

# US CITIZENS LIVING IN PORTUGAL



## TAX GUIDE



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## Introduction

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If you've moved to Portugal recently, you'll want to know what taxes you'll be paying as an expat. The good news is that your tax situation should be relatively straightforward if you're a U.S. citizen. The not-so-good news is that even though it's straightforward in theory, it can get a bit complicated when you actually have to file your taxes.

In this guide, we'll go over what sort of taxes are charged on income earned by U.S. expats living in Portugal. We'll also look at how best to prepare yourself for filing them—after all, even the most straightforward tax forms can seem daunting if you're not used to dealing with them!



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## What Is A Resident Alien, Expatriate, Or Non-Resident Alien?

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In order to understand the U.S. expat tax rules, you must first know the difference between a resident alien, expatriate, and non-resident alien.

A resident alien does not have United States citizenship but lives in the United States for an extended period (183 days or more). The IRS taxes a resident alien's worldwide income. They can also deduct their foreign housing costs from their income taxes.

An expatriate is someone who has chosen to live and work in a country other than the one in which they legally reside. An expatriate is subject to double taxation because they are still taxed by both countries – in this case, Portugal and America – depending on where they spend most of their time during each taxable year. Since 2017 it was made easier for some former Americans living abroad by allowing them two years before being labeled “expatriates” so long as they don't fall under any other category such as “high net worth individuals” or having \$300k+ physical assets abroad etc.

Non-residents do not live within U.S. borders but may own property there, which must be declared if its value exceeds USD 1 million at any point during your taxable year (stateside)



## Paying Taxes In Portugal

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When it comes to paying taxes in Portugal, you're likely to be surprised by the ease with which this process can be completed. If you are an American citizen living abroad, your U.S. tax obligations may be different from those of a U.S. citizen living in the States. Because of this, expats need to understand how their financial status is affected by moving overseas and how they should file taxes in Portugal.

While several factors need to be considered when filing taxes from abroad (such as whether your income was earned within or outside of Portugal), this guide will help you pay your U.S. federal income taxes.





## U.S. - Portugal Tax Treaty

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You are not required to pay U.S. income taxes on your Portuguese-source income. This is because the United States and Portugal have a bilateral tax treaty. The treaty provides that you won't be taxed in either country on your wages, salaries, tips, and other compensation from a Portuguese source if you're an employee of a U.S. company that has a permanent establishment in Portugal or if you live in Portugal for 183 days or more during a consecutive period of 12 months.

In addition, if you're self-employed (a freelancer) and live in Portugal for 183 days or more during any 12-month period. Under the treaty with the United States, you won't have to pay U.S. tax on profits from self-employment or professional activities earned while living outside of the U.S., provided they are effectively connected with foreign business activities carried out by an individual through one or more fixed places of business outside their country of residence at which such services are performed; this includes work done online through digital platforms like Upwork and Fiverr as long as these platforms can be considered fixed places of business under local law."



