

PORTUGAL: A MARKET FOR INVESTORS SEEKING SUSTAINABLE INVESTMENT - VDA VIEIRA DE ALMEIDA

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When the main economic indicators – in particular the growth rate – show signs of recovery in the Portuguese economy after the recent financial crisis, the Portuguese tax and legal system present a set of attractive and sustainable solutions which place the Portuguese market as one of the most competitive in Europe for investors.

The structural change of the Portuguese tax system in an effort to make it more "investment-friendly" began in 2007, with the approval of the residence permit for investment ('golden visa programme') through which non-EU citizens that make a certain investment (that is, related to real estate, financial investment or the creation of jobs) may apply for a residency permit in Portugal (which includes, among other things, freedom of movement in the Schengen area).

This evolution continued in the following years when, in 2009, there was the approval of the Portuguese Non-Habitual Residency Status. This tax regime creates for beneficiaries the opportunity to receive qualifying income (such as dividends, interest or pensions) tax-free both in Portugal and in the country of source of the income. At the same time, it also covers professional income from high value-added activities, which benefit from a special personal income tax flat tax rate of 20 per cent.

The Portuguese tax system also offers a particularly attractive set of tax instruments for the real estate sector, with the aim of encouraging urban regeneration – there is a broad set of tax exemptions on the main relevant property taxes for buildings subject to urban regeneration or for the first purchase of property used as the purchaser's main residence. Provided certain conditions are met, a reduced 5 per cent value added tax rate also applies to the rehabilitation works performed on the properties located in Urban Rehabilitation Areas. Still at this level, there are reductions in the costs incurred by the owner related to rehabilitation, or a reduced personal income tax rate of 5 per cent for the gains earned by resident individual taxpayers when these fully arise from the disposal of rehabilitated property or renting property located in Urban Rehabilitation Areas.

There is also a more favorable income tax regime for short-term rental activity, creating dynamics in the rental market and optimising the available space in major cities such as Lisbon and Oporto, which have large tourist industries. This tax regime has contributed in a decisive way to the flourishing of short-term rental activity and other economic activities in the main Portuguese cities.

Beyond this fact, the significant financial liquidity in international markets and the high prices of property in traditional investment markets meant the Portuguese real estate market remained attractive to foreign investors. Good examples of this are commercial and residential real estate investments in which new records were reached for the level of portfolio trading.

The Portuguese tax system has been consolidating an attractive sustainable investment model that counts on a balanced relationship between the different options available, increasing investor confidence and generating a multiplier effect in terms of the creation of value and employment.

Given this scenario, 2017 is projected as the year in which the Portuguese tax system matures with regard to sustainable and productive investment, particularly in the real estate sector. In this sense, the high levels of investor confidence and the optimum balance between the existing tax solutions presents a unique opportunity for the creation of new value chains and business opportunities.

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