	Realised via an application, which must be sent to AICEP or IAPMEI.
DLRR	Investment in AFT and AI for micro, small and medium-sized enterprises.	Deduction of up to 10% of retained profits that are reinvested from IRC.	Documents integrated into the tax documentation process, to identify the amount in applications relevant to the scope of the process.

Tax Benefits	Scope	Deductions	Application Method
SIFIDE II	Investment in research and development (R&D).	Deduction from corporate income tax of 32.5% of R&D expenses and 50% of the difference between those incurred in year N and the average of N-1 and N-2, with a limit of 1.5 million euros.	Submitted by the end of May N+1 to IAPMEI.

Source: Own Elaboration

There is no direct impact on the accounting of the benefits in the more traditional way, i.e. by recording an investment subsidy, which would affect equity and debtors' classes, but there is a correction of the tax estimate, in the direction favorable to the entity, after processing the Model 22, because the benefits described imply a reduction in the tax payable under IRC.

The tax benefits compiled in Table 2.6, except for the BFCIP, have an impact on the Financial Statements, since it's a deduction from taxable income, as described, and therefore doesn't affect the result for the period, but rather has implications for the estimated tax which, consequently, will influence the net result, impacting the Income Statement and Balance Sheet. In this last one, because it's a tax deduction, it will influence the State and Other Public Entities item, thus making the company's liabilities lower, since the tax payable will also be lower.

There is also a mention of the Equity's Changes Statement, since in the case of the DLRR, the special reserves, which are part of other reserves, will show the value of the undistributed profit attributable to the investment to be made, in accordance with the legislation in force.

The impacts on Modelo 22 are specifically in annex D, table 07, where are the deductions from taxable income, covering various types of tax benefits, requiring you to fill in the information on the total balance of the investment and the tax-deductible share, to be included in field 355 of table 10 of the declaration, contributing to a reduction in the tax payable.

As far as the IES is concerned, tax benefits information can be found in Annex D, Table 07, specifically in field 242. The purpose of this table is to report the calculation of the tax base, and the field in question quantifies all the tax benefits to be deducted from the tax base.

EMPIRICAL STUDY

The empirical study focuses on DLRR tax benefit, its application and impact.

Company Identification and Framework

FICTÍCIA, S.A., is a medium-sized company, IRC taxpayer located in Lisbon, with the NACE 47610, (books' retail in specialized establishments), as defined by DL 381/2007.

In 2018, it applied for a tax benefit through the DLRR, fulfilling the conditions stipulated in the CFI, specifically in Article 28: It's a medium-sized company, certified by IAPMEI under Decree-Law 372/2007, as recommended by Recommendation 2003/361/EC; Has organized accounting; Your taxable profit isn't determined by indirect methods; It has a regularized tax and contributory situation, as evidenced by the company's non-debt certificates.

In addition, regarding the provisions of Ordinance 297/2015 in Article 2, it's not in any injunction process and isn't considered a company in difficulty. The investment in question from which the tax benefit will derive does not correspond to the initial investment.

Calculation of the DLRR Tax Benefit

The entity's 2018 Model 22, for academic simplification, the taxable amount corresponds in full to the pre-tax result, which amounts to €435,666, resulting in a IRC collection around €90,740. These amounts lead to a net profit of €344,926, as detailed in Table 6:

Table 6. Net Profit Calculation

Component	Calculation	Amount
Collectable Matter		435 666,00 €
Collection	[(16% * 15.000) + (21% * (435.666-15.000))]	90 739,86 €
Net Profit		**344 926,14 €**

Source: Own Elaboration

To strengthen the company's economic and financial position, as well as to open a new commercial space, 50% of the profits (€174,000) were retained to be reinvested in the aforementioned project. The amount is intended to cover the purchase of all the equipment needed for the new establishment, including shelving, administrative equipment such as printers, photocopiers and cash registers, service desks and chairs among other necessary assets.

To this end, a special reserve was set up, which can't be distributed to shareholders before the deadline laid down in Article 32, no.2 of the CFI, i.e. before the fifth financial year.

Depending on the reserve set up and its intended purpose, 10% of it will be deducted from the taxable income as it will be fully invested in 2019, according to Article 29, no. 1 and 30, no. 1b of the IRC, as well as Article 11 of Ministerial Order 297/2015. It should also be recalled that under Article 29, no. 3 of the CFI, the deduction may not exceed 25% of the IRC tax collection for the year itself, with the tax benefit being deducted under Article 90 of the IRC.

As described, the company has committed to reinvesting the full amount of the 2019 reserve in relevant applications, with focus on Article 30, no. 1b of the CFI. If there is no conflict from the Article 29, no. 3 of the CFI, due to 2018 tax totaled more than €90,000, the tax benefit will be deducted from the DLRR. It should be added that the organization in 2018 isn't under any limit from the Article 43 of the CFI and hasn't any additional State aid.

