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INCOME FROM PROPERTY

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our mission

At euroFINESCO

we help clients analyse where they stand financially, where they want to go, and how they can get there.

We take a comprehensive approach to financial planning, advising on all areas of a person's financial life: fiscal matters, retirement, estate & investment planning, as well as documentation needs. Our diverse services and friendly assistance can help you overcome hurdles and provide the needed support to make the most of your life in Portugal.

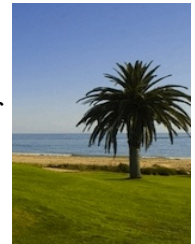
euroFINESCO Services

- Tax Consultancy
- Fiscal Representation
- Nominee Companies
- Estate Planning
- Documentation
- Financial Planning
- Local Lodging

Income from Letting Portuguese Property

Part n° 1: Background

It should be no surprise that if you are renting out a piece of Portugal, then your first and foremost tax obligation will be to *Finanças*, the Portuguese tax authority. The tax on a chargeable event related to an activity depends solely on where the activity takes place and that income is made available to you. . . .



Part n°2: Standard Rents



Long-term property lets (usually having a rental contract between landlord and tenant) are included in *Category F* and are reported on "Anexo F" in the second filing period in April/May. With a proper contract, registered with *Finanças*, tenants should be eligible for a housing tax credit, much as they would as if they were paying a mortgage. . . .

Part n° 3: Letting to Holidaymakers

If you let out furnished accommodations to tourists on a short term basis, you are mostly likely engaged in tourist related services and should have already acquired a Local Lodging Licence. This type of activity receives special treatment under the "Simplified Regime" and is handled in the same way as "Sales". In other words, you are only taxable on 20% of your invoiced income. . . .



Part 4°: Local Lodging Plan



The Local Lodging Plan allows you to operate on a Commercial Basis, with associated benefits, rather than a Rental Basis. There are a number of mandatory one-off steps that need to be completed.

Closing Notes:

- "Factura, se faz favor!"
- EU "Blue" Card
- Tolls on the Motorway
- Tax Arbitration
- Compensatory Interest
- Non-Discrimination



for more information:

FAQ's

Information Library

Schedule an Appointment

Important Dates:

IRS - first round declaration via Internet

30 April

IRS - second round declaration via Internet

31 May

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INCOME FROM PROPERTY IN PORTUGAL**Part n° 1 - Background**

It should be no surprise that if you are renting out a piece of Portugal, then your first and foremost tax obligation will be to *Finanças*, the Portuguese tax authority. The tax on a chargeable event related to an activity depends solely on where the activity takes place and that income is made available to you.

Non-residents may also subsequently need to report this income in their home jurisdiction. Any tax paid in Portugal should stand as a foreign tax credit, thereby eliminating any double taxation.

By law, *Non-Residents* must report conventional rental income both in Portugal as well as in their home jurisdiction with double taxation being eliminated via international tax credits for tax paid in Portugal. Up to now, this extra rental income often “top-sliced” total income into higher rate tax brackets, substantially reducing final benefits to owners.

Operating on a Commercial Basis

Local Lodging allows you to operate on a Commercial Basis, with many associated benefits, rather than a long-term Rental Basis. Nevertheless, mandatory registration (*Início de Actividade*) needs to be completed in order to operate as a business rather than a letting activity. On an ongoing basis, additional reporting requirements and administration exist that your Fiscal Representative should be able to attend to.

Under current legislation, only 20% of your Local Lodging invoicing is taxable. This should equate to an effective tax rate of 5% on gross income versus the existing 15% rate for long-term rental income for Non-Residents.

Equally important, according to Double Taxation Treaties throughout the EU, there is no further assessment on this income in your home jurisdiction as it is solely taxable in Portugal. Therefore, you are safeguarded against being taxed on any balance due above and beyond what you pay in Portugal.

Other Benefits

Further benefits include simplified record keeping, elimination of ever-changing criteria for deductions as well as the possibility to recover part or all of VAT paid on operating expenses.

Example

On Local Lodging income of €10,000, the final Portuguese assessment would be 5% or €500. If reported as rental income, the tax would be €1,500 plus further assessment in his home jurisdiction of an additional €2,500 for higher rate taxpayers (40+%).

Reporting commercially represents a potential tax reduction of €3,500, a savings of over 1/3 of your gross letting income.

Non-Discrimination between Residents and Non-Residents

As of 2011, the optional regime applied to EU and EEA citizens is now applicable to broader kinds of income. This regime provides for the possibility of a tax refund whenever taxation exceeds what Residents would pay under the domestic progressive tax rate system. In other words, you may be eligible for a partial refund on your already reduced commercial assessment.

INCOME FROM PROPERTY IN PORTUGAL

Part n° 2 - *Standard Rents*

Long-term property lets (usually having a rental contract between landlord and tenant) are included in *Category F* and are reported on *Anexo F* in the second filing period in April/May. Note that the fiscal year in Portugal corresponds to the calendar year.

