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MADEIRA MANAGEMENT



## **PORTUGAL**

SPECIAL TAX REGIME FOR  
NON-HABITUAL RESIDENTS





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**Madeira**, one of Portugal's autonomous regions and an ultra-peripheral region of the European Union, has a modern economy highly suited to the provision of international services, which (namely) within the legal framework of its **International Business Centre (IBC)**, may benefit from a highly competitive, but fully regulated tax regime (in line with EU law), with a **5% corporate income tax rate**. The **IBC** advantageous tax regime is available to both (all) Portuguese and foreign residents.

# PORTUGAL

## SPECIAL TAX REGIME FOR NON-HABITUAL RESIDENTS

### WHY PORTUGAL IS A TOP RESIDENCE DESTINATION?

**Portugal** has long been recognized as a **destination of excellence for tourism**, with its pleasant climate, friendly and hospitable population (most of which is fluent in at least one more language, predominantly English), its rich history, gastronomy, landscape diversity, excellent infrastructures at all levels, international airports with regular connections with major cities, modern road network and high quality services.

It is also a **top residence destination**, due to a combination of the same reasons that contribute for its excellence as a tourist destination with both a good standard of living and a (comparatively) low cost of living, excellent health care facilities, being the 5th most peaceful country in the world according to the Global Peace Index of 2016, having stable political and social environments and a favourable business climate (occupying the 23rd position in World Bank's "Ease of Doing Business Rank" of 2015).

Portugal is part of the European Union, the Eurozone, the Schengen area, the OECD, has an extensive network of signed international treaties, such as double tax treaties and treaties for the reciprocal protection and promotion of investments.

Part of a broader strategy to **attract foreign investment** (and Ultra and High Net Worth Individuals) and increase its economic competitiveness, becoming a premium real estate location as well as one of the leading EU countries in R&D and new technologies, in 2009 Portugal introduced a **privileged** (voluntary) **Personal Income Tax regime for non-habitual residents**, intended to attract:

- **Skilled professionals in high added value activities, of scientific, artistic or technical nature;**
- **Entrepreneurs and investors** (know-how, intellectual and industrial property);
- **Retired individuals, beneficiaries of pension schemes granted abroad.**

These will be **tax exempt regarding most foreign income**, while benefiting from a **reduced taxation on some Portuguese income**, provided some conditions are met.



## QUALIFYING FOR THE NON-HABITUAL RESIDENCY STATUS

The non-habitual resident tax regime is available to applicants that meet all of the following conditions:

1. Are **entitled to Portuguese residency**:
  - **European Union / Switzerland / European Economic Area** countries citizens may freely register as Portuguese Residents;
  - Other foreign nationals that obtained Portuguese residence by undertaking qualified investment activities, i.e. (Portuguese) **Golden Visa holders**;
  - **In all other cases where a residence permit was granted.**
2. Have **not been taxed as Portuguese residents in the 5 years prior to acquiring Portuguese residence**;
3. **Apply for Portuguese tax residency**, which requires that the applicants, during any 12-month period, beginning or ending in the fiscal year of the application (**conditions for Portuguese tax residency**):
  - Stay in Portugal for more than 183 days (consecutive or not); or
  - In any day of the 12-month period, have a residential accommodation in Portugal, bought or rented, in such conditions that leads to the assumption that is intended to be used as their habitual home.

Residency is established as of the first day of permanence in Portugal, and **applications for registration as non-habitual residents should be submitted at the moment of the registration as Portuguese resident, or until the end of March of the following year.**

Obtaining this special status is not automatic, as every case must be analysed and approved by the Portuguese authorities, 6 months being the average time for its attribution (with retroactive effect to the beginning of the tax year).

## DURATION OF THE NON-HABITUAL (SPECIAL) TAX REGIME

The non-habitual resident status, for tax purposes, applies for a **consecutive 10-year period**, provided that the conditions for maintaining Portuguese tax residency are fulfilled during each year of that period.

If the beneficiary decides to interrupt his / hers special status for one or more years, he / she may still claim his / hers status back, provided that he / she is deemed a tax resident for that remaining period.



## WHAT IS “SPECIAL” ABOUT THE NON-HABITUAL TAX REGIME?

Portugal applies the Personal Income Tax (PIT) according to the following table:

TAXPAYER	TAXABLE INCOME FOR PIT PURPOSES
Portuguese Residents	Taxed on worldwide income
<b>Non-Habitual Residents</b>	<b>Tax exempt regarding most foreign income</b> <b>Taxed at a reduced flat rate of 20% (plus a surcharge of 3,5%) on Portuguese income</b> from employment and self-employment / business income, derived from <b>high added value activities</b> , of scientific, artistic or technical nature, as well as from <b>intellectual or industrial property</b> , or resulting from the provision of industrial, commercial or scientific information.
Non-Residents	Taxed on income obtained in Portugal

Included in the classification of high added value activities, of scientific, artistic or technical nature are for example: architects, engineers, medical doctors, university professors, designers, IT specialists, plastic artists, musicians, actors, investors, corporate managers and directors, and others.

