PORTUGAL

TAX GUIDE

SINCE 1986

BLACKTOWER

FINANCIAL MANAGEMENT GROUP

Introduction

If you are thinking of moving abroad to reside permanently in Portugal, there are a number of financial aspects to take into account. Ideally, you need to plan ahead with a view of optimising your wealth and reducing your tax liability.

Professional advice is essential and will help you understand the tax ramifications of a move to Portugal. Tax laws between countries differ significantly and if your aim is to protect your wealth and have a succession plan, having the support and guidance of a professional who understands all the relevant cross-border jurisdiction issues is an invaluable asset.

However, the process should not simply be about protecting what you already have it should also be about protecting your future, protecting your beneficiaries, and recognising and capitalising on the many opportunities that exist for an expat. Even though these opportunities will depend on your individual circumstances, there is value to be gained in understanding the general tax situation in Portugal and this is what we hope this document will help you achieve.

The contents of this Tax Guide is believed to be correct at the date of publication. However, all information and tax figures are subject to change, and you should always check this before entering into any transaction. The information is for guidance only and does not constitute advice. You should also seek professional and legal tax advice tailored to your specific needs and circumstances before making any decisions.

INDEX

Your residency status and tax

Typically, your country of residence will tax you on income, capital gains, dividends and so on, so it is crucial to understand which jurisdiction you are a resident of.

Portuguese residency

To qualify for Portuguese tax residency, you must meet one of the following conditions:

- Spend at least 183 days of every tax year (January to December) in Portugal; or
- If you spend less than 183 days in Portugal, you need to maintain a residence (i.e. a habitual residence) in Portugal during any day of the period referred above.

The Portuguese Income Tax rules also include split year residency, linking the period of physical presence in Portuguese territory and the status of tax resident. Thus, as a rule, the taxpayer will become resident in Portugal as of the first day of stay in the Portuguese territory and non-tax resident as of the last day of stay in Portugal, with a few exceptions.

> Whatever the case, you should always seek advice as how to best define and process your status and application.

UK residency

In terms of UK tax residency, your status is determined under the UK Statutory Residence Test. There are several possible statues under this test:

- Automatic overseas resident
- Automatic UK resident
- Sufficient ties

In the event you do not meet the respective criteria for either of the 'automatic' residence tests, the third status is assessed based on the number of days you are resident in the UK together with an assessment of your applicable 'ties' to the UK. Qualifying ties include:

- Having 'substantive' work in the UK;
- Having family in the UK;
- Having housing or accommodation in the UK;
- Spending more time in the UK than in any other country together with at least 91 days in the UK over the preceding two years.

Please note that the fact that you become tax resident in Portugal, does not change your tax status in the UK. Should you wish to stop being taxed in the UK, you are required to submit that information to the HMRC, and ask for the NT code (Nil Tax Code) to avoid double taxation.

Visa and immigration to Portugal

When moving to Portugal, you will first have to understand if you require a permit to stay in the country.

Portugal being a member state of the European Union, is able to grant a visa-free entry to EU citizens, any third country citizen will have to apply for some type of residency permit. Family members of EU citizens, can apply for residency via a "reunification visa".

Applying for residency

If you are a non-EU citizen, you will need to be aware of the two types of permits for residency:

- Residency Visa
- Temporary Residence Permit

The Residency Visa is a document issued with a validity of 3 to 4 months, provided by a Portuguese Embassy for individuals who intend to move to Portugal before registering as residents. After the Visa is issued, the individual will have a period of four months to register with the Immigration and Borders Service (SEF) to obtain a temporary resident permit.