When a rental agreement exceeds six months, a contract is required by law. At many levels, it is important to spell out expectations, rules and requirements during the renter's stay in your property. Everyone's rights need to be protected and a written contract is a prerequisite to a satisfactory arrangement for all concerned.

With a proper contract, registered with *Finanças*, tenants should be eligible for a housing tax credit, much as they would as if they were paying a mortgage.

On *Anexo F* of the IRS Individual Income Tax Return, you report your fiscal number, registration details regarding the property, the total amount of invoiced income as well as any deductible expenses. *Finanças* will add the net to other sources of income, such as pensions, interest, etc. Tax is calculated on total income at marginal rates (11.5% - 46%).

Rental Income (Category F) is taxable in Portugal based on *income made available to the property owner* and is not related to where payment may be made nor which currency used. Even if holidaymakers contract abroad through a foreign agency and pay in another currency, the letting of a Portuguese property constitutes a chargeable event in Portugal because the business activity in question factually takes place in Portugal. Payments from Rental Income Guarantees are also taxable in Portugal as a capital gain.

DEDUCTIBLE EXPENSES

The main categories of deductible expenses which reduce notional or actual rental taxable income for tax purposes are:

- Maintenance, e.g., interior and exterior painting

- Repairs, e.g., parts or repair of plumbing or electrical systems

- Condominium charges and, in apartment buildings, collectively shared expenses such as: doorman & common area cleaning costs, building security, elevators, maintenance, energy for lighting, heating and air conditioning of common areas.

- Rates (*IMI* or Municipal Property Tax) and other Municipal charges, such as sewage disposal, rubbish collection, etc.

- Insurance - Multi-Risk & Tourist Liability coverage.

Finanças has been tightening up on its procedures over the last few years, with more cross-referencing against different sources of information and a more concise interpretation of legislative guidelines. As a consequence the range of deductible expenses is significantly narrower than in previous years.

The Tax Office also appears to perform more frequent audits than previously. Should the inclusion of non-deductible expenses lead to an audit, this will (probably) result in a re-submission and other extra costs such as interest and fines.

INVOICES (*Facturas*)

While you must be able to substantiate any amounts declared with proper invoices, these documents are not required at the time of submission. Portuguese law stipulates that all documents must be kept for the following 5 years in the event of a tax audit. Allowable invoices (*facturas*) follow European Union rules. They must: be dated and numerically sequential; state the name and fiscal number of both of the provider and the recipient; list the nature and cost of the goods and services provided; specify the rate and amount of any Value Added Tax (*IVA*) paid.

VAT

Rental Activity (Category F) is exempt from Valued Added Tax.

INCOME FROM PROPERTY IN PORTUGAL**Part n° 3 - "Holiday Lets" as a Business**

If you let out furnished accommodations to tourists on a short term basis, you are mostly likely engaged in tourist related services (Category B) and should have already acquired a Local Lodging Licence (see Chapter n° 3). This type of activity receives special treatment under the "Simplified Regime" and is handled in the same way as "Sales". In other words, you are only taxable on 20% of your invoiced income.

REQUIREMENTS:**Before You Start . . .**

Before you start your independent business activity in Portugal, you must first register. This is done through the completion of an *Início de Actividade*, either by form in triplicate directly at your local *Finanças* office or via computer over the Internet.

You will also need to register at the local Social Security office.

Running your Business . . .

You are required to keep books to track your income and expenses. While old-fashioned ledgers still exist for this purpose, most people opt for a computer bookkeeping program to track their business income and expenses on a regular basis. There are over 100 such programs that *Finanças* has approved.

VAT

Just like any other business, you must register for VAT. If your business income exceeds €10,000, you must collect VAT from your customers. Tourist related activities currently charge the lowest rate (currently 6%). Business expenses add 23%. The difference between the two is either paid to the State or returned to the taxpayer. Quarterly declarations must be done over the Internet and are in Portuguese only.

Non-Residents need to appoint a Fiscal Representative specifically to meet VAT obligations. In addition to the normal appointment procedures, the Non-Resident must issue a Power of Attorney to the Representative to answer any fiscal matters directly with *Finanças*.

Recibos Verdes electrónicos (Green Receipts)

As in all business activities in Portugal, you are required to issue invoices to your clients. Mandatory receipts (*Recibos Verdes*) must be issued electronically via the Internet (*Sistema de Emissão de Recibos Electrónicos - SERE*).

Portuguese Income Tax

An *IRS* declaration must be filed in April-May following the fiscal year. Most will find the Simplified Regime to be both simple and economical when compared to standard accounting practices. Gross income is reported on *Anexo B*.

Social Security

Beginning in 2011, the new Contributive Tax Code changes how sole traders calculate contributions. An indexed system of payments, similar to salaried employees, replaces the choices previously available to the Self-Employed.

While the first-year exclusion from contributions remains in place, Self-Employed workers are no longer able to choose their level of contributions. Instead, you make deductions according to the amount of income actually received, based on *IRS* declarations in the preceding year.

