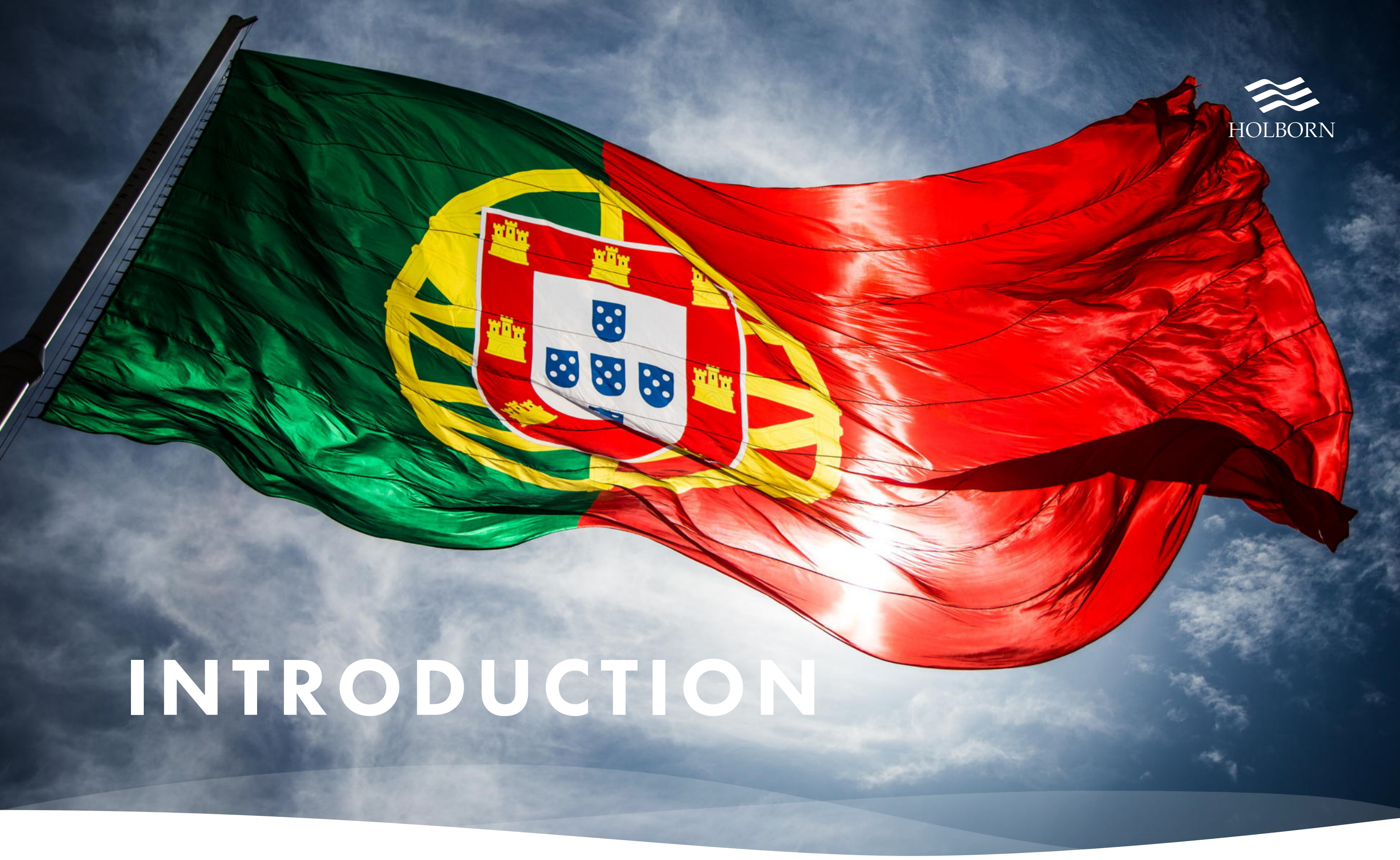
HOLBORN ASSETS

GUIDE TO TAX IN PORTUGAL

HOLBORN

CONTENTS



INTRODUCTION

Whether it's for work or to enjoy retirement, Portugal has long been a popular expat destination.

Moving to a new country has its benefits. However, there is a lot to think about financially for expats looking to move abroad.

Tax is one of the biggest issues that expats face when moving to Portugal. Understanding where you should be paying tax and how much are two of the many questions that expats have.

