The New UK–Portugal Double Tax Treaty

What It Means for You.

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After nearly six decades, the United Kingdom and Portugal have signed a new Double Tax Treaty (DTT) — marking a significant step forward in cross-border cooperation and tax clarity between the two nations.

The treaty, signed on 15 September 2025, replaces the long-standing 1968 agreement and introduces a modern framework reflecting the realities of today's global financial landscape — and the post-Brexit relationship between the UK and EU member states.

Once both countries complete their domestic ratification processes, the new treaty will come into force, creating clearer, fairer, and more efficient rules for individuals and businesses operating between the UK and Portugal.

WHY THIS MATTERS

At Blacktower, we work with many clients who have financial interests in both the UK and Portugal — from retirees receiving UK pensions in the Algarve to business owners with cross-border corporate structures.

The new DTT modernises key areas of taxation, reduces uncertainty, and aims to prevent double taxation on income and gains, ensuring that individuals and companies are not unfairly taxed twice on the same income.

Here are the most important changes to be aware of:

Key Highlights of the New Treaty

1. Dividends

- **Zero Withholding Tax (WHT):** Dividends paid to qualifying parent companies (holding at least 10% of the capital for 12 months) will now benefit from a 0% WHT rate — a major improvement designed to stimulate cross-border investment.

- **Standard Rate Reduction:** The general WHT rate on dividends has been reduced from 15% to 10%.

- **Real Estate Investment Vehicles:** A 15% WHT will apply to certain tax-exempt vehicles distributing income derived from real estate assets.

2. Real Estate and Capital Gains

- Gains from the sale of shares deriving more than 50% of their value from real estate will now be taxed where the property is located.

This is a significant update for investors holding property-rich companies across the two jurisdictions.

3. Interest Payments

- Interest paid to regulated banks will now benefit from a reduced 5% WHT (previously 10%).

- Payments to government entities, central banks, and agencies will be fully exempt (0% WHT).

4. Royalties

- The 5% WHT on royalties remains, but the definition has been narrowed.

- Gains from the sale or exchange of intellectual property rights will now typically fall under capital gains rules, potentially taxed only in the state of residence.

- Payments for use of industrial, commercial, or scientific equipment are no longer classified as royalties.

5. Employment Income

- The familiar 183-day rule has been updated: it now operates on a rolling 12-month basis, rather than a fixed calendar or fiscal year.

This offers more flexibility for employees and contractors working across both countries on short-term or overlapping assignments.

6. Permanent Establishment (PE) Rules

- New anti-fragmentation provisions aim to prevent artificial arrangements designed to avoid creating a taxable presence in a country.

This aligns with broader OECD efforts to ensure tax transparency and fairness.

7. Entity Tie-Breaker for Dual Residence

- Where a company is considered resident in both jurisdictions, residence will now be determined by mutual agreement between the UK and Portuguese tax authorities — taking into account where management and control are exercised, incorporation, and the location of the head office.

8. Directors' Fees

- Directors' fees may now be taxed in the country where the company is resident, regardless of where the director performs their duties — an important change for company executives based in Portugal but overseeing UK entities (and vice versa).

9. Trusts and Estates

- A new provision provides clarity for UK trusts or estates distributing income to Portuguese beneficiaries, allowing foreign tax credits for UK tax already paid while preserving the nature of the underlying income.

This is particularly relevant for British nationals in Portugal with existing UK trust structures.

ENHANCED DISPUTE RESOLUTION AND COOPERATION

The treaty introduces mandatory binding arbitration for certain disputes unresolved after three years under the Mutual Agreement Procedure (MAP) — limited to business profits, permanent establishments, and associated enterprise cases.

This mechanism is designed to provide faster, fairer resolutions and reflects international best practice.

In addition, the DTT now incorporates:

- Full OECD-compliant information exchange, removing previous limits linked to domestic interest or banking secrecy.

- Mutual assistance in tax collection, enhancing cooperation between HMRC and the Portuguese Tax Authority.

WHAT THIS MEANS FOR BLACKTOWER CLIENTS

For many expatriates and cross-border investors, this modernised treaty represents a welcome update that enhances certainty and reduces the risk of double taxation. However, it also introduces new nuances — particularly around property, dividend income, and corporate structures — that may affect existing financial arrangements.

Blacktower's advisers in both the UK and Portugal are already reviewing the implications for clients with assets or income streams spanning both jurisdictions. It may be beneficial to review your existing financial arrangements with a professional adviser to confirm they remain efficient and aligned with the new treaty provisions.

SPEAK TO BLACKTOWER

Whether you are a UK national living in Portugal, a business owner operating across both countries, or an individual managing assets internationally, Blacktower can help you understand how the new treaty affects your financial situation.

With offices in both London and the Algarve, our cross-border advisers are uniquely positioned to guide you through the evolving tax landscape — ensuring your wealth remains protected, compliant, and optimised for the future.

Our Heritage Protects Your Horizon

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