

# HOW DOES PORTUGAL TAX DIVIDENDS, INTEREST AND CAPITAL GAINS FROM ABROAD?

## ALL FINANCE MATTERS

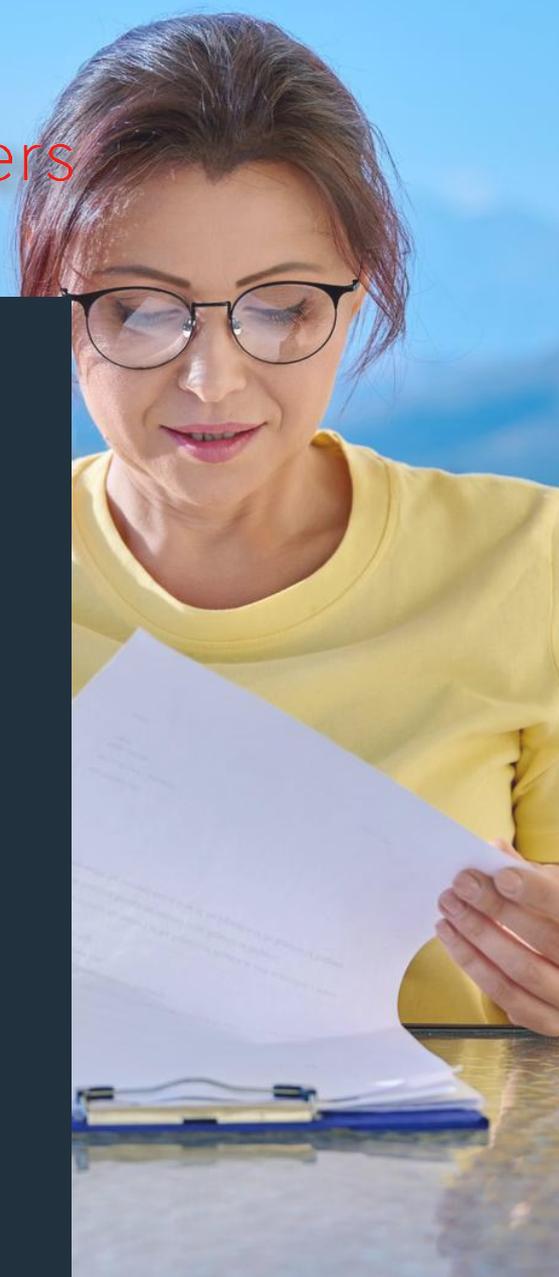
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## **A Practical Q&A Guide for International Investors and New Residents**

Portugal taxes residents on their worldwide income, including dividends, interest and capital gains earned abroad. However, the effective tax burden can vary significantly depending on whether you are taxed under the general rules, benefit from a Double Taxation Agreement (DTA), or qualify for a special regime such as IFICI (also known as TISRI or "NHR 2.0").

Below you can find the most common questions made by clients.

### **1. Are foreign dividends, interest and capital gains on financial assets, taxable in Portugal?**

Yes. If you are tax resident in Portugal, you are in principle taxable on your worldwide income, including income earned outside Portugal, under the Portuguese Personal Income Tax (IRS) system. However, taxation may be eliminated or reduced through:

- Autonomous (flat) taxation (the most common rate in this case is 28%).
- Optional aggregation at progressive rates.
- The foreign tax credit or exemption methods under DTAs.
- Special tax regimes such as IFICI / TISRI (NHR 2.0), or the original NHR.

However, please note that the original NHR 1.0, does not exempt you from capital gains tax on financial assets, except if these are sourced in jurisdictions where they are taxed abroad (such as the US, in case you are also a US citizen).

### **2. How are foreign dividends taxed under the standard Portuguese rules?**

Foreign dividends are classified as Category E (investment income).

Default taxation

- Flat autonomous tax rate: 28%
- 35% if the income originates from a blacklisted jurisdiction

This tax is final unless the taxpayer opts for aggregation. In fact, the taxpayer may opt to include dividends in their overall taxable income, subject to progressive IRS rates (up to 48%). This option is usually only advantageous for low-income taxpayers.

Please note that if you received dividends from an SME or Mid Cap within the EU, normally only 50% of the dividend received is taxable, leading to a much lower effective tax rate (up to 24%).