Whether you are moving to Portugal for work or to retire, it is essential that you understand the tax rules and how they could affect you.

In this brochure, we will cover some of the general areas and topics that expats should know about before moving to Portugal.

Please note, the purpose of this brochure is to provide general guidance on tax in Portugal only. We recommend seeking professional advice for information relating to your circumstances.

TAX RESIDENCY EXPLAINED

As an expat, should you be paying tax in Portugal or the UK? Sometimes the answer to this is a little unclear.

Understanding your tax residency status is crucial. If you don't, you could end up paying tax in the wrong country or paying too much.

Your tax residency determines which country will tax you on your worldwide income, such as capital gains, salary and rental income.

You will be classed as a tax resident in Portugal if:

- You spent more than **183 days** in the country over a single **12-month period** or;
- If you make Portugal your 'habitual residence' - in other words if you class Portugal as your home

Depending on your situation, you may still be considered a tax resident in the UK, even if it is not your permanent home.

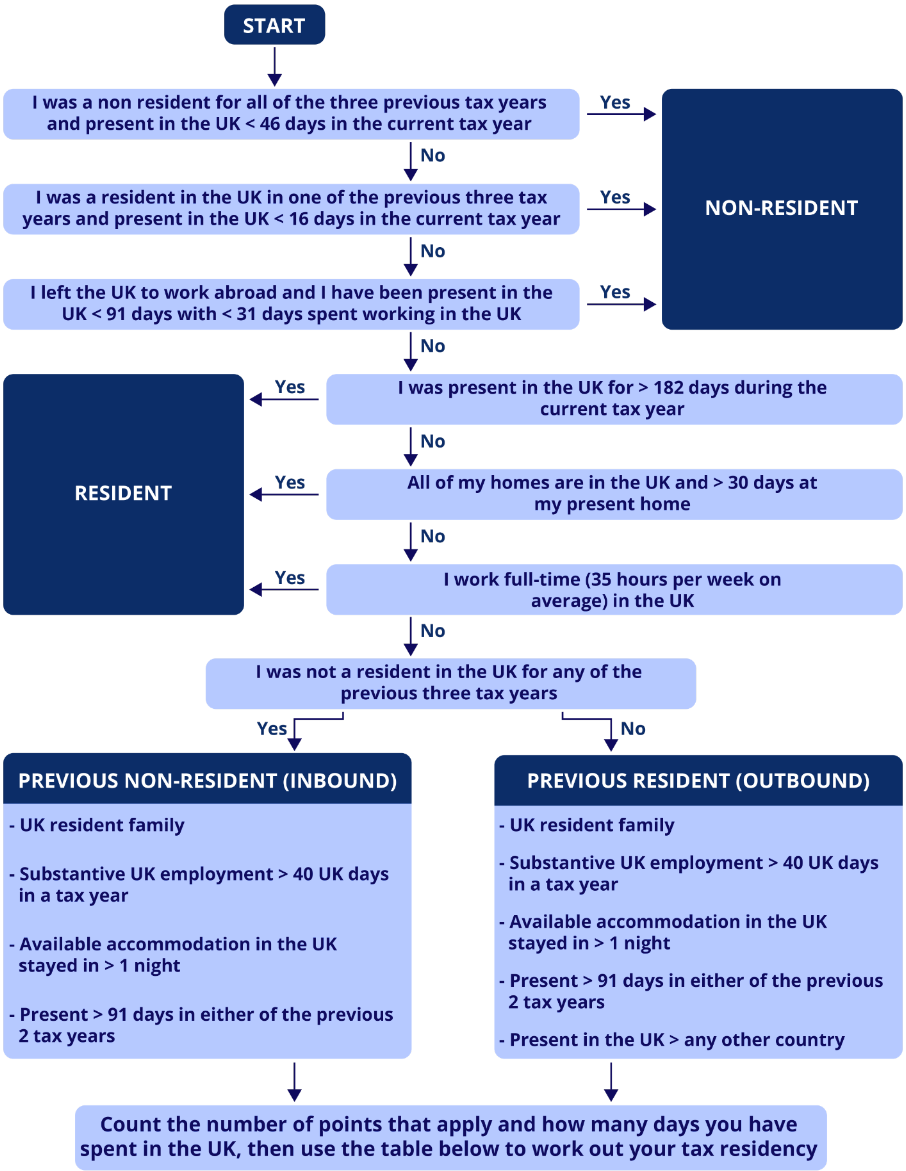
You will automatically be classed as a tax resident in the UK if:

- You spent **183 days or more** in the UK within a **single tax year** or;
- Your only home was in the UK - either you rented, owned or lived in it for at least 91 days - and you spent 30 days there within the tax year

You will automatically be classed as a non-tax resident in the UK if:

- You spent less than 16 days in the UK - 46 days if you have not been classed as a UK resident for the three previous tax years or;
- You work an average 35-hour week full-time job abroad, and you spent less than 91 days in the UK - no more than 30 of which were spent working

Some people may have a more complex situation. The rules listed above will not be enough to determine everyone's status. The Statutory Residence Test (SRT) allows you to work out your residence status for each tax year.



INBOUND	DAYS	OUTBOUND
Always a non-resident	Less than 16	Always a non-resident
Always a non-resident	16 - 45	4 or more connections - UK resident
4 connections - UK resident	46 - 90	3 or more connections - UK resident
3 or more connections - UK resident	91 - 120	2 or more connections - UK resident
2 or more connections - UK resident	121 - 182	1 or more connections - UK resident
Always a UK resident	183 or more	Always a UK resident

The topic of tax residency can be complicated, but it is essential you know this information. For more details on the SRT, visit the UK Government website.

You may meet the residency criteria for both countries. Fortunately, the UK/Portugal Double Tax Treaty protects those who find themselves in this situation.

THE DOUBLE-TAXATION TREATY EXPLAINED

A Double-Taxation Treaty is an agreement between two countries designed to protect you from being taxed on the same income twice.

The UK does have a Double-Taxation treaty in place with Portugal. However, there are some things to consider for British expats and some myths we need to debunk.

Firstly, the treaty doesn't allow you to choose where you pay tax; it only protects assets subject to tax in both countries. Secondly, just because tax is applied to an asset in one country doesn't mean it won't be taxed in another country.

Any income that is taxable in the UK can still be taxed in Portugal. The treaty avoids double taxation by offsetting tax paid in the UK against tax owed in Portugal.

You should note, if the tax due in the UK is more than the amount owing in Portugal, you will not pay any further tax. The downside here is that if the UK's tax payable is higher, you will not be able to get a refund of the difference in your country of residence.

Like most things relating to tax rules, how the treaty will affect you all comes down to your situation. If you are unsure, it is best to speak with a professional.

CURRENT TAX STRUCTURE IN PORTUGAL

Income tax in Portugal is applied to each of the following main categories:

1. Employment income
2. Self-employment income
3. Income generated from investments
4. Capital gains - for example, property sales, shares etc.
5. Portuguese pensions and private pensions
6. Rental income generated from properties let in Portugal

The rate of tax in Portugal depends on your tax status. If you are a resident in Portugal, tax is applied based on your income. Here are the current income tax rates for residents.

Annual taxable income (€)	Income tax rate in Portugal
0 - 7,112	14.5%
7,113 - 10,732	23%
10,733 - 20,322	28.5%
20,323 - 25,075	35%
25,076 - 39,697	37%
39,698 - 80,882	45%
80,883 +	48%

For non-residents and non-habitual residents, tax is applied based on the source of income. Here is a look at the tax rates for both categories.

Potuguese income source	Non-resident tax rate	Non-habitual resident tax rate
Employment income	25%	20%**
Business and professional income	25%	20%**
Interest	28%	28%
Dividends	28%	28%
Capital gains on shares	From 0 - 28%*	28%
Capital gains on real estate sales	28%*	Marginal rates up to 48%
Rental income	From 10 - 28%*	From 10 - 28%*
Pension income	25%	Marginal rates up to 48%

* You are required to complete a tax return
** Marginal rates of up to 48% unless it comes from a 'high value-added' activity

SPECIAL REGIMES: NON-HABITUAL RESIDENCY

The non-habitual resident (NHR) regime in Portugal can reduce tax rates and offer tax exemptions in some cases for up to 10 years.

The Portuguese government introduced the NHR regime in 2009 for those who would typically qualify as tax residents.

Residents in Portugal pay an income tax rate of up to 48%. If you obtain NHR status, you could benefit from a flat rate of 20% provided that you work in one of the pre-defined professions. You could also be exempt from tax on income from foreign sources.

Those looking to retire in Portugal could also benefit from NHR. Under NHR, pensions are taxed at the lower rate of 10%, instead of the usual income tax rates (14.5% to 48%).