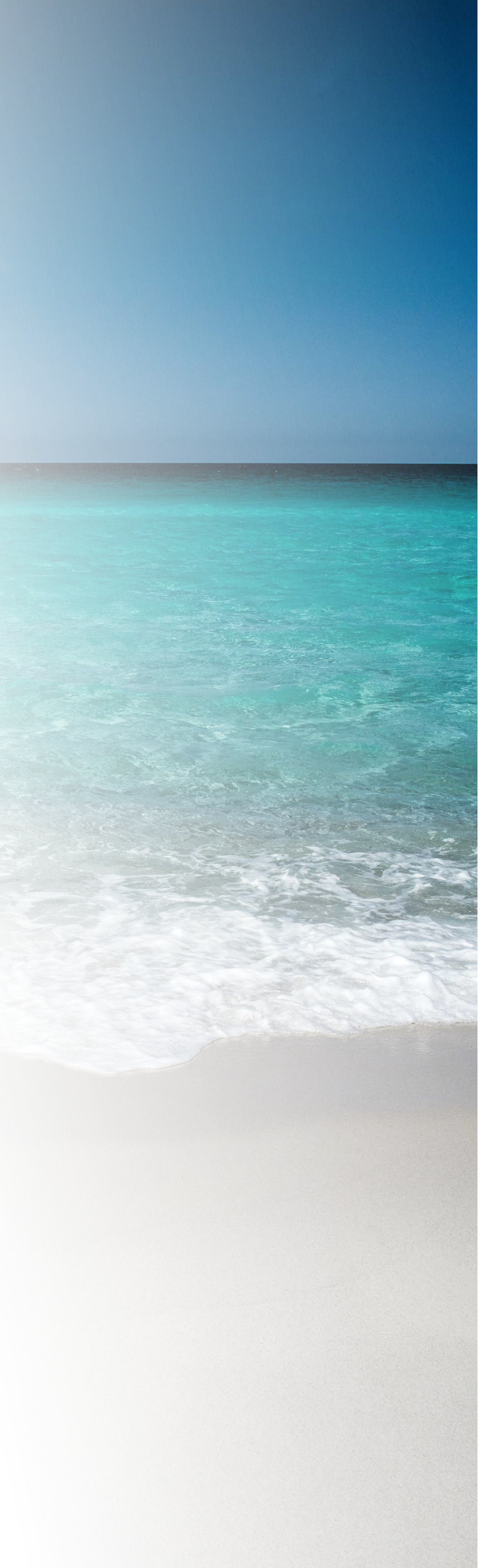
The Temporary Residence Permit will allow you to legally stay in Portugal for an extended period of time. Once approved, you will be allowed to stay in the country for a period of 2 years, renewable for another 3 years consecutively. After the 5 years, you can finally apply for permanent residency.

Visa Options

When applying for a Residency Visa, you will be face with various options.
Nonetheless, the most common types of Visas are:

- Golden Visa (designed to attract investors, the programme is suited for individuals with substantial capital available to invest in Portugal)
- D7 Visa (allows individuals to move to Portugal and live off the income from retirement, rentals, work or investments abroad);
- D2 Visa (designed for entrepreneurs who wish to start a business and/or individuals who have a work contract in Portugal).

Applying for residency will involve dealing with a significant amount of legislation and paper-work and you should seek local legal advice in this area, to make sure you apply for the most suitable Visa and follow the right steps in order to acquire it.



Portugal´s NHR scheme

Portugals NHR regime

Portugal’s Non-Habitual Resident (NHR) regime provides numerous immediate tax advantages for first-time residents in the country, or, alternatively, for those who have not been residents for any of the five preceding tax years.

The NHR confers tax benefits for a period of 10 years, including a 20% tax rate on ‘high added value’activities exercised in the country (employment and self-employment related). It also provides tax efficiencies on pension income and many other sources of foreign income, such as dividends.

NHR and pensions

The rules of the NHR regime allow some forms of foreign pension income to be subject to a special flat rate of 10% for expats in Portugal.

However, this does not mean that all is straightforward when dealing with Portugal cross-jurisdictional pension issues. For example, some pensions automatically attract tax at source and others are exempted.

Double tax treaties

The term Double Tax Treaty means it is only possible to be a tax resident in one country at any given time. The treaty includes rules that can help you establish your tax residency.

