



Tax Abatements in Portugal

Under the Portuguese tax system, there are three types of tax abatements available to tax residents in Portugal. These reductions are allowed in annual income tax declarations:

1) *Dedução Específica – Tax Allowance*

- a) Tax Allowances are amounts defined by CIRS code, generally expressed as a portion of the national minimum wage, deducted from the gross income in each category of income.
- b) While the purpose may vary from one source of income to another, the overall intent is to compensate for contributing factors such as underlying double taxation or necessary expenses.
- c) In the case of pension income, the allowance was first introduced in 1988 – *nº 8 do DL 442-A/88, de 30 de Novembro* – when Portugal joined the European Union and overhauled its tax system to be EU compatible. The allowance was designed to partially redress the fact that under the prior income tax code, pensions were fully exempt and not taxed.

2) *Desgravamento Fiscal – Tax Exclusion*

- a) Tax Exclusions are a commonly used fiscal tool in the Portuguese tax system and exist in almost every category of income of the CIRS.
- b) As with Tax Allowances, the purpose of Tax Exclusions is to compensate for contributing factors such as underlying double taxation or necessary expenses.
- c) The exclusion is normally expressed as a percentage of gross income received.



3) ***Benefício Fiscal – Tax Relief***

- a) Tax Relief, as defined in Art. nº 2 of the EBF (Tax Relief Statutes), is intended to encourage certain types of behaviour to enhance long-term national, social or economic goals, such as energy self-reliance, education, social justice, etc.
- b) In accordance with Art. nº4 of the EBF, Tax Relief is intrinsically different from either of the afore-mentioned abatements.

Abatements on Pensions

Each type of abatement may occur with pension income (Category H):

- a) *Tax Allowance*: the once generous pension allowance that reached a peak in 2005 of €8,253 levelled off at €4,100 since 2012. The allowance applies automatically to all pensions: public, Social Security and private.
- b) When specified standards are met, a *Tax Exclusion* may apply to occupational pensions to rectify potential underlying double taxation on the capital portion of pensions (past contributions to a qualifying pension funds). The necessary criteria for eligibility are defined in Art. nº 54 of the CIRS. Only the net taxable portion of this income is reported in subsequent annual tax declarations.
- c) *Tax Relief*: Since 2009, the “Non-Habitual Resident” status offers newly-arrived expatriates in Portugal a 10-year tax holiday on many forms of income from abroad, including pensions. This status is designed to encourage high-net worth individuals to settle in Portugal. The status must be requested and approved before tax relief is granted.