Investors will only have a privileged treatment of their Portuguese source income, regarding their earnings as directors / upper management.

Applicants qualified for obtaining the Non-Habitual Resident status for tax purposes, may choose to benefit from this privileged regime, or to be taxed under the normal tax regime applicable to Portuguese Residents.

**Golden Visa holders**, may choose to remain as **Non-Residents for tax purposes**. When applying for Portuguese Residence, they **may benefit from the Non-Habitual Resident regime** or decide to be taxed as regular Portuguese Residents.



## TAXED AS NON-HABITUAL RESIDENT

INCOME	PERSONAL INCOME TAX RATE (PIT) APPLICABLE TO INCOME ACCORDING TO ITS SOURCE			
	PORTUGUESE	CONDITIONS	FOREIGN	CONDITIONS
Employment	20% (+3,5%)		Exempt	Taxed at source country
Self-Employment and Business Income	20% (+3,5%)	Reduced flat rate applies to high added value activities of scientific, artistic or technical nature.	Exempt (Except from black listed jurisdictions)	From rendering of high added value services of a scientific, artistic or technical nature; And May be taxed at source country
Royalties	20% (+3,5%)	Reduced flat rate applies to income received by the author or original owner, resulting from intellectual or industrial property, or from the provision of industrial, commercial or scientific information.		May be taxed at source country
Dividends	28%			
Interest				
Capital Gains (sale of shares)				
Other Capital Gains	Just 50% of net capital gains are subject to tax. <b>Normal progressive PIT (marginal) rates</b> of up to 48% + surcharges apply; may be tax exempt under some conditions.			
Real Estate Income	28% (WHT at a 25% rate)			
Pensions	Taxed according to the <b>normal progressive PIT (marginal) rates</b> of up to 48% + surcharges		Exempt	If not considered as of Portuguese source; <u>or</u> Taxed at source country.





## TAXED AS NON-HABITUAL RESIDENT (CONTINUED)

All Portuguese source income that does not fall under the conditions for the application of the reduced flat rate (employment / self-employment and business income / royalties), as well as not exempt foreign source income, will be taxed in Portugal according to the normal applicable progressive PIT (marginal) rates of up to 48% + surcharges.

**Foreign income from black listed jurisdictions** (list published by the Portuguese authorities), **regarding employment and pensions will be exempt** in the conditions listed in the table. **Other foreign income**, from black listed countries or territories, **may still be exempt if they have a ratified double tax treaty with Portugal**, as are the cases of Panama, Uruguay, United Arab Emirates, Hong Kong, Qatar or Kuwait.

In practice, the Non-Habitual Resident Tax regime, allows some foreign income to be free of tax, both in Portugal and at source.

The previous page`s table considers the exemption method for the elimination of international juridical double taxation, but a tax credit method may be used as an alternative if so chosen.

## OTHER ADVANTAGES OF THE PORTUGUESE TAX SYSTEM

There are **no wealth taxes**. Only property taxes apply at the municipal level, which are based on the registered value of the real estate, with rates varying between 0.3 and 0.5%. Stamp Duty is levied at a 1% rate on real-estate located in Portugal and with a registered tax value equal or higher than 1 million euros.

**No obligation on the disclosure of assets**, except regarding the IBAN of foreign bank accounts into which taxable income is paid.

**No inheritance tax applies**, when heirs are spouses, descendants or ascendants. In other cases, Stamp Duty is levied at a 10% rate on Portuguese assets. An additional 0,8% Stamp Duty rate is applicable to real-estate located in Portugal, to which even the mentioned exempt heirs are subject. **The same principles apply to gifts.**

The advantageous **Madeira`s International Business Centre (IBCM)** regime, available to Portuguese and Foreign Investors / Companies, includes a number of tax benefits, including a reduced rate of Corporate Income Tax of 5% until December 31st, 2027. **IBCM** incorporated companies, as full Portuguese companies, have unrestricted access to the European common market and benefit from Portugal`s network of double taxation agreements (with limited exceptions provided in the treaties signed between Portugal and the United States, Canada and Brazil).

Portuguese companies, including **IBCM** companies, may apply and benefit from public incentive programs.













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