Alternatively, if you already contribute to Social Security or receive an old age pension in Portugal or in another EU country, you may qualify for an exemption.

Closing your Business

Finally, in order to avoid any unnecessary taxation, you must notify *Finanças* when you cease your business activity via the completion of a *Cessação de Actividade* form within 30 days. For Social Security, fill out the *Boletim de Alterações de Elementos* form.

INCOME FROM PROPERTY IN PORTUGAL

Part n° 4 - Local Lodging Plan from euroFINESCO

While Portuguese tax rates have recently increased on many forms of income, euroFINESCO has unlocked a fully compliant strategy that can dramatically reduce tax assessment on short-term lets to holidaymakers (“Local Lodging”).

For those engaged in qualifying short-term tourist lets, our **Local Lodging Plan** allows you to reduce your income tax assessment substantially.

What is the Plan?

The Local Lodging Plan allows you to operate on a Commercial Basis, with associated benefits, rather than a Rental Basis. There are a number of mandatory one-off steps that need to be completed in order to operate as a business rather than a letting activity. On an ongoing basis, there are additional reporting requirements and administration. We will take care of all of these needs for you with a single annual charge.

What are the advantages?

Under current legislation, only a small percentage of your Local Lodging income is taxable. This equates to an effective tax rate of 5% on your gross income versus the existing 15% rate on net rental income.

Equally important, according to Double Taxation Treaties throughout the EU, there is no further requirement to declare this income in your home jurisdiction as it is solely taxable in Portugal. Therefore, you are safeguarded against being taxed on any balance due above and beyond Portuguese assessment.

Example

For example, on Local Lodging income of €10,000, the final Portuguese assessment would be €500 under the Plan. If reported as rental income, the tax would be €1,500 plus further assessment in his home jurisdiction of an additional €2,500 for higher rate taxpayers (40%). Reporting commercially represents a total tax savings of €3,500.

Are there other benefits?

Further benefits include simplified record keeping, elimination of ever-changing criteria for deductions as well as the possibility to recover part or all of VAT paid on operating expenses. In addition, this solution can be backdated to encompass all of 2010 or can start in 2011.

VAT

If your Local Lodging income is under €10,000 per annum, there is no need to present accounts for expenses (except for eventual Capital Gains Tax purposes).

If your Local Lodging income is over €10,000 per annum, you may become eligible to claim back VAT paid out on expenses. Any legitimate expenditures directly related to your commercial activity are eligible for this treatment, presenting a broad range of eligible expenses as opposed to the very narrow deductions available as traditional rental income.

Social Security

Like any commercial business activity, you will have Social Security requirements. However, you may be eligible for exemption if you receive a State Pension (old age pension) or you already make Social Security/National Insurance contributions in your home jurisdiction.

What are the costs?

One-off costs total €500 plus VAT to cover the mandatory steps necessary to enable you to operate on this basis and benefit from the tax savings. Beyond our standard charge of €200 + VAT for the annual IRS income tax return, the on-going annual fee for this service is only €150 and includes all mandatory record keeping requirements and any other necessary declarations. You will need to send us information about your rental income on a regular basis. If you are not exempt from VAT, you will also need to arrange for copies of your expense invoices to be sent to us on a regular basis.



Closing Notes

“Factura, se faz favor!”

When you ask for an invoice (*factura*) at the *Farmácia*, be sure to give your name and fiscal number (NIF). Without this information entered at the time of issue, *Finanças* will no longer accept the expense as a tax credit.

Tolls on the Motorway

As of 15 April, tolls will begin to be charged on the formerly free motorways (SCUTS). An “identifier” can be purchased over the Internet from the *Via Verde* company and is associated with your *multibanco* card for automatic payment. To sign up, go to:

<https://clientes.viaverde.pt/AdesaoServico/>

Right of Taxpayers to Compensatory Interest

The 2011 State Budget amends the rules for recognition of the right to compensatory interest, establishing a deadline for taxpayers to react when the administration does not make timely payment. Taxpayers are entitled to indemnity interest when they make an overpayment of tax or refunds are overdue.

EU Blue Card

Portugal is currently transposing EU Directives to Portuguese legislation on the “EU Blue Card”, also known as Blue European Labour Card, which is an approved EU-wide work permit allowing high-skilled non-EU citizens to work and live in any country within the European Union, excluding Denmark, Ireland and the United Kingdom, which are not subject to the proposal.

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Non-Discrimination between Residents and Non-Residents

The optional regime applicable to EU and EEA citizens is now applicable to broader kinds of income. This regime provides for the possibility of applying for a tax refund whenever taxation exceeds what residents would pay under the domestic progressive tax rate system.

Highway Code

The Government yesterday approved by the Cabinet a bill which, if adopted by the Assembly of the Republic, there will authorize change the Highway Code: Payment of a fine shall operate as a deposit and not as recognition of the offense.