



**LOCAL LODGING:**  
*Making the most of tax breaks*

While much of the interest in the new Local Lodging legislation has focussed on simplified requirements for Owners, the most exciting news centres around the favourable taxation of this business activity, both for Owner/Operators and Property Managers.

Historically trapped in Category F (Rental Income), in 2013 this category was condemned to pay 28%. For non-residents, the majority of Owners engaged in Local Lodging, this payment was final.

When treated as a business activity (*furnished lodging for tourists*) as is now compulsory, the picture changes dramatically. Under the Simplified Regime, this activity automatically receives an 65% exclusion and taxation is based on just 35% of invoiced income. For most, this reclassification reduces final assessment to under 9% rather than the standard 28% of Category F, a sensational seven-fold reduction.

While there is a small increment in related accounting costs, this increase is more than compensated by the tax savings.

### **BENEFITS OF OUTSOURCING**

However, the tax benefits are not limited to Owners. Many Owners let through Agents. An alteration in status and outsourcing of bureaucracy may also imply a change for Agents as well. When Owners switch to a Category B business activity, they assume directly or outsource the following:

- a) **Invoicing:** in order to qualify as a tourist activity, Owners must invoice holidaymakers directly. As a corollary, Agents have one less task to perform;



- b) **Withholding Tax:** Under Category F (Rental Income), Agents normally withhold 25%, a somewhat timely and costly process. With Owners now as independent businesses, there is no withholding required.
- c) **Liability:** under the new Decree-Law, the Owner/Operator is liable for infractions - often caused by Owners - with cumulative fines reaching as high as €270,000. Owners, who are normally individuals rather than companies, have fines at one tenth corporate levels. Needless to say, they are the ones who ultimately control the condition of the property so it is only natural that they assume responsibility. Property Managers have no such liability.
- d) **Reporting:** Whether it be to the tax authorities (“AT”) or to Immigration and Borders Service (“SEF”), reporting requirements can now be outsourced by the Owner and are no longer in the domain of Agent now Manager.
- e) **Tax Declarations:** With Owners registered for business and tourist invoicing in place on a “demand” basis, annual tax declarations will automatically follow. Agents can be assured that their Owners are fully compliant and are no longer at risk of being held accountable for tax omissions.

### **MOVING FROM AGENT TO PROPERTY MANAGER**

With Agents switching their formal registered business activity to “Property Manager” (providing support services to the tourist activity), their role otherwise remains the same, as do commissions. Fewer tasks mean greater productivity, leading to enhanced profits. As stated above, Owners make appreciable savings as well, so it is a *win-win* situation for all concerned.



## TAXATION OF PROPERTY MANAGERS

The new tax treatment for Managers couldn't be better. Under the former legislation, Managers were assessed based on 75% of their gross income under the IRS Simplified Regime. This percentage has dropped to 35%, leading to a final tax rate of approximately 9%. It is hard to imagine a solution where compliance could be more favourable, both for Owners and Managers.

The following tables illustrate the dramatic difference available with minor restructuring and appropriate outsourcing. Not only does taxation drop to a negligible amount as a Property Manager (whether as a sole trader or a company), workloads are also reduced, productivity increases, profits grow both for the Owner and the Manager. With far greater levels of compliance, even *Finanças* will stand to benefit in the long run.

### *Taxation as Property Manager vs Tourist Agent*

<i>taxable income</i>	<i>as Manager</i>	<i>as Agent</i>
	tax based on 20% commission	tax based on full rental income
<b>IRS</b> <i>Simplified Regime</i>	€40,000 X 35% = €14,000 tax due: IRS = <b>€2,300</b>	€200,000 X 28% = €56,000 tax due: IRS = <b>€3,664</b>
<b>IRC*</b> <i>Corporate tax</i>	<i>Simplified Regime</i> €40,000 X 4% = €1,600 tax due at 17% = <b>€272*</b>	<i>Organised Accounts</i> €200,000 - €160,000 = €40,000 tax due at 23% = <b>€9,200</b>

\* *Companies have additional accounting overhead requirements. In addition, there will be "PEC" ("Pagamento Especial por Conta") (Special Payment on Account) to pay annually (minimum: €1,750).*



## *Taxation of Property Owners in Category B vs Category F*

<i>annual income</i>	<b>Category B - Simplified Regime</b> tax based on 15% of gross income	<b>Category F - Rental Income</b> tax based on full rental income
€10,000 pa	€10,000 X 35% = €3,500 <i>tax due: €500</i>	€10,000 X 28% <i>tax due: €2,800</i>
€25,000 pa *	€25,000 X 35% = €8,750 <i>tax due: €1,268</i>	€25,000 X 28% <i>tax due: €7,000</i>

- \* For business income above €10,000, VAT reporting is required. Because of the almost 4-fold difference (6% vs 23%) between VAT collection and payment rates, refunds are the norm. Category F is VAT exempt, meaning that while you pay VAT on expenses, you are not allowed to collect VAT from your customers whatever the volume of business.

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