However, if your circumstances change, it is important to take regular advice to ensure that your situation continues to align with the rules necessary for your tax status. Any oversights in this regard can prove costly as you could end up paying more tax than necessary.

Establishing tax efficiency

The Portugal Double Tax Treaty prevents your income from being taxed in both countries. However, in some cases it may be possible to pay tax in the wrong country and to consequently pay more than you need to.

Although it is possible to offset tax paid in one country against the tax due in the other, this does not always provide advantages. It is better to avoid the higher liability in the first place. Finding the arrangement that is most suited to your individual circumstances is rarely straightforward, so it is important to take advice regarding the most tax-efficient arrangement for your personal situation.

Your tax residency

When you move to Portugal it is essential that you contact the authorities to declare your residency and tax status, regardless where your income, savings and pensions are based.

Failure to declare and disclose tax and residency status may result in you breaking the law and incurring some form of penalty. For example, if you pay tax at source but have not declared some or all of your income to the Portuguese authorities, you could be penalised for tax evasion and become liable for interest on underpaid tax.

In Portugal and once you become a resident you are obliged to declare all your assets and your worldwide income, however you are only taxed on your worldwide income.

Social security

It is important that you are clear about where you should be paying social security. If you get this wrong, you could lose out on entitlement to state healthcare and other protections. Ultimately, errors in this regard may also lead to loss of pension rights.

Tax efficiency when investing

What is deemed tax efficiency in other countries may not be tax efficient in Portugal, and vice-versa. For example, both Premium Bond winnings and Individual Savings Accounts (ISAs) are tax-free in the UK. However, they may attract considerable tax liabilities in Portugal so you may want to restructure any investments of this type before you begin residency in the country.

Furthermore, you may wish to consider the tax efficiency of the following investments when moving to Portugal:

- Equities
- Unit Trusts
- Open-Ended Investment Companies Investment Bonds
- Pension Income
- Rental Income

It is worthwhile talking to your local financial adviser about the various tax-efficient investment vehicles accessible to you as a resident of Portugal and how these may ultimately reduce your tax liability.

Offshore bank interest

The worldwide bank interest income of residents in Portugal is subject to a flat rate tax of 28%. However, if you are a Non-Habitual Resident the income is not liable for any tax in Portugal, providing there is DTA between Portugal and the country where you have received this income from.

The exception to the rule is if the account is held in a jurisdiction listed by Portugal as a 'tax haven'. Blacklisted locations currently include Gibraltar and Guernsey, despite the Organisation for Economic Co-Operation and Development (OECD) Global Forum Rating categorising these jurisdictions as "largely compliant". These countries attract a higher tax rate of 35%.

You should declare all your assets and accounts. Portugal is a signatory to the Common Reporting Standard, under which over 100 jurisdictions automatically exchange tax and financial information on a global level. Failure to declare could result in significant fines and penalties.

Rental income

Rental income from abroad

Rental income from properties abroad may remain taxable at source, regardless of residence status, and must be appropriately reported in both countries. Tax paid at source can be offset against Portuguese tax on the same income. However, if you are a Non-Habitual Resident the income is not liable for any tax in Portugal.

Rental income from Portuguese property

All income derived from property owned in Portugal is subject to tax. For non-residents of Portugal this is a flat rate of 28% (although some specific deductions are allowed, not including mortgage interest).

Day-to-day maintenance and running costs (but not mortgage interest) can be claimed, but the deductions are limited and many feel it is not worth the hassle and costs.

Portugal´s property wealth tax

An annual wealth tax on property in Portugal has been levied since 2017. The AIMI (Adicional Imposto Municipal sobre Imveis) is seen as Portugal's version of a wealth tax, which affects owners with a share in Portuguese property worth in excess of 600,000. This threshold is for individuals. Spouses and civil partners have a combined allowance of 1,200,000. Regardless of residency status, rates applied are 0.4% on the total amount for properties held by companies, 0.7% to 1.5% for Individuals the higher rate being applied to properties valued in excess of 2,000,000.