### **3. How is foreign interest income taxed in Portugal?**

Interest income (bank deposits, bonds, loans) is also Category E income.

- 28% flat tax, or
- 35% if paid from a blacklisted jurisdiction

As with dividends, aggregation into progressive rates is optional.

### **4. How are capital gains on foreign financial assets taxed?**

Capital gains from the sale of shares, ETFs, bonds and other securities fall under Category G. The Standard taxation is like this:

- 28% flat tax on the net gain
- 35% if linked to a blacklisted jurisdiction

Aggregation into progressive rates is optional, but mandatory if it refers to a short-term capital gain (up to 365 days).

Long-term investors who are tax residents in Portugal will benefit from reduced taxation on capital gains from investments in the capital market. The longer the holding period, the greater the tax exemption.

- Holding Period up to 2 years, no exemption
- Holding period between 2 and 5 years, 10% exemption, effective rate 25.2%
- Holding period between 5 and 8 years, 20% exemption, effective rate 22.4%
- Holding period longer than 8 years, 30% exemption, effective rate 19.6%

In practice, the tax required by the state decreases as the investment period lengthens. In these cases, there is also a currency coefficient depreciation, which further reduces the capital gain.

Important: only the gain is taxed (sale price minus acquisition cost and eligible expenses), not the full proceeds.

### **5. Do Double Taxation Agreements (DTAs) help reduce Portuguese tax?**

Yes. Portugal has signed over 80 Double Taxation Agreements, largely based on the OECD Model Convention. These DTAs can:

- Limit withholding tax in the source country (often 5%–15%),

- Allow Portugal to apply either:
  - the credit method (tax paid abroad is credited against Portuguese tax), or
  - the exemption method (income taxable abroad is exempt in Portugal).

Which method applies depends on:

- the income category
- the specific DTA
- and the applicable Portuguese domestic rules

## **6. What is IFICI / TISRI (also known as NHR 2.0)?**

IFICI – Incentivo Fiscal à Investigação Científica e Inovação is Portugal's new special tax regime for new residents, introduced after the end of the old NHR regime.

It applies to qualifying professionals in innovation, research, startups and key economic sectors, for up to 10 years.

## **7. How are foreign dividends and interest taxed under IFICI (NHR 2.0)?**

Under IFICI, foreign-sourced passive income generally benefits from the exemption method, provided certain conditions are met.

Exempt income typically includes:

- Foreign dividends
- Foreign interest
- Foreign royalties
- Foreign rental income
- Foreign capital gains

These are exempt from Portuguese tax, as long as:

- The income may be taxed in the source country under a DTA or OECD rules, and
- The income is not sourced from a blacklisted jurisdiction.

## **8. Are all capital gains exempt under IFICI?**

Not always, because capital gains from blacklisted jurisdictions remain taxable at 35%.

Certain capital gains may still require careful analysis depending on the asset type and treaty wording.

## **9. What income is NOT covered by IFICI exemptions?**

Key exclusions include:

- Pension income (now taxed at standard progressive rates)
- Income from blacklisted jurisdictions
- Income that does not qualify as foreign-sourced under Portuguese rules

This is a major difference from the old NHR regime, which offered preferential pension treatment.

## **10. What other tax planning options exist besides IFICI?**

If IFICI does not apply, taxpayers may still optimize taxation by:

- Choosing flat taxation vs aggregation strategically,
- Applying foreign tax credits correctly,
- Using DTAs to reduce withholding taxes,
- Structuring investments through EU-compliant jurisdictions,
- Avoiding blacklisted jurisdictions.

Each case should be analysed individually, as reporting errors can nullify tax benefits.

## **Final thoughts**

Portugal's taxation of foreign dividends, interest and capital gains is highly structured but also highly flexible when used correctly.

Under general rules, investment income is usually taxed at 28%.

DTAs can significantly reduce double taxation.

IFICI (NHR 2.0) can provide full exemption on most foreign passive income, making Portugal extremely attractive for qualifying professionals.

Correct classification, sourcing analysis, and reporting are essential to ensure the intended tax outcome.

Each situation is different, and small details can have a significant impact on

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**"YOU MUST PAY TAXES, BUT THERE'S NO LAW THAT SAYS YOU NEED TO LEAVE A TIP."**