



FRACTIONAL OWNERSHIP & Portuguese Nominee Companies

In troubled financial times, many people find that investing in *Fractional Ownership* in select tourist resorts can make even more sense than ever before.

- a reliable income flow representing an above average return on capital from proficiently managed tourist developments in stable holiday destinations;
- the opportunity for personal holiday usage, bring enhanced benefits to family and friends;
- deeded ownership of a real asset with strong prospects for long-term capital growth.

The solid income and the tangible nature of the underlying property makes this form of investment even more appealing in an otherwise ephemeral investment market.

What is Fractional Ownership?

Fractional Ownership simply means the division of an asset into portions or shares. When the “asset” in question is real property, this division is done more readily by creating a “*mezzanine structure*”, i.e. creating a company which owns the property, thus allowing multiple owners or investors to own shares in the Company. Using a *Portuguese Nominee Companies* can prove to be the perfect vehicle to meet this purpose, providing the best solution for owners, managers and authorities alike.

Why Fractional Ownership?

Shares can be purchased and owned by more than one individual. The purposes behind a “*mezzanine structure*” can vary. Several common reasons are:

- a) *simplicity*: shares are transferred without changes in property title, sidestepping cumbersome bureaucracy;



- b) *indivisibility of real property*: dividing direct ownership of real estate is complicated whereas multiple shareholding is straightforward.
- c) *taxation*: share transfers are assessed differently from real estate: substantially reduced CGT, no IMT, nominal Stamp Duty.
- d) Far less capital invested is required with Fractional Ownership compared with full purchase for similar usage benefits;
- e) Deeded Ownership means you have a real asset that can be rented, mortgaged, sold or willed to heirs.

How it works

Fractional ownership divides a property into more affordable segments for individuals and also matches an individual's ownership time to their actual usage time. A fractional share also gives owners certain privileges, such as a number of days or weeks using the property as well as access to other luxury amenities in the resort.

Conceptually, Fractional Ownership is quite different from a Timeshare. The fundamental difference lies in the fact that purchasers own parts of the "title" as opposed to units of "time". Therefore, if the property appreciates in value, then so do the shares. As with whole ownership, fractional owners can sell whenever they deem necessary or prudent, releasing the capital growth from their "bricks & mortar" investment.

Shareholdings can range from 2 to 5 owners (or more if necessary) and company statutes define respective rights and obligations to be held in common. Owners are free to transact their shares whenever they wish.

Rights and Models

A key aspect for any fractional owner is to understand usage rights and the reservation plans. These vary from development to development. Some offer fixed occupancy periods in which an owner uses the same time each year. Others create "floating" periods with occupancy times rotating. Still others have a mixture of the two concepts.

A variety of models exist in fractional ownership offerings. Private residence clubs are the luxury, high end of the fractional property market, providing the services and amenities of five-star resorts. Many



of the luxury hotel groups now run their own private residence clubs. Another variation in the business model is what are called "destination resorts". These are typically properties - hotel rooms, suites, or freestanding villas located on property owned and managed by a holiday resort developer - with amenities typical of a luxury resort. Some hotels are also developed as a condo-hotel, in which individual rooms are sold off to individual owners or groups of fractional owners.

PORTUGUESE NOMINEE COMPANIES

These non-trading Portuguese Companies are ideally suited for underlying ownership of fractionally shared properties. Nominee Companies have existed in Portuguese statute law since the 19th century and have been embraced in subsequent legislative reforms over the past 150 years. Therefore, they are fully compliant and are not subject to any of the punitive laws that have made Offshore Property Companies a pariah: no deemed income tax, no punitive Rates bill.

Reduced CGT Rates

Capital Gains Tax on the sale of the shares of a Nominee Company is only 10%, as compared to 25% for non-resident companies. Under direct property ownership, non-resident individuals also pay 25% while residents typically pay close to a net of 20% for second homes. (It is important to confirm tax liabilities as defined in Double Tax Treaties).

Potential Transfer Tax Exemption

The sales of the shares may also be exempt from "IMT" (Property Transfer Tax). Under Portuguese law, as long as there is not a 75% concentration of shareholding, no transfer assessment is due on the underlying assets. Buyers save thousands of Euros, making Nominee Company acquisition more attractive than direct property purchase.

Capital Improvements Never Expire

Unlike direct ownership where expenses can no longer be offset against Capital Gains after five years, any capital invested into your Nominee Company is always reflected in the Company value. This is important when major remodelling is contemplated, such as a new kitchen, bathroom, swimming pool and the like.



Ease of Transfer

When the Company is eventually sold, only a simple deed of sale is required. The property remains securely within the company and there is nothing to trigger bureaucratic problems and extra expense often associated with property transfers. This can be particularly important when legacies exist that could otherwise take years to resolve.

Domiciliary Services

As a full service company, we, at **euroFINESCO**, recognize that each owner has individualized requirements; no two situations are identical. Beyond meeting basic formalities as well as essential obligations, we will be by your side to help resolve problems that may arise in navigating your way through Portuguese bureaucracy.

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