If the property is held by any company in a 'blacklisted jurisdiction' for the Portuguese tax authorities, the total rate can potentially be aggravated to 7.5%.

Property tax in Portugal

Every owner of a property in Portugal is subject to IMI (Imposto Municipal sobre Imveis).
According to the IMI rules, you are considered an owner if you are in possession of the property or land, at 31st of December of each year.

A few full IMI exemptions do apply. If you have a gross annual income of less than 15,295 and the total property value is less than 66,500, you will be exempt from paying IMI. If you buy a property for primary residency purposes, you can also benefit from a three-year exemption, providing the value of the property is 125,000 or less and your annual gross income is less than 15,300.

Capital gains on property

Capital Gains Tax (CGT) on the sale of a property in Portugal is generally only payable on 50% of the gain for tax residents in the country. These gains are automatically added to the declared income for any given tax year and taxed according to the individual's applicable rates for that year, after all the deductions are applied.

The exceptions to CGT in Portugal are:

- If the property was purchased prior to January 1989.
- If the full proceeds from the sale (capital gains included) are reinvested in the purchase of another property (primary residence) in Portugal, or the EU within a period of three years. If the full proceeds from the sale (capital gains included) are reinvested in the purchase of another property (primary residence) in Portugal, or the EU within a period of two years prior to the sale.
- If the full proceeds from the sale are reinvested in the purchase of a capital insurance product, within a period of six months after the sale.

Please bear in mind that both properties (the one sold and the one purchased) have to be your primary and main residence.

Undeclared Income or 'Black Money'

Not that long ago in Portugal many property sales were borderline in their legitimacy as neither vendor nor buyer always disclosed the full value of the transaction. Not only is this practice of under-declaring purchase price illegal, but it can also result in a much larger capital gains liability than would otherwise apply when you sell the property further down the line. Such 'black money' transactions should be avoided.

Succession laws

In August 2015 Portugal implemented an EU regulation known as 'Brussels IV'. Under the terms of Brussels IV, if you reside in Portugal you can choose to have UK or other succession law apply to your estate, otherwise Portuguese succession law will apply automatically upon your death.

There may be significant advantages to electing UK succession law: Portugal's forced heirship rules do not allow you to choose certain beneficiaries for example, step-children while simultaneously forcing you to hand on as much as half of your estate to your 'bloodline' this includes children (biological and adopted), spouse, parents and grandparents regardless of whether you want this.

You should be aware that if you are a resident of Portugal, Portuguese succession law will apply to all your worldwide assets (excluding non-Portuguese real estate). As such, careful planning in relation to succession laws and inheritance taxes is essential.

Inheritance planning

Portugal levies a succession tax on property via stamp duty, but it may be possible to avoid this when gifting property to your children or other direct beneficiaries.

One way to protect your legacy and to structure your assets effectively is to use ownership via a company to mitigate succession and inheritance taxes. However, this can create new kinds of complexities and liabilities, including capital gains and corporation taxes, particularly if you are not classified as a habitual resident. Whatever the case, it is important to seek reliable advice in this regard what is best for one person may be disadvantageous to the goals and circumstances of another.

Wills and probate

Foreign Wills are valid in Portugal but can be complicated by cross-border jurisdiction probate regulations. It can be a laborious and time-consuming process negotiating cross-border probate before assets can be distributed.

It is important to be careful and to take professional, legal advice. Writing a Portuguese will can potentially invalidate your other Wills and in some cases could even lead to disputes between your heirs.

Inheritance tax

Parents, children and spouses in Portugal are exempt from inheritance tax (IHT) known as stamp duty in Portugal. The rate for other beneficiaries is a globally favourable 10%. This tax applies to all Portuguese-located assets, including property, as well as lifetime gifts.

