

NON-HABITUAL RESIDENTS TAX REGIME

People who benefit from this tax regime are subject to a special tax rate of 20% on IRS (personal income tax), applicable to employment and provision of services income derived from certain high added value activities.

To obtain the Non-Habitual Resident status one must:

- Be considered a resident in Portugal;
- Have not been a resident in Portugal for the last 5 years;
- Be registered at the tax office as a tax resident in Portugal;
- Request to be enrolled as a non-habitual resident after registering as a resident in Portugal, until the 31st of March of the following year of the registration as resident in Portugal.

Registration as a non-habitual resident entitles one to be taxed as such for a period of 10 years, starting in the year of the registration.

Taxation at a rate of 20% only applies to income derived from listed high added value activities with artistic, scientific or technical nature.

• **Foreign income derived from pensions can be exempt from taxation in Portugal if:**

- Income is taxed in the source State of the pension income, according with the convention to eliminate double taxation signed between Portugal and that State; **or**
- Income is not considered to have been obtained through a Portuguese source, according to the IRS Code (personal income tax).

- **Foreign income derived from employment can be exempt from taxation in Portugal, if:**
 - Income is taxed in the State of origin of the employment income, according with the convention to eliminate double taxation signed between Portugal and that State; **or**
 - Income has origin and is taxed in a State with whom Portugal does not have convention to eliminate double taxation as long as the income should not to be considered as to have been obtained in Portuguese territory, in accordance with the IRS Code (personal income tax).

- **Foreign income derived from provision of services from listed high added value activities, capital gains and real estate can be exempt from taxation in Portugal, if:**
 - Income may be taxed in the source country of the income, according with the convention to eliminate double taxation signed by Portugal and that State, **or**;
 - When no convention to eliminate double taxation has been signed with the income source State, the OECD model convention may be applied, as long as the source country does not have a privileged tax regime and as long as the income is not considered to have been obtained in Portuguese territory, in accordance with the IRS Code (personal income tax).

CONVENTIONS TO ELIMINATE DOUBLE TAXATION

United Kingdom

a) Pensions

According to the convention to eliminate double taxation celebrated between Portugal and the UK, pension income derived from a previous employment is taxed in the residency State.

However, the Portuguese IRS code (personal income tax) establishes that pension income originated in another country, perceived by non-habitual residents, is not subject to tax in Portugal.

Which means the income derived from pensions from a previous employment, paid by an UK source to non-habitual residents, is exempt from taxation in Portugal.

b) Employment

According to the convention to eliminate double taxation celebrated between Portugal and the UK, the rule is that employment income is taxed in the State where the employment is exercised.

Which means the income derived from employment exercised in the UK, by a non-habitual resident, as a rule, is exempt from taxation in Portugal.

c) Provision of services

According to the convention to eliminate double taxation celebrated between Portugal and the UK, income derived from provision of services is taxed by the residency State but it may also be taxed by the State where the provision of service takes place when one, in a usual way, has a fixed place of business in the State where the provision of service takes place.

Which means that the income derived from provision of services from listed high added value activities exercised in the UK, by a non-habitual resident, when one, in a usual way, has a fixed place of business in the State where the provision of service takes place, is exempt from taxation in Portugal.

d) Capital gains (dividends and interests)

According to the convention to eliminate double taxation celebrated between Portugal and the UK, income derived from dividends and interests can either be taxed by the State where the entity that pays dividends/interests is established or by the State of the residency of the recipient of that income.

Which means the income derived from dividends and interests paid by an entity established in the UK to a non-habitual resident is exempt from taxation in Portugal.

e) Real Estate

According to the convention to eliminate double taxation celebrated between Portugal and the UK, income derived from real estate may be taxed by the State where the real estate is located.

Which means that the income perceived from a real estate located in the UK, by a non-habitual resident, is exempt from taxation in Portugal.

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JGSA

Jardim Gonçalves & Associados – Sociedade de Advogados, SP, RL

Rua Tierno Galvan, 10 (Torre 3) Piso 2, n.º 201, 1070-274 Lisboa – Portugal

T +351 21 381 26 90 www.jgsa.pt