Table 7. Tax Benefit Calculation

Reserve set up under the tax benefit	**174 000,00 €**
Collection 2018	90 740,00 €
Limit on collection (25%)	22 685,00 €
Maximum benefit (10%)	17 400,00 €
Deduction from collection	17 400,00 €

Source: Own Elaboration

Model 22

In relation to the above, it's necessary to declare the following in 2018's Modelo 22:

Table 8. Model 22

Table 10	Field 355	17 400,00 €
Annex D – Table 075	Field 727	17 400,00 €

Source: Own Elaboration

Field 355 of Table 10 thus shows the amount of tax benefit obtained in 2018. The final calculation of the tax to be paid for 2018, obtained from Modelo 22, is as follows:

Table 9. Tax payable

YEAR 2018		
Collectable Matter	Field 311	435 666,00 €
Collection	Field 351	90 739,86 €
Deductions	**Field 355**	**17 400,00 €**
Payments on account	Field 360	68 591,89 €
Spill	Field 364	6 534,99 €
Autonomous taxation	Field 365	13 457,82 €
Total Tax	**Field 367**	**24 740,78 €**

Source: Own Elaboration

In 2018 financial statement income tax's note 26, there will be a reference to the amount not to be paid due to the deduction by the tax benefit, the DLRR amount of €17,400. In this way, the organization obtained a tax saving corresponding to the benefit of €17,400.

Table 10. Calculation of the Effective ISR Rate

	No Tax Benefit	**With Tax Benefit**
RAI (1)	435 666,00 €	435 666,00 €
ISR (2)	110 732,67 €	93 332,67 €
RL (1-2)	**324 933,33 €**	**342 333,33 €**
Effective Rate (2/1)	25,42%	21,42%

Source: Own Elaboration

Impact on Financial Statements

Following on from the stated above, it's also important to consider the impact that the operations presented have on the FICTÍCIA, S.A.'s Financial Statements, affecting all of them.

Regarding the impact from a financial perspective, shown in the entity's Balance Sheet, in 2018 there was a reduction in the amount payable, naturally, the consequent increase in the entity's Net Profit and as shown in Table 3.6, thus causing a decrease in Liabilities and the increase in Equity, in the amount of €17,400 corresponding to the DLRR tax benefit.

In addition to affecting the Balance Sheet, this observable impact on the Net Profit in Equity also affects the Equity's Changes Statement due to the need to show the change in the entity's equity position, respecting the qualitative characteristic of comprehensibility.

Also, regarding the impact in 2019, a special non-callable reserve was set up because of the applicable legislation to reinvest the part of the Net Profit allocated to this purpose, thus increasing the entity's Equity after distribution of the results (assuming full distribution of the remaining results). Likewise, this change will also be shown in the Equity's Changes Statement.

Naturally, as it deals with investment in the productive factors, namely AFT, there will be an increase in it, as well as in the corresponding third-party account until it's discharged.

Regarding the economic perspective, reflected in the Income Statement, the impact observed in 2018 is in terms of Income Tax and Net Profit, as described above. In 2019, the entity's results will be affected exclusively by the increase in depreciation resulting from the normal wear and tear of the AFTs acquired, as described in the financial impact. The most important changes in the explanatory notes for the impacts presented above, particularly about AFT, ISR, Tax Benefits and Equity, are highlighted in the Annex.

CONCLUSION

The aim of the research is the understanding of the Portuguese the tax benefits, that are approximately currently 600, with a special focus on those relating to investment. To this end, the CFI was analyzed regarding the RFAI, BFCIP, CFEI II, SIFIDE II and DLRR.

It was possible to conclude that, except for the BFCIP, all the benefits are processed via IRC tax's deduction and can't be combined with other benefits of the same nature, except for RFAI and DLRR, which can be combined with each other if the limits aren't exceeded.

As for the Portuguese case, the RFAI is the productive benefit most used by companies to increase the production quality and quantity enabling them to have a better capital structure.

To benefit from these applications, there are some common nuances such as having organized accounts, not being a debtor to the state and taxable profit not being calculated using indirect methods. To underline is the DLRR, which is only applicable to SME's companies.

Regarding the impacts on accountability and financial statements, it was concluded that these benefits affect the Balance Sheet, Income Statement and Equity's Changes Statement. In the last one, they only affect the DLRR since it requires the creation of a special reserve for the amount retained for reinvestment. At the level of the Income Statement and Balance Sheet, they are affected by the net profit. It should also be noted that in the Balance Sheet because the tax calculated is lower the State and Other Public Entities debt will also be lower.

In the tax field, we analyzed Modelo 22 and IES, which must include information on the total balance of the investment in question and the tax-deductible share and the calculation of the tax base, quantifying all the tax benefits to be deducted from the tax base, respectively.

A practical application was made of one of the tax benefits discussed, namely the DLRR, and the entire associated process was carried out, as well as demonstrating the impact on the rendering of accounts and analyzing the influence on the Financial Statements.

Through this empirical study, it was possible to conclude that the entity FICTÍCIA, S.A., a medium-sized company based in Lisbon, by benefiting from the DLRR, achieved tax savings in the exact amount of this benefit, presenting a higher net profit for the period.

The main difficulty with this subject is the existence of numerous pieces of legislation on associated issues, complicating the collection of information to study it. For future purposes, it is important to better publicize this topic to make it easier to understand the tax benefits.

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