

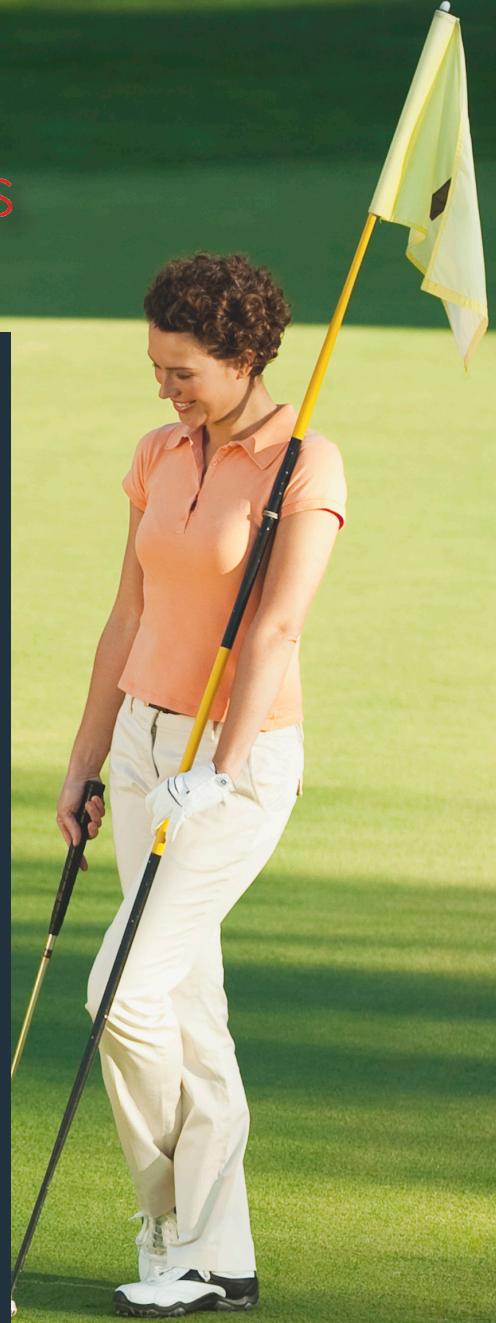
NHR - NON HABITUAL RESIDENT

ALL FINANCE MATTERS

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Move to Portugal and pay little or no tax on your income

Portugal is one of the best countries to live or retire and there are several reasons for this: best EU residency program for investors (minimal stay requirements and the possibility of obtaining an EU passport after 6 years), it's the best EU tax haven for pensioners and high net worth individuals (10-year exemption of most non-Portuguese source income). It is also one of the top countries in the World to buy and own real estate.

In terms of tourism, Portugal was voted the best destination; best country in the World to visit and best European golf and beach destination as per the World Travel Awards. Recently it was also the first European country to receive the "Safe Travels" stamp awarded by the World Travel & Tourism Council. This allows travelers to recognize Portugal as having adopted global health and hygiene standardized protocols to allow visitors to experience 'Safe Travels'.

Portugal is also the best country in Europe and North America (after cold Sweden) for immigrant integration (MIPEX III). It is a very stable, peaceful and safe country and offers a high quality of life coupled with a low cost of living.

Finally, the Portuguese are highly educated and almost half of them can speak at least one foreign language, mainly English. Portugal can be the gateway to 250 million Portuguese-speaking people.

If you are planning to move to Portugal and the above was not enough, then you probably need to find out more about the non-habitual resident ("NHR") taxation regime. The NHR is a scheme for new residents that can provide substantial tax benefits, so much that you may discover that Portugal is a tax haven for you.

Although the name makes you feel that you NHR are non-residents, that is not correct. The name can be confusing, but in fact the Non-Habitual Resident ("NHR") taxation regime is only available to those that become resident in Portugal.

The NHR scheme is proving very successful at attracting individuals of independent means, pensioners and certain skilled professionals to establish residency in Portugal for tax purposes, while not being subject to any minimum or maximum stay requirements.

In addition to the non-existence in Portugal of wealth tax, or of inheritance/gift tax for close relatives, the NHR regime essentially grants qualifying individuals

the possibility of becoming tax residents of a white-listed jurisdiction whilst legally avoiding or minimizing income tax on certain categories of income and capital gains for a minimum period of 10 years.

A major feature of the NHR regime lies in its interaction with the double tax conventions signed by Portugal or with the OECD model tax convention in the absence of one. In effect, most double tax conventions (of which Portugal signed 87) grants the possibility to tax most categories of income to the country of source of such income, although in practice, so as to attract foreign investment, many countries will not make use of that possibility to tax non-residents. Since most such categories will not be taxed in Portugal in the hands of a NHR because they may be taxed abroad, in practice most foreign-source income types will be zero taxed in such hands.

Under the NHR regime, the following categories of foreign-source income and capital gains (except if sourced from a blacklisted tax haven which has not signed a double tax convention with Portugal) will be generally exempt from income tax in Portugal since they may generally be taxed in the source country, even though they will not often be taxed in the hands of non-residents in the latter country either:

- Profits derived from eligible occupations
- Royalties and associated income
- Dividends, interest and real estate income
- Capital gains from the alienation of real estate (including shares deriving more than 50% of their value from real estate) and of ships or aircraft operated in international traffic

Capital gains from the alienation of movable property (other than shares deriving more than 50% of their value from real estate or ships/aircraft operated in international traffic) will be tax exempt if the relevant double tax convention states that they may be taxed in the source country, but this is not the case with the OECD model or with the generality of the conventions, and therefore if you buy or sell shares or other financial assets, some basic tax planning may be required.

It should be noted that several countries often deemed "offshore tax havens" do have double tax conventions with Portugal and are therefore white-listed for the purposes of the NHR regime. In addition, all EU member states are white-listed, even though several such states may in many ways be used as "offshore tax havens", especially by non-residents from that country.

Occupational pensions will be taxed at 10% if they may not be deemed sourced from Portugal, or not taxed at all, if the NHR was resident in Portugal before 31-03-2020.

Foreign-source income from employment (including fees of directors and entertainers or sportsmen) will not be taxed in Portugal if it is taxed (at whatever rate) in the source country.

Portuguese-source income depends on whether or not it is derived from eligible occupations, will be taxed as follows:

- Employment income (including fees of directors and entertainers/sportsmen), business or self-employment profits and royalties (including payments for know-how), if derived from eligible occupations will be subject to a 20% flat rate;
- Other Portuguese-source income will be taxed at the normal rates applicable to regular resident taxpayers;

In conclusion, in order to maximize the advantages of the NHR regime it has to be taken into account not only the Portuguese tax law, but also the tax law of the source country of the income, as well as the double tax conventions applicable to the foreign-source income and advantages to receive as a NHR.

If you are planning to move to Portugal, the first step is to obtain the NIF (fiscal number). After that and once you obtain your EU residency certificate, it is mandatory that you also change your tax residency, which means that you will be liable for tax in Portugal and should declare here your worldwide income. The NHR scheme can be the solution you need to avoid or reduce your tax liability. If you are a Non-EU citizen, the process is the same but it will take longer, as after the NIF you must apply through SEF (emigration office) for one of the Residency VISA's available. Please notice that if you are retiring you may need to start the VISA process at the local embassy in the country where you are currently living, prior to moving to Portugal.

Please feel free to contact us to discuss your personal situation and see whether you meet the criteria to qualify as a non-habitual resident (NHR). Although the granting of NHR status is not automatic, it will not be refused if all the legally applicable criteria are met.

DISCLAIMER: this text contains description of a generic nature and cannot preclude specialist advice in connection with specific situations.



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!"