

LIFE IN PORTUGAL AFTER THE NHR STATUS FINISHES

ALL FINANCE MATTERS

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Portugal has long been a favored destination for expatriates, thanks in part to its Non-Habitual Residency (NHR) program. This program, introduced in 2009, offered significant tax benefits to foreign residents for a period of ten years. However, as the NHR status comes to an end, it is crucial to understand the implications and plan accordingly for life in Portugal post-NHR.

Understanding the NHR Program

The NHR program was designed to attract foreign professionals and retirees by offering reduced tax rates on foreign-sourced income, including pensions, dividends, and capital gains. For many, this meant a flat 10% tax on pension income and exemptions on other foreign income sources. The program was a significant draw for those looking to enjoy Portugal's sunny climate, rich culture, and favorable tax regime.

My NHR is valid until the end of 2027, am I affected by the end of the NHR Program?

If you already have the NHR status, you won't be affected, and you will be entitled to all your tax benefits until the end of your NHR period. The NHR is being revoked, only as a program available for new residents that become tax resident after the 1st of January 2025.

We are in Portugal since May, but are waiting for our appointment with AIMA, which is now officially booked for April 2025, did I miss the boat of the NHR?

If you already have an appointment with AIMA booked for 2025, you can register as a tax resident before the end of 2024, based on that appointment. Please make sure that you change your address at the tax office before 31-12-2024, as this is the only way to be able to apply for the NHR status before it's revoked. The deadline to apply for the NHR status will be 31-03-2025, but only for those that became tax resident before 31-12-2024.

What Happens when my NHR Ends?

Once the ten-year NHR period concludes, taxpayers are transitioned to the standard Portuguese tax system. This shift can have substantial financial implications. For instance, the standard tax rate on foreign income, including pensions, will be taxed on the progressive marginal rates that range between 0 to as high as 48%, and capital gains on financial assets may be taxed at a flat rate of 28%. Additionally, if the assets generating capital gains are sourced in 'Blacklisted Jurisdictions' Portugal may tax this at 35%.

Financial Planning Post-NHR

To mitigate the impact of these changes, it is essential to revisit and adjust your financial plan well before your NHR status expires. Here are some strategies to consider:

1. **Optimize Pension Withdrawals:** Before your NHR status ends, consider maximizing pension withdrawals at the current 10% tax rate. This can significantly reduce your tax burden on pension income.
2. **Reinvest Wisely:** After withdrawing your pension, reinvest these funds in tax-efficient accounts or assets that align with the new Portuguese tax regulations. This can help protect your wealth and reduce future tax liabilities.
3. **Consult a Financial Adviser:** Given the complexity of tax planning post-NHR, consulting with a cross-border financial adviser is highly recommended. They can help you develop a custom plan to address individual challenges and leverage opportunities to minimize your tax liabilities.

Portuguese taxation of pension income after the NHR expires

If you earn a pension and this was funded partially or totally with your personal pre-taxed contributions, you may qualify for an exemption of 85% of the income received.

This means that even after the NHR status, your pension income would pay an effective tax rate up to a maximum of 7.2%. This is possible because the Portuguese Income Tax Code allows for this 85% exclusion of tax, and your marginal rate will only be levied on 15% of the income received.

Portuguese taxation of life assurance policies (Unit Linked products)

This is another tax efficient investment available, which is not impacted by the NHR end. If you own one of these investment products, you will be taxed only on the growth of capital and not on the full redemption.

Also if the contract is longer than 8 years and 1 day, your effective capital gains tax is only 11.2%, which is very low compared with other jurisdictions and not much different from the current 10% tax paid on the pension income.

New Tax Regime: IFICI+ / TISRI / NHR 2.0

With the end of the NHR program, Portugal has introduced a new tax regime known as IFICI+ (Tax Incentive for Scientific Research and Innovation), also referred to as TISRI or NHR 2.0. This regime applies to employment and self-employment income, offering a flat 20% tax rate on eligible high-value activities.

Important:

- This new incentive is not available for individuals who already benefit from the NHR or similar previous tax incentives.
- It does not provide any benefits for retirees, so individuals who are retired or approaching retirement should explore alternative financial planning options.

Living in Portugal Post-NHR

Despite the end of the NHR program, Portugal remains an attractive destination for expatriates. The country offers a high quality of life, excellent healthcare, and a welcoming community. Here are some aspects to consider:

1. **Cost of Living:** Portugal continues to offer a relatively low cost of living compared to other Western European countries. This makes it an appealing option for those looking to maintain a comfortable lifestyle without breaking the bank.
2. **Healthcare:** Portugal's healthcare system is highly regarded, with both public and private options available. Expats can access quality medical care, often at a fraction of the cost compared to their home countries.
3. **Community and Culture:** Portugal boasts a rich cultural heritage and a vibrant expatriate community. Whether you are interested in exploring historic sites, enjoying local cuisine, or participating in community events, there is always something to do.

Conclusion

While the end of the NHR program marks a significant change for expatriates in Portugal, it does not diminish the country's appeal. By understanding the implications of the transition and planning accordingly, you can continue to enjoy the many benefits of living in Portugal. Whether through optimizing your

financial strategy or embracing the local culture, life in Portugal post-NHR can still be fulfilling and rewarding.

For any inquiries or support with the residency process for businesses or individuals, our team can guide you through the whole moving process.



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