



# The Expatriate Financial Guide to Portugal

## Portuguese Tax Facts

### Introduction

The Portuguese tax system is made up of a series of state and local taxes levied principally on income, property ownership and expenditure. The Directorate General for Taxation (DGCI) controls the tax regime in Portugal.

### Tax Year

1<sup>st</sup> January to 31<sup>st</sup> December.

### Assessment Basis

Portuguese residents are taxed through IRS (Personal Income Tax) on their worldwide income on a self assessment basis.

The income of married taxpayers is that of the entire family unit and, as a consequence, married couples must submit a joint tax return. However, spouses of individuals residing in Portugal for fewer than 183 days in the calendar year and who are able to prove that their main economic activities are not linked to Portugal may file a tax return in Portugal disclosing the tax resident individual's income and their part of the couple's income.

Income is split into 6 categories: employment income, business and professional income, investment income (including interest and royalties), rental income, capital gains and pensions. Defined tax deductible expenses are subtracted from gross income for each category to arrive at the net taxable income for the category. The net incomes for each category are then added together in order to arrive at a total net income. An apportionment/splitting procedure applies to married couples by dividing the family income by two before the applicable marginal tax rate is determined. Total taxable income is taxed at progressive rates varying from 10.5% to 42% in order to determine a final tax liability, multiplied by two in respect of married couples. In 2009 the 42% rate is applicable to income over €64,110 to single taxpayers and €128,220 for married couples.

Deductions are available for donations to charity (within limits) and alimony that has been determined by a court decision.

Tax credits are also available, depending upon family structure, for health expenses, school fees, life and health insurance premiums and mortgage interest (where applicable) and subject to certain conditions and limits. There are other credits available, for example for retirement contributions, acquisition of new equipment for utilisation of renewable energy, and donations.

### Income Tax

Employment income is deemed to be category A income and Portuguese employers withhold tax at source at progressive rates depending on income amount and family status. Any tax withheld is considered to be a payment on account against the final total tax liability.

## **Taxation of Investment Income**

Income from self employment is category B income and is taxed either under a 'simplified regime' or based on the taxpayer's actual accounts. If a taxpayer has earnings below a certain ceiling, they are liable to taxation according to the 'simplified regime' whereby 20% of income from sales of products or 70% of income arising from other business and professional services is taxed with a minimum taxable amount due. No expenses deductions are permitted under the simplified regime. If the simplified regime is not applicable then net profits or gains made by an individual are assessed in accordance with the same rules that apply to company tax assessment. Earnings from self-employment or independent activities in Portugal are subject to tax, whether or not an individual is tax resident in Portugal, and may be withheld at source.

Investment income is classed as category E income. Dividends are liable to a final tax of 20%. Alternatively, the tax resident individual may elect to include such income as part of their taxable income and be taxed at marginal rates. In this case the taxable amount is reduced by the amount of tax withheld. Income from bonds, debt certificates and interest from bank deposits in Portugal are taxed at 20% or an individual can elect to include such income as part of taxable income and be taxed at their highest marginal rate. Other forms of income may be subject to withholding tax at 15%, but are ultimately taxed at the highest marginal rate and any tax withheld is treated as a payment on account of the final income tax due.

## **Premium Taxes**

For life insurance contracts with an underwritten risk a parafiscal tax of 2% is deducted by the insurer and paid to the National Institute of Medical Emergency (INEM). For other forms of investment-linked life insurance, the premium tax does not apply.

## **Tax on Property Rental Income**

Income from renting properties is subject to income tax as category F and is added to other categories of income after deducting all maintenance and repair expenses, as well as the Municipal Property Tax paid for the year, provided these are properly supported by documentation. Tax may be withheld at source depending upon the tax status of the rent payer and is treated as a payment on account of the final income tax due. Rental income earned by non-residents for tax purposes in Portugal is taxed at a final rate of 15%.

## **Stamp Duty/Property Transfer Tax**

Since Inheritance and Gift tax was abolished in 2004, Stamp Duty at a general rate of 10% has applied to transfers for non-consideration by gift or by death. However, this tax is not applicable on transfers to spouses, descendants and ascendants.

Stamp Duty also exists for the transfer of documents over several applicable transactions and rates vary according to the transaction

## **Inheritance and Gift Tax**

Inheritance and gift tax was abolished in 2004.

## **Wealth Taxes**

There are no wealth taxes in Portugal.

## **Capital Gains Tax**

Capital gains are classed as category G income. Capital gains derived from the sale of shares held for more than 12 months are exempt from personal income tax, except where real estate located in Portugal constitutes 50% or more of the assets of the company. In the latter case, or if the shares are held for less than 12 months, the capital gains arising from the disposal of those shares (net of losses on shares falling into these categories) will be liable to taxation at a flat rate of 10%.

Tax is charged on 50% of the amount of capital gains from the sale by tax resident individuals of immovable property located in Portugal, or of intellectual or industrial property.

Gains arising from the sale of residential property are not subject to taxation, provided the proceeds are totally reinvested in the

acquisition of further residential property in Portugal or another EEA country.

### **Regional and Municipal Taxes**

The 'Imposto Municipal sobre Imóveis' (IMI) applies to properties of any description owned by companies or individuals. For properties built or registered after 1 January 2004 the taxable value is calculated based on the revalued tax registered value of the properties, which in turn is determined by different factors which depend on the characteristics of the property. For older properties, the taxable income corresponds to the tax registered value of the property (as registered in the Portuguese tax authorities' system) updated by certain inflation coefficients. It has no direct relation either to the property's market value or to the income it generates. The 2007 rates are as follows:

- real estate used for agriculture and rural activities 0.8%
- urban real estate (for the older properties referred above): from 0.4% to 0.8% depending on the decision of the local municipality
- urban real estate (for the properties subject to evaluation): from 0.2% to 0.5% depending on the decision of the local municipality
- residential real estate owned by a non-resident located in a low taxation territory is taxed at 1%, or 2% if the property is vacant for more than a year

### **Property Taxes**

There are no Property Taxes in Portugal, other than the municipal IMI tax described above.

