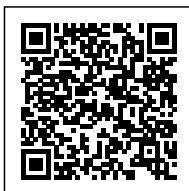


REBIRTH OF THE RESIDENTIAL REAL ESTATE MARKET - ABREU

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With the restructuring of Portuguese economy, there is an intense political effort to attract foreign investment. This year, Portugal has adopted two programmes that are having a significant impact on the real estate market: the 'golden visa' and the 'non-habitual tax resident regime'.

The golden visa is a novelty in Portugal: it is targeted at non-EU citizens and offers a great

opportunity to combine investment in the Eurozone with the advantages of a permit to reside in the Schengen area. The requirements are easy to meet and namely the investor is only required to spend seven days each year in the Schengen area. In addition the system capitalises on the fact that the credit crunch and the austerity measures imposed by the bailout from the Troika caused a fall in prices that is giving rise to a wide range of opportunities. So far, the golden visa programme is a huge success as a considerable number of new investors are acquiring assets in Portugal.

The 'non-habitual tax resident regime' was created in 2009, but Portugal has only now taken the necessary measures to streamline and implement it.

This system has a completely different focus: it targets foreign high-net-worth individuals who wish to move their tax residency to Portugal. It is part of a long-term macro-economic strategy.

The non-habitual tax resident status is applicable to individuals who have not been tax residents in Portugal in the previous five years, and become tax residents meeting the residency criteria established in domestic law – either staying in Portugal for more than 183 days during the related year or having, on December 31st of the relevant year, a place that they intend to use as their habitual residence.

The tax benefits offered by Portugal are twofold. Non-Portuguese source income is exempt from Portuguese income tax. Also, Portuguese source employment and self-employment related income derived from activities listed by the government as being of "high-value-added". This is subject to income tax at a 20 percent flat rate (plus a temporary surcharge of 3.5 percent for the duration of the current Troika Bailout measures. The list of professions is included in Implementing Order No.

12/2010, from January 7th, and includes namely architects, engineers, plastic artists, actors, musicians, auditors, tax consultants, doctors and dentists and other independent professionals.

This system opens unique opportunities. Pension income from a foreign jurisdiction with a double tax treaty with Portugal will not be subject to Portuguese income tax. In addition, tax treaties usually reserve the income taxation to the State of residency of the pensioner: the State of the source of the pension income will not tax. The individual who acquires non-habitual tax residency status in Portugal may therefore benefit from no taxation of his pension income.

Always, subject to a casuistic analysis, the same may apply notably to rental income, investment income and capital gains.

The benefits under the non-habitual tax resident regime are granted for 10 years and the status is renewable.

Administrative Order No. 9/2012 has simplified procedures and eliminated practical obstacles to the registration as non-habitual resident, notably evidence of non-residence in Portugal in the previous five years is now produced through the filing of a simple declaration (principle of trust).

The opportunities created by the non-habitual tax residency are now coming into focus in several European jurisdictions with very high levels of taxation. The Portuguese solution, on top of the tax treatment of income, is also attractive because there is no inheritance tax or gift tax for direct family (descendants and ascendants), nor a general wealth tax.

Portugal has definitely become a prime jurisdiction for residency of high-net-worth individuals and for retirement. The residential real estate market is feeling the fast change.

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