



LOCAL LODGING PLAN

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*”).

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-slices” total income into higher rate tax brackets, substantially reducing final benefits to owners.

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 8.75% on your gross income versus the existing 28% rate for rental income.

You should check the rules of the appropriate Double Taxation Treaty to understand if you have any further tax obligations in your country of tax residence. These agreements are designed to prevent you from being taxed twice on the same income and show how double taxation is to be eliminated.

Example

For example, on Local Lodging income of €10,000, the final Portuguese assessment would be €875 under the Local Lodging Plan. If reported as rental income, the tax would be €2,800 plus further assessment in his home jurisdiction.

Reporting as a sole trader represents a total potential tax savings of approximately €1,925.

Are there other benefits of th Local Lodging Plan?

Further benefits include:

- 1) simplified record keeping;
- 2) elimination of ever-changing criteria for deductions;
- 3) possibility to recover part or all of VAT paid on operating expenses;
- 4) this solution can be backdated to encompass all of 2015.

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. Most legitimate expenditures directly related to your commercial activity are eligible for this treatment, presenting a broad range of admissible 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 must be in receipt of a State Pension (old age pension) or you already make Social Security/National Insurance contributions in your home jurisdiction.

What type of contracts do I need?

There are at least 3 types of contracts that you may require:

- 1) *Contract between Owner and Renter* - 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.
- 2) *Contract between Owner and Property Manager* - It should be obvious by now that short term rental activities offer both reward and risk. This is specially true for property managers who often assume certain tasks related to rentals. If property managers fail to clarify their role, they leave themselves open to accusations of operating an unauthorised and unlicensed business subject to substantial fines.
- 3) *Disclaimer* - In your advertising, you will want a *Disclaimer* to clarify fully your offering. Reaching out to potential renters also means exposing yourself to prying eyes. Detailing the operational statutes is a common practice in Civil Code Countries and can help to nip problems in the bud.

Proper contracts are an essential preventative step to assure that your rental activity is transparent and being conducted on a fully compliant basis. This one-off measure can prove invaluable when confronted with adversity.

What is required for “Local Lodging” registration?

Registration is done via a Letter of Application to the local Council President providing the following information:

- Name, address and identification documents of the owner;
- Identification and location of the Property to be let;
- Type of Property; occupancy capacity of Property;
- Proof of legitimacy of Applicant;

Accompanying the application should be copies of the following documents:

- Copy of the *Finanças* Property Book (“*Caderneta Predial*”)
- Terms of Responsibility by the Owner;
- Opening of Business Declaration (“*Início de Actividade*”)

What are the costs?

The charge for obtaining a Local Lodging License is €250 + VAT. Our Local Lodging Plan covers operating overhead. Annual charges are €700 + VAT (2 X €350 in January/July). For those earning >€10,000 annually have VAT reporting requirements with quarterly charges of €275 + VAT.

What else should I know?

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 monthly basis. This can all be done by email.

If your rental agent currently deducts withholding tax from your rental income, this would now be at the rate of 25%. As currently, refunds are made as appropriate when your tax demand is issued.

How can I learn more about Short Term Letting in Portugal?

Please consult “eBook nº 9: *Income from Property*” from our extensive library of eBooks and Information Brochures.