

2.1 *Subsidiary and Branch*

The major distinctions between a subsidiary and a branch concern the liability of the parent company and the payment of withholding tax on distribution of dividends.

a) Subsidiary - A subsidiary is a specific form of arrangement through which a company can be established. The subsidiary depends upon another company either on the terms of that company (called the parent company) being holder of shares in the subsidiary or in connection with any other contractual link. Despite this dependence, a true company has to be duly formed for a subsidiary to be established in Portugal. In that vein the subsidiary is a different entity from the parent company with all the implications of having a true and separate liability from the latter one. It is usually established under the format of a limited liability company of one of the two kinds:

- "**sociedade por quotas**" (normally identified in a practical language as a "Lda" or "Limitada" company); or "**sociedade anónima**".

A "**sociedade por quotas**" is a private limited liability company usually formed by two partners (individual and or companies)¹ to operate a small or medium-sized business not requiring the participation of capital from the public through the issuance of securities. It is a type of company very popular in Portugal as it does not have a heavy legal structure.

It usually requires two partners (individual and/or companies) and a minimum paid-up capital of 400,000 Portuguese escudos. Shares are not represented by share certificates as they have no material existence. The company is set up (through a necessary notarial deed) and registered (in the Companies Registrar Office of the area where it has its registered office). The shares (named "quotas") and their respective holder are those which are registered with the Companies Registrar Office. It is managed by one or more managers. The most important resolutions of the company's activities are taken either through meetings among partners or through written resolutions (if taken unanimously) with no need for a meeting to be held.

¹ The formation of companies with only one partner bearing limited liability to the amount of the capital subscribed is allowed. However such companies rarely exist in Portugal. In that case, it is mandatory to indicate in the company's name that a single partner controls the capital.