



PROPERTY PURCHASE AND TAX ADVANTAGES IN PORTUGAL

Imagine buying property that you will lease out. Imagine paying just 5% on your lease income. Imagine also paying just 5% on your capital gains when you sell your property. Too good to be true? Well, at least in Portugal it is true. Portuguese tax residents that purchase property in urban renewal areas, as defined by Councils, and which undergo renovation works are eligible for the flat 5% rate under the Tax Benefits Code (“Estatuto dos Benefícios Fiscais”). The renovation works must take place between January 1, 2008 and December 31, 2020.

Better still, the Code does not establish any minimum requirements as to the price of property, buyer’s income or the amount spent on renovation. This unique benefit can be enjoyed until 2020 and there are no limits as to the number of properties you can buy. The concept of renovation is defined in broad terms by the Code and includes the following: transformation of developed land, including construction works, reconstruction, alteration, extension, demolition and conservation of buildings, urban planning operations, urban regeneration, as long as the energy performance certificate has a minimum rating of A or the certificate is upgraded in at least two levels.

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There are two added benefits for buyers who renovate their property: a) exemption of property tax for 3 years from the issuance of the Council licence; b) exemption of transfer tax if the buyer begins the renovation works in 3 years time from the date of purchase. The exemption on property tax can be enjoyed for a full 10 years (5 + 5 extension) if the building is located in an urban renewal area. Considering that property tax is levied on the asset's rateable value at rates between 0.3% to 0.5%, this can represent savings of up to 5%. Again, the exemption applies to renovation works undertaken between January 1, 2008 and December 31, 2020.

Last but not least, renovation works for residential property enjoy a reduced VAT rate of just 6% instead of the general rate of 23%. Materials used in the renovation can also be invoiced at the 6% rate as long as they do not exceed 20% of the total cost of the renovation.

Property related tax benefits do not stop here. Those who have not been Portuguese tax residents in the past 5 tax years are eligible for the non habitual residency program (NHR). When approved, tax payers can enjoy exemption on foreign sourced property capital gains and property income. The full benefits of the NHR program are as follows:



Income derived from employment and self-employment in Portugal will be taxed at a flat rate of just 20%.

If income is sourced outside of Portugal (whether derived from employment, self-employment, capital, real estate and capital gains), such income will be exempt when:

- a) The individual has been taxed by the source State as per the relevant double taxation treaty (DTT); or
- b) Where no DTT is in place, if said income is not considered to have been obtained in Portuguese territory pursuant to the Portuguese Income Tax Code (CIRS).



With self-employment, capital and real estate income or capital gains it is enough if said income can be taxed in the source State, regardless of whether taxation is effective or not. However, self-employed individuals must fall into one of the so-called highly skilled professions:

- Architects, engineers and geologists;
- Plastic artists, actors and musicians;
- Auditors;
- Doctors and dentists;
- Professors;
- Psychologists;
- Archaeologists, biologists, computer programmers, computer consultants, data processing, IT services, scientific R+D activities, designers;
- Investors, directors and managers of companies that promote productive investment, as long as they are connected to projects and concession contracts that are eligible for tax benefits according to the Investment Tax Code;
- First-tier managers.

Pensions are also exempt when:

a) The individual has been taxed by the source State as per the relevant double taxation treaty; or

b) Where no DTT is in place, if the pension is not considered to have been obtained in Portuguese territory pursuant to the CIRS.

NHR status is valid for a 10-year period, non renewable, from the moment of one's registration as Portuguese tax resident. Beneficiaries can interrupt the 10-year period at any given point and resume later on.

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**So next time you think about
property investment,
think smart,
think Portugal.**