### **Transfer Tax**

The 'Imposto Municipal sobre Transmissões onerosas de Imóveis' (IMT) is the tax payable on the transfer of property. For purchases by individuals of urban buildings intended exclusively for permanent residential use, IMT is levied at progressive rates up to 6%, depending on the value of the property. A rate of 8% is levied if the purchaser is located in a country with a tax regime that is more favourable than the Portuguese regime. The tax is payable by the purchaser. The rate applicable to transfer of non-residential urban properties is 6.5%. The tax applicable to rural properties is 5%. The duty to pay IMT falls on the party acquiring the property.

### **Sales Tax**

VAT is generally added to the sale price of goods at a standard rate of 20%. Some sales are exempt and other goods are subject to VAT at the lower rates of 12% and 5%.

### **Social Security Contributions**

Social security contributions are paid by all individuals who work in Portugal, unless a certificate of coverage is obtained confirming mandatory contributions in another country. The contribution rate varies according to an individual's employment status. The current rate for general employees is 11% of gross salary, with members of statutory boards of companies paying 10%. Self employed individuals are liable to 25.4% or 32% on income varying from one and a half times the higher national minimum salary and twelve times that salary, depending upon the contribution scheme they choose. Rates are applied to an individual's actual monthly salary with the above mentioned exception.

## **Taxation of Expatriates Living in Portugal**

The basis of taxation in Portugal depends on an individual's residence status, with Portuguese residents being taxed on their worldwide income and non-residents on their Portuguese sourced income only. An individual is determined to be resident if:

- They remain in Portugal for more than 183 days during a calendar year, or
- Regardless of the number of days spent in the country, an individual maintains a residence which pertains to be the individual's habitual residence as at 31 December.

All members of a family unit are considered resident if either the husband or the wife is resident for tax purposes in Portugal. However, this condition does not apply if one of the spouses remains less than 183 days in Portugal and proves that their main economic activities are not linked with the Portuguese territory, as described above. Should this be the case, this individual is considered non-tax resident in Portugal while the other spouse is considered a Portuguese tax resident. This rule has recently been introduced into Portuguese tax legislation and, as such, there is no information yet regarding the type of proof needed by the tax authorities.

Portugal has negotiated over 52 double taxation treaties.

## Taxation of 'Non-Residents' Living in Portugal

The basis for taxation in Portugal is determined by an individual's residential status. Non-residents are liable to Portuguese tax on Portuguese source income, and non-residents receiving employment income from a Portuguese employer are subject to withholding tax of 20%.

Capital gains earned by non-residents are generally fully taxable at a flat rate of 25%, with an exception with respect to capital gains on the disposal of shares, which are taxed at 10%. Furthermore, if the shares are held for more than twelve months, the related capital gain will be exempt to taxation in

Portugal as mentioned above. However, if the assets of the company to which the shares relate are composed of 50% or more of property located in Portugal the tax rate is 10%, regardless of the duration for which the assets are held.

Rental income earned by non-residents is taxed at a flat rate of 15% and there are no deductions available.

Non-residents who reside in a country with a low tax regime may be subject to higher rates of tax in respect of property transfers and may be subject to tax on deemed income from property.

## Expatriate Financial Planning

The approach to an expatriate's financial planning will be determined by whether the individual becomes resident in Portugal or whether they can qualify as a non-resident for tax purposes.

While, as a whole, the Portuguese tax regime for non-residents is less onerous than the regime for residents, with only Portuguese sourced income and gains being subject to tax, an expatriate should take care over the number of days spent in Portugal during any tax year.

If you are an expatriate currently living in Portugal, you should review your finances with a suitably qualified financial adviser who is either authorised directly by the Portuguese regulator or is based in another EU market and recognised by the Portuguese regulator following prior notification by the adviser under the Insurance Mediation Directive. If you are planning a move to Portugal, you should review your finances with a suitably qualified and experienced financial adviser and/or tax adviser who is familiar with Portuguese tax matters before making the move.

Expatriates who are non-resident in Portugal for tax purposes may be advised to use offshore investments, including offshore life products, rather than domestic Portuguese investments, to keep their assets outside of Portugal to avoid creating Portuguese sourced investment income which would then be liable to capital gains tax.

Expatriates who become tax resident may wish to consider offshore investments to manage their tax liability and/or control when tax charges are made. In Portugal, life bonds held for longer than eight years are treated more favourably for taxation purposes than mutual funds, while investors looking for an 'actively managed' proposition will find that their assets are sheltered from capital gains charges in a life bond.

Whilst the specific benefits of an offshore life product will depend upon your individual circumstances, they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries. Please note that tax may need to be paid on an arising basis in the individual's country of residence.

- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products can offer significant benefits over and above what might be available in the local domestic market, particularly in relation to product features, investment flexibility and investment choice.
- Offshore bonds often feature a range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk, but also offer access to household name fund managers, including many international and specialist fund managers, which may not be available in local domestic fund and insurance markets.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

***Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.***

***Further information about offshore life products and their use in financial planning please contact your local Blacktower Consultant or email us at [info@blacktowerfm.com](mailto:info@blacktowerfm.com)***

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