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Insights

## Private Client
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# Non-habitual Tax Residency

## Synopsis

Over the last decade, Portugal has become a target for foreign investment, a prime location to do business and for high-net-worth individuals to live in.

Part of its success relates to the non-habitual tax residency ("NHR"). It offers attractive tax-saving opportunities for high value-added professionals, pensioners, entrepreneurs and investors who want to reside and do business in or from Portugal.

Portugal's extensive network of Treaties to Avoid Double Taxation ("Tax Treaties") is key to provide tax benefits to income sourced in many countries. Portugal currently has 78 treaties to avoid double taxation in force.

A new list of high added value activities is applicable since 2020.

This document covers the eligibility requirements and tax benefits associated with this regime.

## Eligibility

The NHR status is available to any individual who was not a Portuguese tax resident in the previous five years prior to moving to and qualifying as a tax resident in Portugal.

Tax residency in Portugal is enforced on individuals staying within its territory for more than 183 days in a 12-month period. Maintaining a dwelling in Portugal allows an individual to claim tax residency. Other rules of residency may apply.

The regime is applicable for a period of 10 years.

## The benefits

The regime provides attractive Personal Income Tax saving opportunities to value added professionals, entrepreneurs, pensioners and investors who want to reside and do business in or from Portugal.

In contrast to the taxation regime applicable to ordinary residents, the non-habitual residency regime provides special tax exemptions and reduced flat rates.

Full tax exemptions exist for specific types of income, mainly passive income such as dividends and interest.

As a rule, foreign source income will be tax exempt in Portugal if it was taxed at source (regardless of the rate) or might have been taxed at source according to the applicable Tax Treaty.

New applicants should seek advice to confirm if benefits are applicable on a case-by-case basis.

There is no wealth tax and remittance of funds is tax-free in Portugal.

As no inheritance tax is levied and there is no gift tax on donations made to family members, Portugal is also a great jurisdiction to avoid a decrease in estate value through tax leakage.

# Employees, self-employed individuals and companies

Portuguese source employment and self-employment income derived from high value-added activities of a scientific, artistic or technical nature are taxed at a reduced 20% rate. High value-added activities include:

- General directors and executive managers of companies
- Directors of administrative and commercial services
- Directors of production and specialized services
- Directors of hotel, restaurant, commercial and other services
- Specialists working in physics, mathematics, engineering and similar technical fields;
- Physicians, Medical Doctors, Dentists and Stomatologists
- Professors at Universities and higher learning establishments
- Specialists in information and communication technologies
- Authors, journalists and linguists
- Creative artists and performing artists
- Intermediate level science and engineering technicians and professionals
- Information and communication technologies technicians
- Market-oriented farmers and qualified agricultural and livestock workers
- Market-oriented qualified forestry, fisheries and hunting workers
- Qualified industrial, construction workers and craftsmen, including qualified workers in the fields
- of metallurgy, metalworking, food processing, wood crafting, clothing production, handicrafts,
- prints, manufacture of precision instruments, jewelers, artisans, electricity and electronic workers
- Operators of installations and machines and assembly workers, namely fixed installations and machinery operators.

Workers included must possess at least a level 4 qualification on the European Qualifications Framework or a level 35 on the International Standard Classification of Education, or they must have five years of proven professional experience.

Non-qualifying employment or self-employment income paid by a Portuguese source income will be taxed at the standard rates applicable to resident taxpayers. Non-Portuguese employment income is exempt in Portugal if taxed abroad and self-employment income derived from a high value-added activity can be exempt, taxed or taxed at 20%.

## Investors

Foreign source investment (such as dividends and interest) income will be exempt in Portugal if such income may be liable to taxation in the country of source according to a Tax Treaty, which is the rule provided by most Tax Treaties signed by Portugal.

Rental income and capital gains on the sale of foreign property are tax exempt. As a rule, capital gains on the sale of securities are not exempt in Portugal.

## Pensioners

Pensioners may benefit from tax savings or tax exemptions in Portugal and/or in the State of source regarding pension income.

As of 2020, foreign pensions are taxed in Portugal at a reduced rate of 10%. Non-habitual residents who already qualified before the law was amended, will benefit from the old regime – no tax on pensions.

As a rule, Tax Treaties provide that the State of Source cannot tax pensions.

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