

Tax advantages for who invests or moves into Portugal
- Individuals -

Rules in force in Portugal may make it an attractive destination for entrepreneurs or individuals seeking to reduce their tax exposure. Although these rules have not been highly publicized, a number of high net worth individuals have relocated to Portugal, since its introduction, to take advantage of the favourable tax regime. The weather and lifestyle attract a good number of foreigners to move to Portugal and they can now do so with the added benefit of a favourable tax regime.

1. Individual Income Tax (IRS)

1.1 Non Habitual Tax Benefit Regime (RRNH)

Since 1 January 2010 individuals taking up residency in Portugal for the first time, in the last 5 years, are able to benefit from a new tax regime for the first 10 years of residency. This exempts them from Portuguese tax on income which comes from countries with which Portugal has a double tax treaty so long as the income is taxable in the other country under the terms of the treaty. Any employment income will be tax-free in Portugal only if it is actually taxed in the other jurisdiction. Any Portuguese income tax which does apply to individuals taxed on this basis would be charged at a flat rate of 20% rather than the progressive rates, which increase to 42%, provided certain conditions are met. Please see our article, about RRNH, on our website.

1.2 Double Taxation Agreement between UK and PT

A particular advantage that Portugal holds from this perspective is that it has a double tax treaty with the UK, which contains a prescribed residency test.

This test may deem you to be non-UK resident, even if under the UK internal approach you are still considered resident here. This international law takes precedence over the internal rules. To be able to benefit from this test you must satisfy the residency requirements under Portuguese Law. If you only have a home available for your use in Portugal (and nothing available for you in the UK) you should be deemed to be Portuguese resident under this test even where you have other links to the UK. This can be a better solution for the entrepreneur who retains a business interest here which requires return visits to the UK. Such interests, if you moved to a country which did not have a treaty with the UK, would almost certainly be

sufficient to deem you as maintaining a UK residency meaning you would continue to be liable to UK tax on your worldwide income and gains. For passive income, such as dividends, it is only necessary for the income to be taxable in the other country - It is not necessary for the income to actually be taxed in that country. An example is dividends from a UK company to a Portuguese resident. Under article 10 of the UK-Portugal treaty, the UK retains the right to tax such income; therefore Portugal does not tax this income. However under UK law there is no tax due on this income as the individual is non-UK resident.

1.3 Application of the regime

This regime isn't applicable to the new residents automatically, when they ask for their Portuguese tax number. It will be necessary to submit a formal request to the tax authority, till 31th March of the following year, of becoming resident.

2. Property Tax

2.1 Transmission Tax (IMT)

The property transmission, in Portugal, is subject to tax. However, it is still possible to get exemption on the payment of this tax, when buying a property for not more than 92.407€ and for permanent habitation.

2.2 Council Tax (IMI)

The properties in Portugal are due to pay council tax, which rates can go from 0.2% to 0.8% of the ratable value of each property. Despite that, urban properties can be exempted of paying tax, for a certain period of time, if the buyer (and new owner) requests formally the tax exemption. The tax exemption will be subject to the fulfillment of certain criteria's, as property tax value, use of the property and economic conditions of the owners.

3. Inheritance (or donation) Tax

There is also no inheritance or gift tax charged in Portugal, when the transmission occurs, based in death or gift, to spouse, descendants or ascendants. If it is not the case, than a flat rate of 10% stamp tax is due.

4. Wealth Tax

Portugal has a further advantage over a number of countries in European zone that it does not levy a wealth tax charge.

There is in place a free remittance of funds either to Portugal or abroad.

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5. Tax Planning

Due to the mentioned tax opportunities available in Portugal, it is expected to see a good number of individuals moving into the country and fix their residence. In consequence, it is highly recommended to plan this change, in order to make the most of it and avoiding any troubles with the Tax Authorities. Seek the advice of a professional and plan properly your tax residence change.

Please be aware that only lawyers are covered by the professional secrecy, where tax planning is concerned.

Verónica Pisco

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