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NHR: Taxation of "Other Income" from abroad

The Non-Habitual Residency regime has proven popular with beleaguered taxpayers throughout the EU and beyond. Enticed by the promise of a 10-year tax holiday, many thousands have signed up for the programme only to discover that there is a "*fly in the ointment*". The guidelines state that most sources of foreign income are exempt from tax in Portugal provided that they may be subject to taxation in the Source Country as defined in the appropriate Double Taxation Treaty. In fact, this means that most streams of revenue "may be taxed" or are exclusively taxed at source prior to being considered for assessment in Portugal, as illustrated in the following income categories detailed in Double Taxation Treaties:

• Business Profits	• Capital Gains - Movables	• Dividends
• Salaries	• Capital Gains - Immovables	• Interest
• Independent Services	• Teachers and Students	• Royalties
• Government Service	• Director's Fees	• Rental

Under NHR practices, Portugal insists that there be a levy on most forms of income from abroad under what proves to be a somewhat ambiguous interpretation of NHR legislation. When income is taxed in the source country, there should be no further assessment in Portugal. However, if assessment does not occur on this foreign income, Portugal exercises its right to tax.

That's not much of a "tax holiday" if you must either settle an assessment at source or face a levy in Portugal on most income from abroad, even with Non-Habitual Residency status.

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