



FRACTIONAL OWNERSHIP IN PORTUGAL

In troubled financial times, we believe that investing in *Fractional Ownership* in privileged tourist resorts makes 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 friends and family;
- deeded ownership of a real asset with strong prospects for long-term capital growth. The tangible nature of the underlying property makes this form of investment even more appealing in an otherwise ephemeral investment market.

Fractional Ownership simply means the division of an asset into portions or shares. When the asset is real estate, this division is done more readily by creating a "*mezzanine structure*", i.e. forming a company that owns the property, thus allowing buyers or investors to own *shares* in the company. *Portuguese Nominee Companies* are ideally suited to this purpose.

In a "*mezzanine structure*", shares are purchased and owned by several individuals. The purposes can vary; three commonly cited reasons are:

- a) *simplicity*: shares are transferred without the need to reflect changes in property title, sidestepping cumbersome bureaucracy;
- b) *indivisibility*: dividing direct ownership of real estate can be complicated whereas multiple shareholdings are straightforward.
- c) *taxation*: share transfers are assessed differently from real estate: reduced CGT, no Property Transfer Tax, nominal Stamp Duty.

Stimulating the growth of this active part of the holiday home market is the fact that Fractional Ownership requires far less capital investment. Attractive financing packages coupled with rental income guarantees can make this form of investment even more alluring. Investors either can take advantage of personal holiday occupancy privileges or view the share as a diversification element in their private investment portfolio.

Fractional Ownership divides a property into more affordable segments and also more closely matches an individual's ownership time to their actual usage periods. A fractional share gives the Owners certain privileges, such as access to luxury amenities, in addition to defining access periods for Owner and rental use.

Conceptually, Fractional Ownership is quite different from Timesharing. The buyer owns part of the title as opposed to units of time. Therefore, when the underlying property appreciates in value, so do the shares. As with whole ownership, fractional Owners can sell whenever they deem necessary, releasing the capital growth from their investment.

A key aspect for any Fractional Owner is to understand their usage rights as well as the rental arrangements. Besides assuring proper upkeep, freeing Owners from otherwise tedious chores on their holiday time, the hotel management group manages the units throughout the year, allowing the Owners to share in the profits of their unit's income.

FREQUENTLY ASKED QUESTIONS

What is a "Mezzanine Structure" and why is it used?

When property is transacted in Portugal, there is seemingly unending bureaucracy, delay and expense. By placing the property within a Company, *shares* change hands, not the underlying real estate.

This process achieves numerous advantages:

a) *Speed and Simplicity*

The purchase and sale of shares is a quick and inexpensive process measured in days, rather than weeks or months. The transaction can take place at the Notary or right in your lawyer’s office.

b) *Overcoming Indivisibility*

Real Estate is usually indivisible. When sharing ownership, one can not take a bedroom, another the kitchen, still another the living room. By having one Property owned by one Company, multiple Owners have Shares in an expensive asset that, otherwise, might be out of reach.

c) *Reduced Costs*

When shares of a Company are transferred rather than the direct property ownership, many expenses are avoided or mitigated.

Take the example of a €240,000 property to be shared between 4 Owners:

Purchase Cost of a €240,000 unit, divided between 4 Owners (cost per Share: €60,000)		
<i>as Company shares</i>		<i>via Direct Ownership</i>
-	<i>Property Transfer Tax</i>	€2,270 (x 4)
€25 (x 4)	<i>Stamp Duty</i>	€480 (x 4)
€300 (x 4)	<i>Notary, Registry, etc</i>	€450 (x 4)
€325 (x 4)	TOTAL	€3,200 (x 4)

Can I “mortgage” my shares just like I would in a property purchase?

Yes. Many banks offer a “leaseback” facility that offers similar conditions to conventional home mortgages with the added advantage that the loan can be transferred directly to future buyers, avoiding the bank charges with premature repayment and subsequent refinancing.

When my unit is rented, how much will I receive?

Many plans offer a rental guarantee that is designed to meet the debt servicing, either partially or completely, thereby removing a risk factor from the investment equation.

When I sell, what is the Capital Gains Tax treatment?

As a Non-Resident selling real estate in Portugal, you are taxed at a flat rate of 25% on the full gain. However, if the Gain is from the sale of shares in a Portuguese Company, the tax rate is only 10%. In other words, you will pay 2½ times less by using the “mezzanine structure”.

What are the running costs of a Portuguese Nominee Company?

Annual charges of a Company shared between 4 shareholders are only €250 each. Included are all basic compliance costs, such as corporate tax declarations, upkeep of Company books and records, etc.

Can euroFINESCO handle my personal tax obligations in Portugal?

Of course. As a recognised leader in Expatriate and Fiscal Services in Portugal, we provide unparalleled Fiscal Representation Services for Non-Residents. Acting as your *liaison* with the Portuguese Revenue, we can meet your compliance requirements while resourcing vital information to you.

Are there potential problems using Portuguese Nominee Companies?

Nominee Companies have existed in Portuguese law since 1868 and have been embraced in all subsequent legislative reforms. Therefore, they are fully compliant and are not subject to the punitive legislation that makes Offshore Companies an uncertain solution.

How can I learn more about Portuguese Nominee Companies?

Please consult “eBook n° 13: *Nominee Companies for Portuguese Property*” from *euroFINESCO*’s extensive library of eBooks and Information Brochures encompassing many facets of life in Portugal.