## Tax Rates In Portugal

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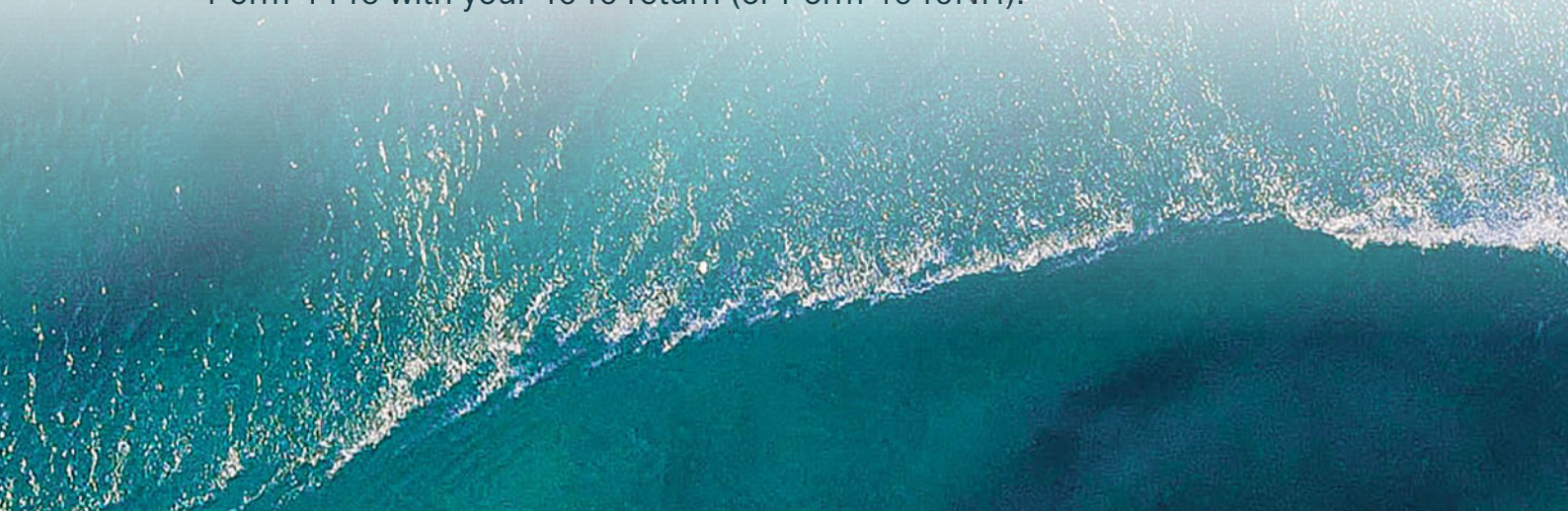
In addition to a Portuguese income tax and income surtax, there are also several other taxes and fees that you will need to be aware of. These include a VAT (value-added tax) on goods and services, real estate taxes, inheritance taxes, municipal fees, penalties, and social security contributions.

Portugal's top income tax rate is 20%, but this only applies if your taxable income is more than 22,000 per year (2 million for married couples filing jointly). The second highest bracket applies from 12,500 up to 22k at 8%. The lower rate starts at 7k with 7% applied until the threshold reaches 12.5k, where it jumps up to 8%.

## Taxes On Income Earned Outside Of Portugal By Expats In Portugal

If you are a U.S. expat living in Portugal and earning income outside of Portugal, there may be US taxes to pay. Tax residents in Portugal are liable worldwide, meaning that all income, regardless of its nature or source, must be included in the Portuguese tax return. This is because the US-Portugal tax treaty allows you to exclude up to \$98,600 of foreign earned income from your U.S. tax return but not more than \$205,842 per year in total from all countries combined (for 2018).

However, if you exceed this limit or don't use it all up and would like to pay some taxes on the rest of your foreign-earned income at a lower rate than what would have applied back in the USA, then you can do so by filing Form 1116 with your 1040 return (or Form 1040NR).





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## Taxes On Social Security Income By Expats In Portugal

Social Security Benefits are taxed at the same rate as your salary but not higher than 52%. (If the NHR status is granted, a 10% flat tax rate may be applicable on pensions) This amount is determined by multiplying a percentage of the total Social Security tax paid by your income bracket. The Portuguese government also provides a rebate program to return money to the expat.

## Even Though Portugal Has Lower Tax Rates, Ensure You Take Advantage Of The Tax Treaty.

If you are a U.S. citizen living in Portugal and want to avoid double taxation, you must ensure that your income is not taxed twice. A tax treaty between the U.S. and Portugal helps prevent this from happening. The treaty allows for the exchange of information between two countries so they can both collect their taxes on income earned within the country where it was earned.

In the end, changing your tax residency is going to be a huge undertaking, requiring you to make major life changes. That said, if you've considered moving overseas and becoming a digital nomad before, you might find it's easier than you thought with help from our tax partners. After all, many people have successfully done so without having to put down roots in Portugal or elsewhere.



## Conclusion

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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 remarkably 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 from 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.





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