# DIFFERENT OPTIONS OF PURCHASING PROPERTY IN PORTUGAL

**ALL FINANCE MATTERS**

Largo das Sete Ruas, 1-B
8800–604 – Tavira

Rua Frederico Lecor, Nº 53 B
8000–247 Faro

E : info@afm.tax
P : +351 281 029 059
W : www.afm.tax

People often contact us to discuss the various options for owning property in Portugal. Our response is typically: it depends. This is because the best approach varies based on several key factors, including your primary purpose for acquiring the property (whether for personal residence or rental income), your long-term investment plans (whether you view the property as a single investment or part of a larger portfolio), and your potential plans for selling the property in the near future.

Below, we provide some insights and options regarding property ownership in Portugal. Please note that this information is intended for general informational purposes only and should not be considered as tax, legal, or accounting advice. We strongly recommend consulting your own tax, legal, and accounting advisors before undertaking any property transactions in Portugal.

**a) Direct purchase**

Direct purchase is the most common method of acquiring property in Portugal. This approach is particularly sensible if the property is going to be your main residency in the future, is the most sensible choice.

When purchasing directly, it also means that the property will not pay the additional council tax bills (AIMI) in the first 650.000€ of property tax value and pay the ordinary council tax (IMI). However, please note that Portugal's IMI (council tax) is relatively inexpensive, especially compared with the UK. In Portugal, the yearly council tax varies from 0.3% to 0.45% of the property's tax value.

When the property is owned directly, the CGT in a future sale is levied on 50% of the gain and taxed at the progressive tax rates. As the maximum IRS tax bracket is 48%, this means an effective rate of 24% of the capital gain in the worst-case scenario.

Also, if the property is the primary residence for more than 12 months at the time of sale, it's possible to avoid CGT if the sale proceeds are used to purchase another property.

Direct purchase may also be an option if you intend to rent the property. However, if you want to purchase the property for short-term lets, you should look for a villa (not an apartment), as in several locations, the license for short-term lets (AL) is restricted in apartments. If you are a non-resident and looking to invest, please note that you will pay 8.75% of tax on your gross income from your short-term lets; if you are looking to rent long-term, the tax is 25% on the rent after expenses are deducted.

Please note that in the case of short-term lets (AirBnB), the property will be deemed a business, and you will need to stop the activity for 36 months prior to the sale to pay CGT on 50% of the gain; otherwise, CGT will be levied on 95% of the gain.

**b) Purchase in the name of a foreign company (registered in Portugal as a Non-Resident entity without permanent establishment)**

If you do not intend to live in Portugal but wish to have access to a property here for personal use, this alternative allows you to purchase a property using your company funds rather than personal savings. If the company is registered as a non-resident entity without permanent establishment, it means that it may not have any business activities in Portugal; therefore, there is no need to register any activity for tax purposes.

When purchasing a property in the name of a foreign company, the property will pay council tax bills (IMI) and additional council tax bills (AIMI). When the property is owned through a foreign company, the CGT in a future sale is 25%.

It's not possible to reinvest to avoid CGT. It may also not be possible to have any business activity unless this was referred to when registering the entity in Portugal.

The company will not file any accounts in Portugal, except when the property is sold. Please note that in this case, the obligation to declare the sale and assess the capital gains tax needs to be performed in the month following the sale.

**c) Purchase through a Portuguese limited company (which can be owned directly and or by a foreign entity)**

This alternative may still allow the purchase to be made using funds in the foreign entity rather than personal savings if the foreign entity is also a shareholder.

When the property is owned through the Portuguese company, the CGT on a future sale is assessed as the profit. In Portugal, the corporate tax rates are 17% for the first 50.000€ of profit and 21% for profits above 50.000€.

As this is a Portuguese limited company, is mandatory to appoint an accountant and a company director, who should have a salary and pay minimum social security contributions (unless it pays in another company in Portugal or in a foreign country with an agreement with Portugal).

The company will have VAT activity, and quarterly VAT returns will be mandatory. If there are property refurbishments, usually there is a reverse charge clause, which means that the works are done at 0% VAT rate.

Depending on the type of company, it may be possible to reinvest in another property after the sale to lower the CG and the profit. It's also possible to rent the property and operate a business. The profit will be taxed as above.

The Rental License is only possible if the property is a villa (not an apartment), and this doesn't change depending on the type of ownership. On the short term lets, the VAT charged to guests is at 6% and the VAT rate on most utilities is at 23%, which may lead to a credit or a low VAT liability.

If the properties are owned through a company, there could be significant tax savings, but these will only make sense depending on the level and length of the investment. If the property is in a company that is owned by a foreign company, through the participation exemption the dividends transferred to the foreign company will not be taxed in Portugal.

In addition to the above, please note that there is no inheritance tax in Portugal, and the spouse and direct descendants of the property owner will only pay 0.8% stamp duty on the transference of the property to them if they own it directly. If the property is owned by the company, the same applies to the shares in the business, they will be transferred to the inheritors who will be liable for 0.8% stamp duty.


For any inquiries or support, our team can guide you through the whole moving process. Feel free to reach out to us at **info@afm.tax** or visit **www.afm.tax**.

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