Unlike some countries, in Portugal the tax is paid by the beneficiary rather than the estate. However, just as in other countries, the beneficiary cannot take legal ownership of the bequeathed asset until the tax has been paid. Inevitable, problems can arise in this regard as an asset cannot be sold until the stamp duty has been paid.

IHT for UK domiciles with strong portuguese links

UK domiciles are subject to UK inheritance tax on death even if they have previously lived for extended periods of time outside the UK. In theory, this can result in estates being liable for both Portuguese and British inheritance tax. However, although there is a double tax treaty between the two countries, when it concerns inheritance tax the UK provides unilateral relief to prevent double taxation.

Despite this relief, complicated situations can arise. Good advice and prudent planning are likely to prove invaluable in helping you pass on your estate in line with your wishes and with only the minimum level of tax.

Unmarried couples and UK civil partners

Portuguese stamp duty of 10% applies to both lifetime gifts and Portuguese assets inherited by unmarried couples. This rate also applies to gifts and assets passed on to non-bloodline relatives for example, step-relatives or close friends.

However, unmarried couples who have lived together for two or more years and are registered as common law partners with the Portuguese tax authorities can be treated as a married couple for tax purposes.

Portugal has the same approach to same-sex couples and recognises both same-sex marriages and UK civil partnerships, ensuring that both categories of couple are treated as spouses under Portuguese tax law.

Taxation of trusts

Trusts are an increasingly popular method of estate and succession planning. However, since January 1st of 2015, Portugal has made distributions from trusts taxable at a rate of 28% or, for 'blacklisted' jurisdictions, such as Gibraltar or the British Virgin Islands, 35%. The same rates of tax apply to any gains made after a trust has been wound up.

Tax rate in Portugal

Income tax rates for 2023 income

Income	Tax rates %	Average tax rate
0 - 7.479	14.5%	14.5000%
7.479 - 11.284	21%	16,692%
11.284 - 15.992	26.5%	19,579%
15.992 - 20.700	28.5%	21,608%
20.700 - 26.355	35%	24,482%
26.355 - 38.632	37%	28,460%
38.632 - 50.483	43.5%	31,991%
50.483 - 78.834	45%	36,669%
Above 78.834	48%	-

Interest earned from Portuguese bank accounts is paid subject to deduction of tax at 28%. However, habitual residents of the country can add this to other income for taxation at the standard scale rates.

For income derived from accounts outside Portugal, either a 28% flat rate applies, or the scale rates listed in the table above. Blacklisted 'tax havens' have interest taxed at a higher rate of 35%.

Conclusion

Professional, expert advice is critical when attempting to plan and manage your finances, particularly if there are possible cross-border jurisdictions and language issues to consider.

Portugal's taxation and succession laws differ remarkedly from those in other countries, sometimes they may work to your personal advantage, but at other times they may not. It is only by carrying out full analysis of your situation and with careful planning that you can feel confident of achieving a balance that most closely aligns with the interests of you and your family.

At Blacktower, we understand that everyone is different, and it is important that your adviser understands you, your circumstances, your long-term goals and your cash flow needs. We take the time to get to know you and will answer all your investing, saving and retirement planning questions so that we may provide a truly bespoke service.

This communication is for informational purposes only based on our understanding of current legislation and practices which is subject to change and is not intended to constitute, and should not be construed as, investment advice, investment recommendations or investment research. You should seek advice form a professional adviser before embarking on any financial planning activity. Whilst every effort has been made to ensure the information contained in this communication is correct, we are not responsible for any errors or omissions.

Contact us

Algarve Office Details
Tel: +351 289 355 685
Edificio Mapro, Estr. da Quinta do Lago, 8135-106 Almancil, Portugal

Lisbon Office Details
Tel: +351 21 464 8220
Edificio Jomavipe, R. Cesaltina Fialho Gouveia 703, 2645-038 Lisbon, Portugal

www.blacktowerfm.com
info@blacktowerfm.com

Our heritage protects your horizon

SINCE 1986

BLACKTOWER

FINANCIAL MANAGEMENT GROUP