You can qualify for NHR if you have not been a tax resident in Portugal within the last five years. Registering for residency and applying for NHR status is done through the Portuguese tax authorities.

TAX AND YOUR PENSION

Income tax in Portugal is applied to each of the following main categories:

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TAX AND YOUR INVESTMENTS

Tax in Portugal is applied at a flat rate of 28% for interest and investment income. Investment income can include bonds, shares and securities.

If you are a resident in Portugal, you can choose to be taxed at the scale rates instead. Being tax in this way may be cheaper than paying a 28% flat rate. For investment or accounts held offshore, which are classed as 'tax havens' by Portugal, a higher rate of 35% will be applied.

You need to be aware that what is considered tax-efficient in the UK may not be in Portugal. Individual Savings Accounts (ISAs) are tax-free in the UK. However, they are likely to be taxed in Portugal.

Your residency status will dictate where tax is due. It's essential that you understand your residency status and the implications of changes to your situation.

TAX AND PROPERTY

Tax in relation to property falls into two main categories - rental income and property sales. We will start with rental income.

UK properties

If you have a property in the UK that you rent out, the income remains taxable in the UK.

Unless you successfully apply for the Non-Habitual Resident status, income is also taxed in Portugal. Tax in Portugal is applied at the scale rate but can be offset against tax paid in the UK.

Portuguese properties

Income from rented properties in Portugal is always taxable in the country.

A flat rate of 28% tax is applied to net rental income for both residents and non-residents. However, residents can include rental income to their other annual income. Doing so will allow you to pay tax at scale rates. Choosing to do this may only benefit you if you fall into the 14.5% or 23% tax bracket.

Selling a property

For residents, capital gains tax in Portugal applies to the sale of properties. The value is added to any other income and is taxed based on the scale system. You should note that only 50% of the gain is taxable.

However, there are exceptions.

You will be exempt from capital gains tax if you reinvest all of the money into a new home. The new home doesn't have to be in Portugal.

The sale of any UK property is also liable for UK capital gains tax - even if you are a non-UK resident.

Other property taxes

IMI

If you own property in Portugal, you must pay Immovable Property Tax (IMI).

Just like council tax in the UK, IMI rates depend on the area. Rates vary from 0.3% to 0.8% of the value of the property. If the property is left empty, IMI rates can reach as high as 10%.

Wealth tax

A wealth tax is applied if you have shares in a property worth over €600,000 in Portugal. This tax is applied regardless of your residency status.

The rates are based on a percentage of the total property value as follows:

- 0.4% for properties held by a company
- 0.7% for properties held by an individual
- 1% for those who own property worth over €1 million

If you and your partner are joint owners, you will only pay the tax if the value is over €1.2 million.

TAX AND OFFSHORE BANKING

Offshore accounts make dealing in multiple currencies more straightforward. Making or receiving regular payments internationally is just one of the reasons why expats have an offshore account.

Typically, any interest generated from offshore accounts is taxed at a flat rate of 28%. However, offshore accounts could be subject to a 35% tax in Portugal.

Portugal has blacklisted certain countries deemed to be tax-havens. If you have accounts held in any of these countries, a flat rate of 35% tax is applied.

INHERITANCE TAX

Portuguese inheritance tax rules state that the deceased's home country should govern the process. In most cases, this means your estate follows UK inheritance laws.

For assets held in Portugal, stamp duty may apply at a flat rate of 10%. However, legitimate heirs, including your spouse, children and parents, are exempt from this tax in Portugal.

If you have assets in both countries, there could be a situation where tax is due in the UK and Portugal. Thanks to the UK/Portugal Double Tax Treaty, you can offset tax paid in Portugal against tax due in the UK.

Any tax due in Portugal must be paid within three months of the date of death. You should be aware; this is a strict deadline. Late payments can result in fines and added daily interest.

SUMMARY

Tax is one of the biggest and most complex issues facing UK expats living in Portugal.

You need to be aware of the tax rules and laws in both countries and understand which ones apply to your situation. Failure to do so could result in you not paying tax in the wrong country or paying too much.

Everyone's situation is different, so a 'one size fits all' approach to tax isn't the right strategy. It's for this reason that we take a custom approach to tax planning.

At Holborn, our team of experts develop bespoke strategies so that our clients are as tax-efficient as possible. With expert advice tailored to your situation, you can be sure that you're in safe hands.

Contact us today to find out how we can help you.

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